ICBE Advanced Productivity

Skillnet

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

ICBE WEBINARS

Free Event

THE S FACTOR

Social Energy

Why becoming ESG - ready means better business

Thursday, Nov. 17th

9am - 12pm

Register : kate@icbe.ie

Justin Bazalgette

Sustainability & ESG Consultant

Lorena Dunney

Partner and Co-Chair, ESG & Sustainability Practice Group, William Fry

Lorna McDowell

CEO

Xenergie

xenergie

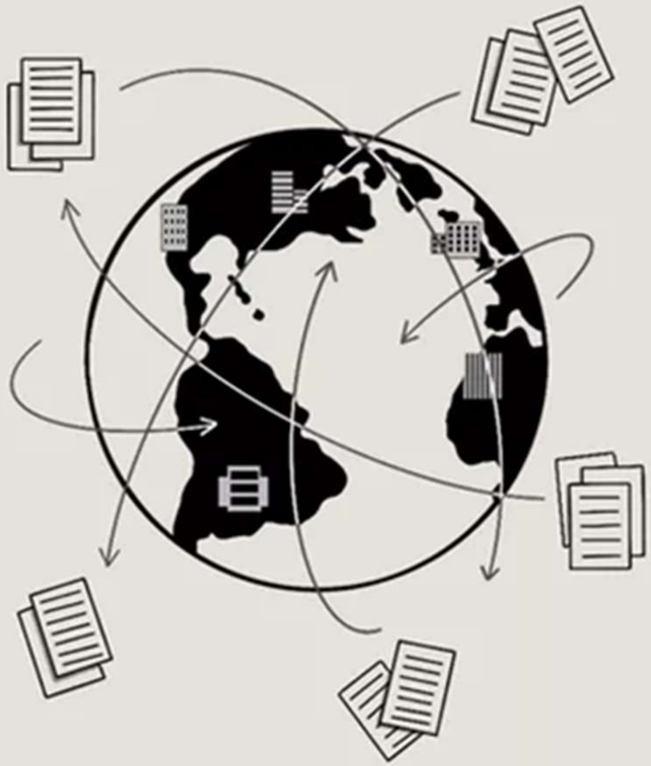
John O’Boyle – Xenergie Chair

The Growth in Importance of ESG

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

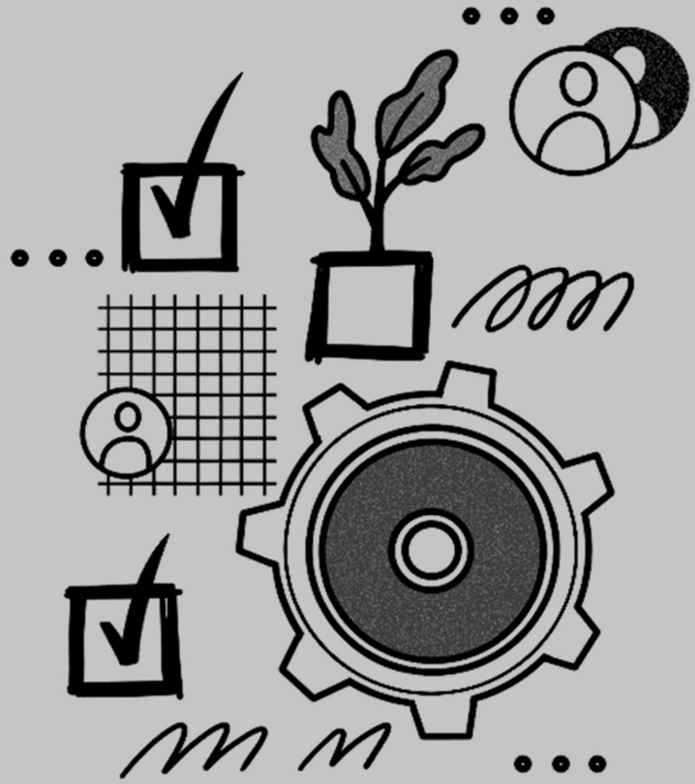


International Financial Reporting Standards (IFRS)

[ˌin-tər-ˈna-sh(ə-)nəl rfə-ˈnan(t)-shəl ri-ˈpȯrt- iŋ ˈstan-dərdz]

A set of accounting rules for the financial statements of public companies that are intended to make them consistent, transparent, and easily comparable around the world.

Investopedia



Environmental, Social, and Governance (ESG) Criteria

[in-ˈvī-rə(n)-mənt-el ˈsō-shəl ən(d) gə-vər-nən(t)s krī-ˈtir-ē-ə]

A set of standards for a company's behavior used by socially conscious investors to screen potential investments.

Investopedia

Typical ESG Criteria

Environmental	Social	Governance
• Impact on climate/greenhouse gas emissions • Sustainability • Climate change risks • Energy efficiency • Air and water pollution • Water scarcity and waste management • Site rehabilitation • Biodiversity and habitat protection	• Human rights • Community impact • Respect for Indigenous peoples • Employee relations • Working conditions • Discrimination • Gender diversity • Child and forced labour • Health and safety • Consumer relations	• Alignment of interests between executives and shareholders • Executive compensation • Board independence and composition • Board accountability • Board diversity • Shareholder rights • Transparency and disclosure • Anti-corruption measures • Financial policies • Protection of property rights

To cover their whole business companies must include their Scope 3 performance

Company ESG Performance “Scope 1 & 2”

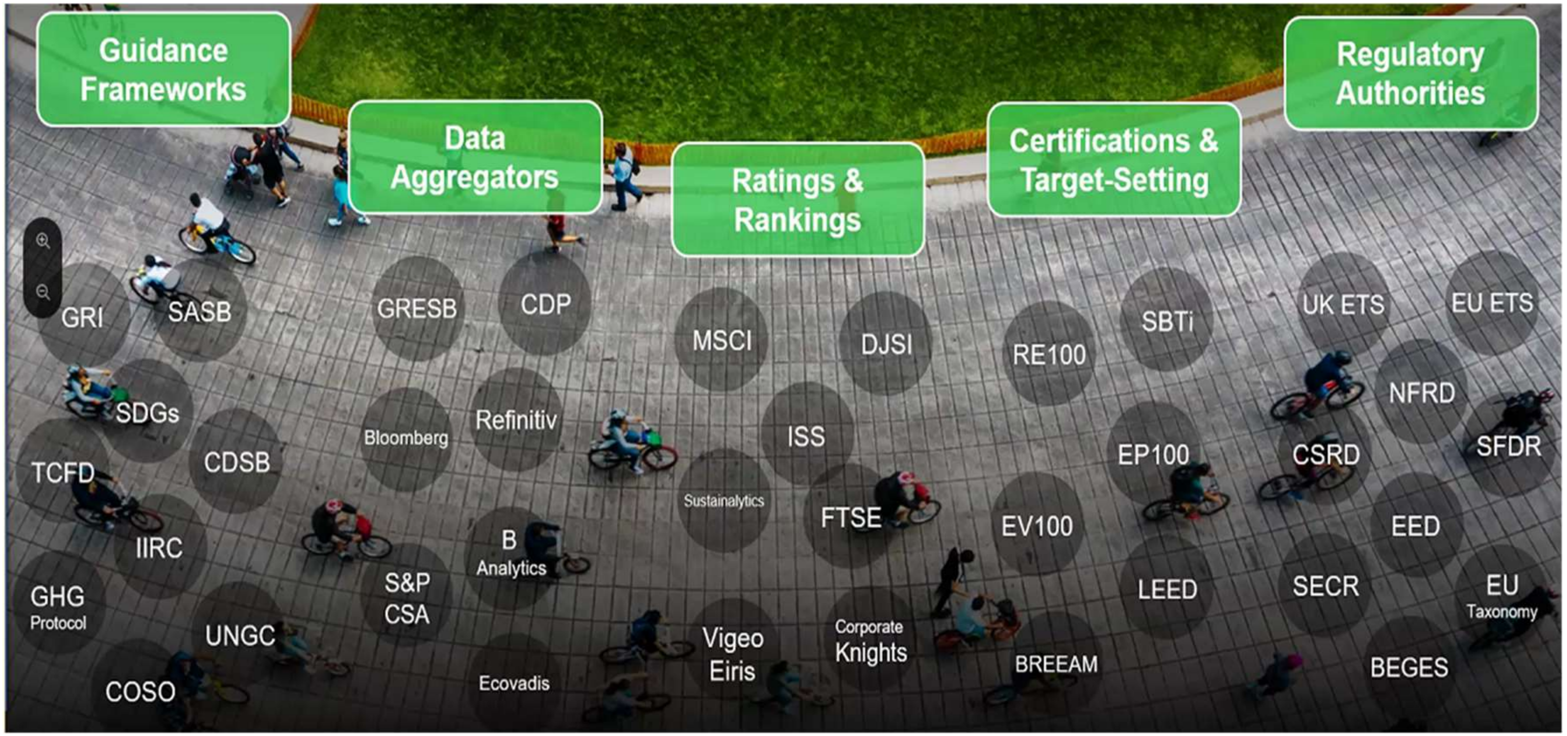
Environmental	Social	Governance
• Impact on climate/greenhouse gas emissions • Sustainability • Climate change risks • Energy efficiency • Air and water pollution • Water scarcity and waste management • Site rehabilitation • Biodiversity and habitat protection	• Human rights • Community impact • Respect for Indigenous peoples • Employee relations • Working conditions • Discrimination • Gender diversity • Child and forced labour • Health and safety • Consumer relations	• Alignment of interests between executives and shareholders • Executive compensation • Board independence and composition • Board accountability • Board diversity • Shareholder rights • Transparency and disclosure • Anti-corruption measures • Financial policies • Protection of property rights

Supplier ESG Performance “Scope 3”

Environmental	Social	Governance
• Impact on climate/greenhouse gas emissions • Sustainability • Climate change risks • Energy efficiency • Air and water pollution • Water scarcity and waste management • Site rehabilitation • Biodiversity and habitat protection	• Human rights • Community impact • Respect for Indigenous peoples • Employee relations • Working conditions • Discrimination • Gender diversity • Child and forced labour • Health and safety • Consumer relations	• Alignment of interests between executives and shareholders • Executive compensation • Board independence and composition • Board accountability • Board diversity • Shareholder rights • Transparency and disclosure • Anti-corruption measures • Financial policies • Protection of property rights

Evolution of ESG

There is no single ESG standard or framework



ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Main players are collaborating to produce a single framework

CDSB Climate Disclosure Standards Board

World Economic Forum

IFRS International Financial Reporting Standards

SASB Sustainability Accounting Standards Board

Integrated Reporting ⟨IR⟩

GRI Empowering Sustainable Decisions

CDP Disclosure Insight Action

TCFD Task Force on Climate-Related Financial Disclosures

Drive from Clients, Investors and Regulators

But it’s not just about compliance!

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Embedding ESG is a Journey

Compliance
- Meet legislation
- Meet minimum market requirements

Lip Service
- One or two projects
- Greenwash
- No Strategy
- No buy-in

Bundle of Projects
- Lots of projects
- Limited/ad-hoc resourcing
- No strategy
- Limited staff buy-in

Management System
- ESG management system in place
- Responsibility defined and resources available
- Short term targets and projects
- Some KPIs and reporting available
- Activity in a silo

Full Integration
- Clear commitment and leadership
- Linked to purpose
- Strategy in place
- Long term goals
- Comprehensive KPIs & regular reporting
- All systems and operations aligned to strategy
- Total buy-in at all levels
- Cross-functional teamworking
- ESG thinking embedded in everything we do

How to get started?

- Define the purpose of the organisation
- Stakeholder analysis
- Materiality assessment
- Adopt appropriate framework
- Assessment of current state
- Benchmarking
- Gap analysis & prioritisation
- Improvement actions & responsibilities
- Don't forget engagement at all levels

FIVE-YEAR ETHICS PREMIUM: 24.6%

According to Ethisphere's Ethics Index, the listed 2022 World's Most Ethical Companies honorees outperformed a comparable index of large cap companies by 24.6 percentage points from January 2017 to January 2022.

ETHISPHERE
GOOD. SMART. BUSINESS. PROFIT.

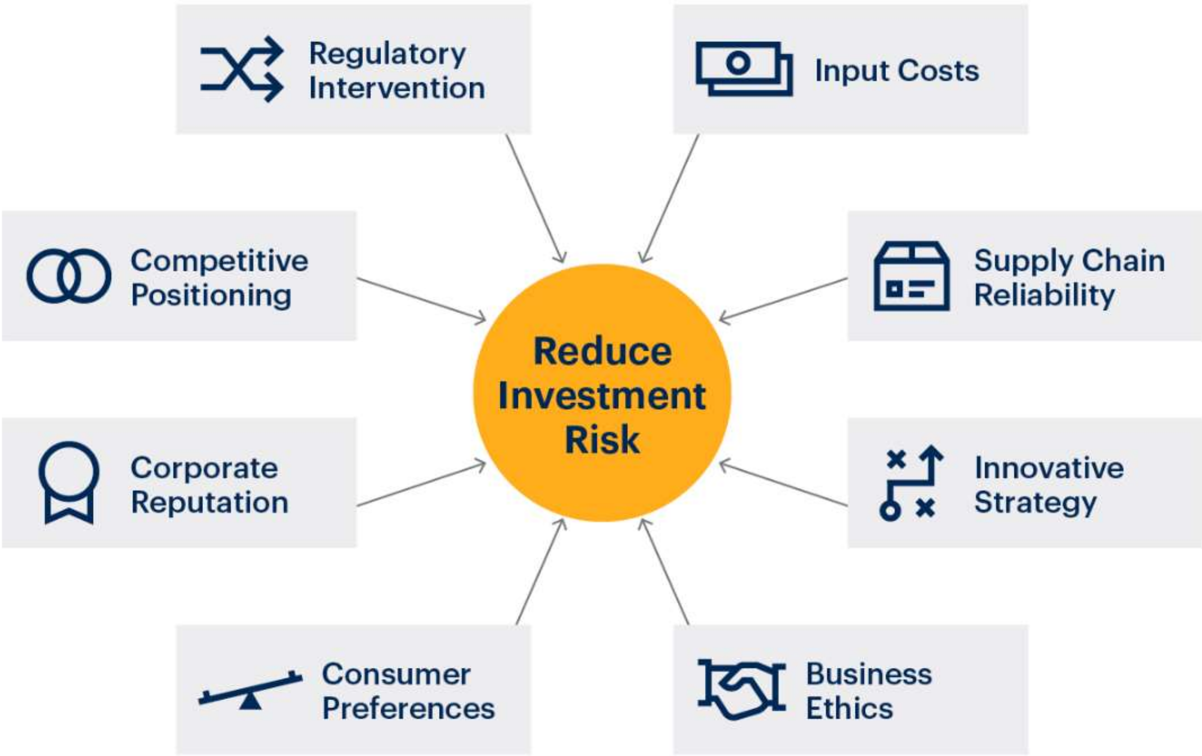
*Solactive US Large Cap Index (GTR)

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Is it a surprise that companies who perform highly on ESG ratings outperform their peers?



Is it a surprise that companies who perform highly on ESG ratings outperform their peers?

Purposeful companies that engage and motivate their employees perform better

The business case for employee engagement is undeniable

- ☑ engaged employees are happier in their work
- ☑ are more reliable
- ☑ produce more
- ☑ "go the extra mile" for colleagues and customers
- ☑ are more creative

Source: Gallup "State of the Global Workplace Report"

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

ICBE Advanced Productivity Skillnet

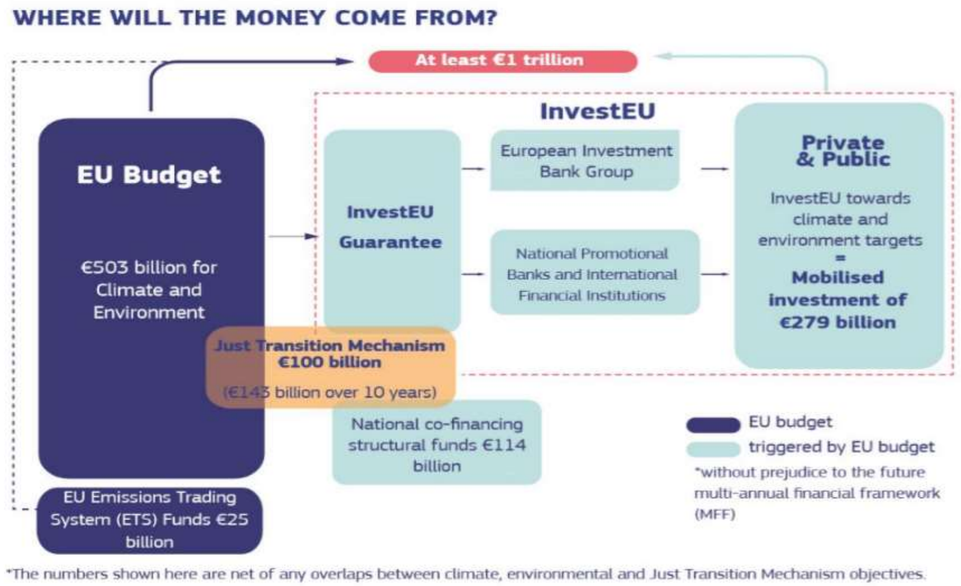
xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Overview of EU ESG-related legislative initiatives

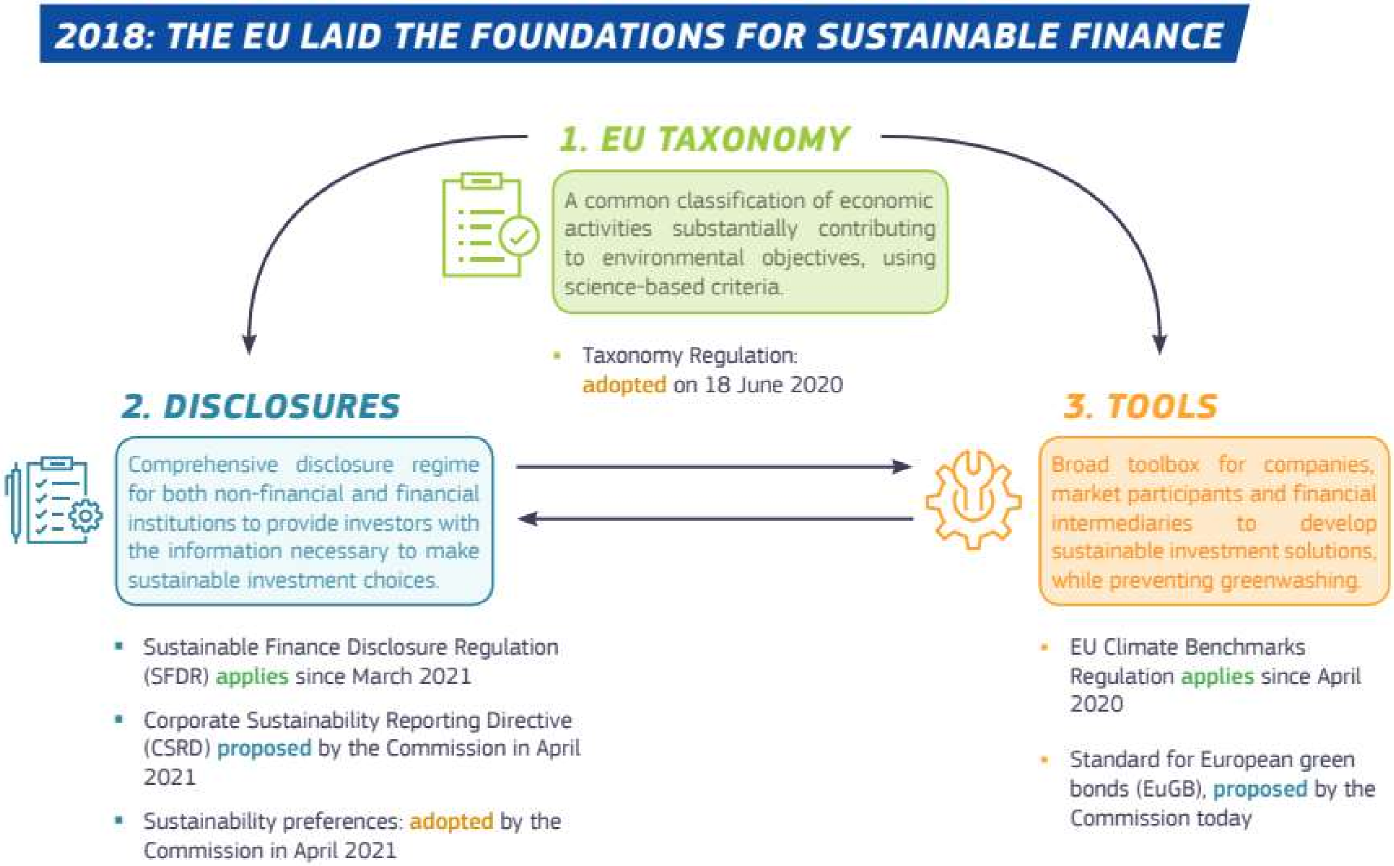
Paris Agreement: Impact

European Green Deal - EU implementation of Paris Agreement commitments



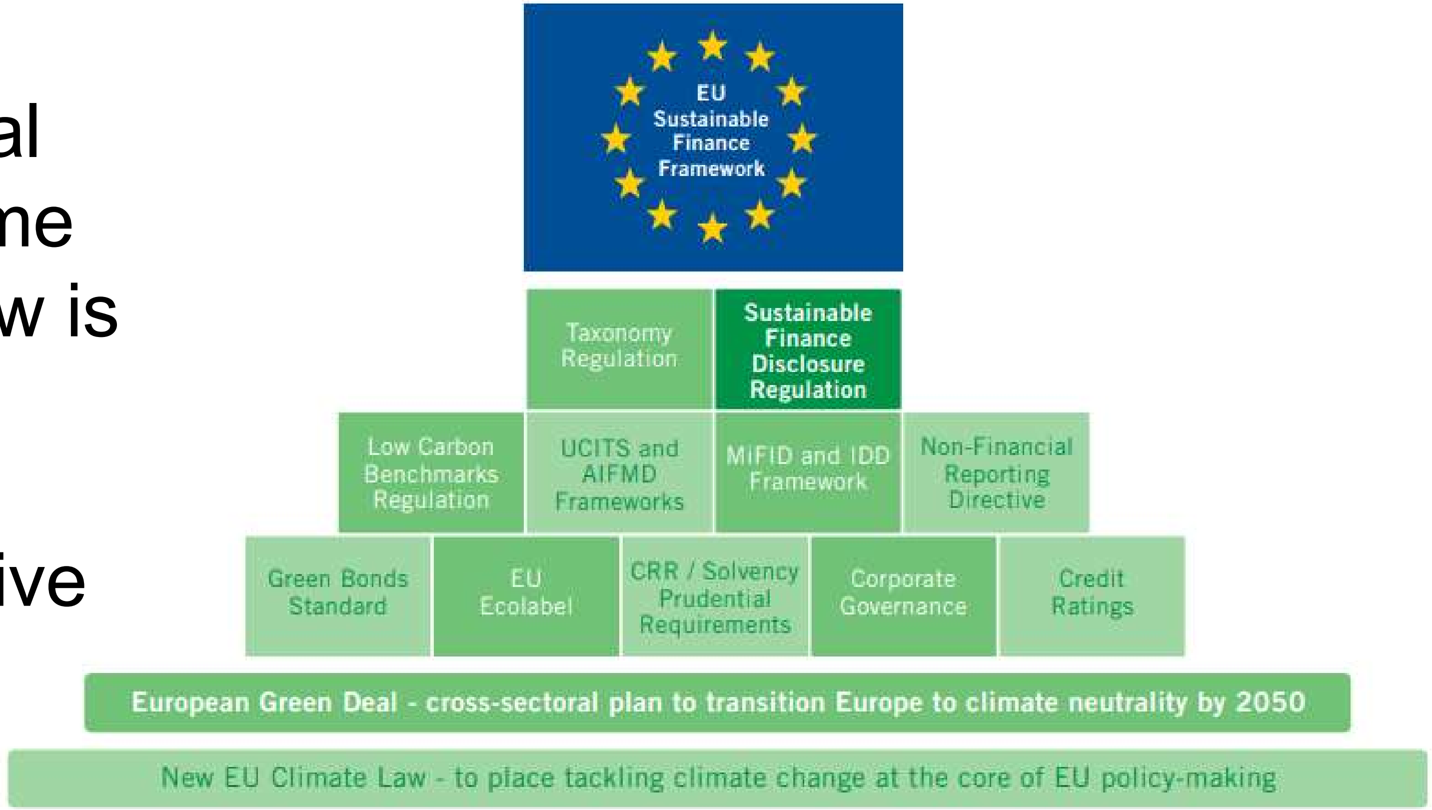
- EU needs additional €520bn per year to 2030 to meet Paris Agreement commitments
- scale of investment challenge is beyond capacity of public sector
- Private investment to play a key role to play in reaching those goals

Plan to Finance EU Green Deal



Overview of EU ESG Legislation package

A wide-ranging and highly impactful legal and regulatory regime (note: diagram below is not an exhaustive representation of relevant EU legislative measures)



ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Spotlight on:

- **Taxonomy Regulation:** EU definition of green and socially responsible economic activities
- **Sustainable Finance Disclosures Regulation (SFDR)**: financial services sector ESG reporting rules
- Proposed **Corporate Sustainability Reporting Directive (CSRD)**: ESG reporting rules for large and listed companies (replacing Non-Financial Reporting Directive (NFRD))
- Proposed **Corporate Sustainability Due Diligence Directive (CSDDD)**: rules to ensure businesses address sustainability-related adverse impacts of their actions, including in their value chains inside and outside Europe

Taxonomy Regulation: defining "green"

The Taxonomy in its current form is a list of economic activities that are considered **environmentally sustainable** for investment purposes

To qualify as such an activity, the activity must:

a) contribute substantially to at least one of the six environmental objectives defined in the Regulation (*i.e. climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, the protection and restoration of biodiversity and ecosystems*);

b) do no significant harm to any of the other environmental objectives;

c) comply with Minimum Social Safeguards; and

d) comply with Technical Screening Criteria (TSC)

A Taxonomy of economic activities that are considered **socially sustainable** for investment purposes is also under development

Taxonomy Regulation: Scope

- **Large financial and non-financial companies that fall under the scope of the Non-Financial Reporting Directive (or CSRD once it is in force)** will have to disclose to what extent the activities that they carry out meet the criteria set out in the Taxonomy. Likewise, financial market participants (such as asset managers) will have to disclose to what extent the activities that their financial products fund meet the Taxonomy criteria.
- Companies will be able to disclose the extent to which they invest, for example through CapEx, in either expanding or strengthening their activities which are already Taxonomy-aligned, or to upgrade other activities to make them Taxonomy-aligned.
- Disclosure on green revenue and green expenditure will provide the market with information on (1) companies whose activities comply with the Taxonomy criteria (through disclosure of share revenue from Taxonomy-aligned activities) and (2) companies that are taking steps to get there (through disclosure of green expenditure).

Taxonomy Regulation: Voluntary Use

- There are many possible voluntary uses of the Taxonomy by market participants, which are not defined in policy instruments. For example, companies can use the criteria of the EU Taxonomy as an input to their environmental and sustainability transition strategies and plans. Companies and project promoters can choose to meet the criteria of the Taxonomy with the aim of attracting investors interested in green opportunities. Investors can choose to use the EU Taxonomy criteria in their due diligence for screening and identifying sustainable investment opportunities aiming to achieve a positive environmental impact.
- Businesses of any size, including small companies, can use the Taxonomy to explain to investors or stakeholders in general whether they carry out or plan to carry out Taxonomy-aligned green activities. Disclosures are only mandatory for large companies within the scope of the CSRD, but many small companies and businesses could find it useful to disclose the Taxonomy alignment of their activities on a voluntary basis.

Sustainable Finance Disclosures Regulation (SFDR)

- **Scope**: imposes significant sustainability-related disclosure obligations on “financial market participants” (e.g. asset managers) and “financial products” (e.g. funds)
- **Key obligations**:
  - assessment and disclosure of sustainability impact
  - assessment and disclosure of sustainability risk
- additional disclosure obligations for financial products marketed as sustainable
- **Timing**:
  - Level 1: 10 March 2021 deadline
  - Level 2: 1 January 2023 deadline
- Note link to Taxonomy Regulation

Corporate Sustainability Reporting Directive (CSRD)

- On 10 November 2022 the European Parliament approved the CSRD
- Will make sustainability reporting mandatory for large firms in the EU
- Extends scope of mandatory reporting to all large companies from 2024, whether listed or not (nearly 50,000 companies in scope)
- Non-EU companies "with substantial activity in the EU" – that is, with a turnover over €150 million in the bloc – will also have to comply
- All CSRD reports will be subject to an audit and companies will have to adhere to EU sustainability reporting standards currently being developed by the European Financial Reporting Advisory Group (EFRAG)

Corporate Sustainability Reporting Directive (CSRD)

- On 10 November 2022 the European Parliament approved the CSRD
- Will make sustainability reporting mandatory for large firms in the EU
- Extends scope of mandatory reporting to all large companies from 2024, whether listed or not (nearly 50,000 companies in scope)
- Non-EU companies "with substantial activity in the EU" – that is, with a turnover over €150 million in the bloc – will also have to comply
- All CSRD reports will be subject to an audit and companies will have to adhere to EU sustainability reporting standards currently being developed by the European Financial Reporting Advisory Group (EFRAG)

EU Corporate Sustainability Due Diligence Directive (CSDDD)

17,000 EU & non-EU companies in scope

On 23 February 2022, a proposal for an EU corporate sustainability directive was published with new environmental and human rights due diligence duties and obligations for corporates and their directors, enforceable through a combination of sanctions and civil liability measures. The proposal leverages existing international measures such as the OECD RBC Due Diligence Guidance.

New Corporate Duties

- Identify, prevent, mitigate, end, minimise potential or actual negative human rights and environmental impacts of internal operations, its subsidiaries and across value chains (upstream & downstream)
- Align business model & strategy with EU emission reduction objectives
- Link directors' remuneration to emission reduction plan

New Director Duties for EU companies

- Establish & oversee implementation of due diligence framework
- Integrate due diligence in corporate strategy
- Fiduciary duty to include human rights , climate and environmental consequences of decisions

SCOPE	**Large EU Companies**	**Non-EU Companies**	**SME**
Group 1	500+ employees >€150m worldwide turnover	>€150m EU-wide turnover	SMEs not in direct scope but likely indirectly affected by large companies' actions across value chains
Group 2 - companies in high impact areas e.g. textiles, agriculture, minerals	250+ employees >€40m worldwide turnover	>€40m EU-wide turnover	

QUESTIONS & ANSWERS

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Practical Steps

Lorna McDowell – Xenergie CEO

Time to usher your company into its second spring

Why the "S" of ESG is your biggest opportunity to create new value

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Why do you need to focus on the S in ESG?

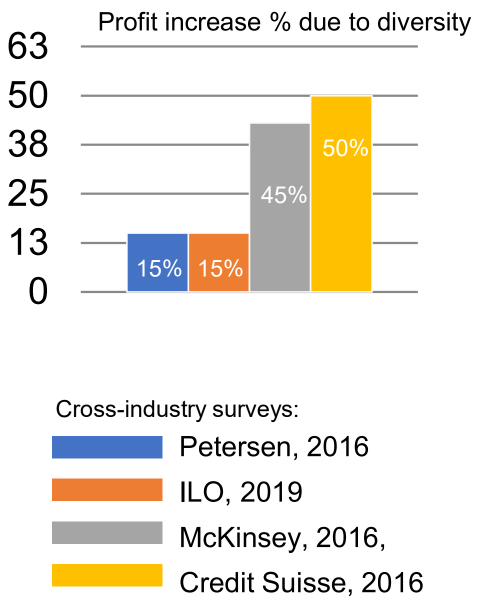
1. The Social (S) aspect of ESG creates measurable business value

2. Further legislation is on its way and you need to be prepared

3. The relationships and connections you enable in your system are the foundation for your survival

The evidence for the need to work in a new way is overwhelming…

Focusing on diversity



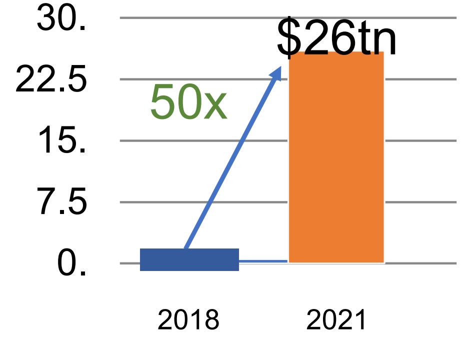
Paying attention to the social aspects of your organisation

$7bn

NOVARTIS

“Employment Impact”
(including employee development, occupational safety and living wage payment)

Focus on the Impact Investment Market



IFC, World Bank

Huge investor focus on companies creating net positive impacts

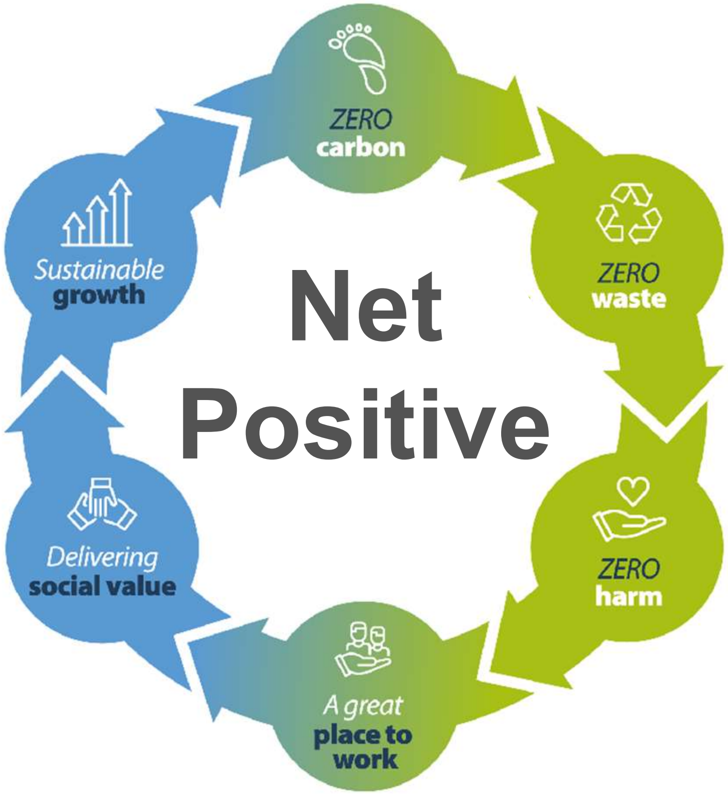
“Enterprises can deliver positive impacts. But both investors and enterprise impact needs to be intentional and measured, for it to be authentic and genuinely accountable”
Financial Times 16 July 2022

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

The tipping point towards a new way of operating has already passed and leaders must now focus on truly sustainable models



> **"Leaders must rethink what a business is and how it drives change in the world."[1]**

But……it's not that simple

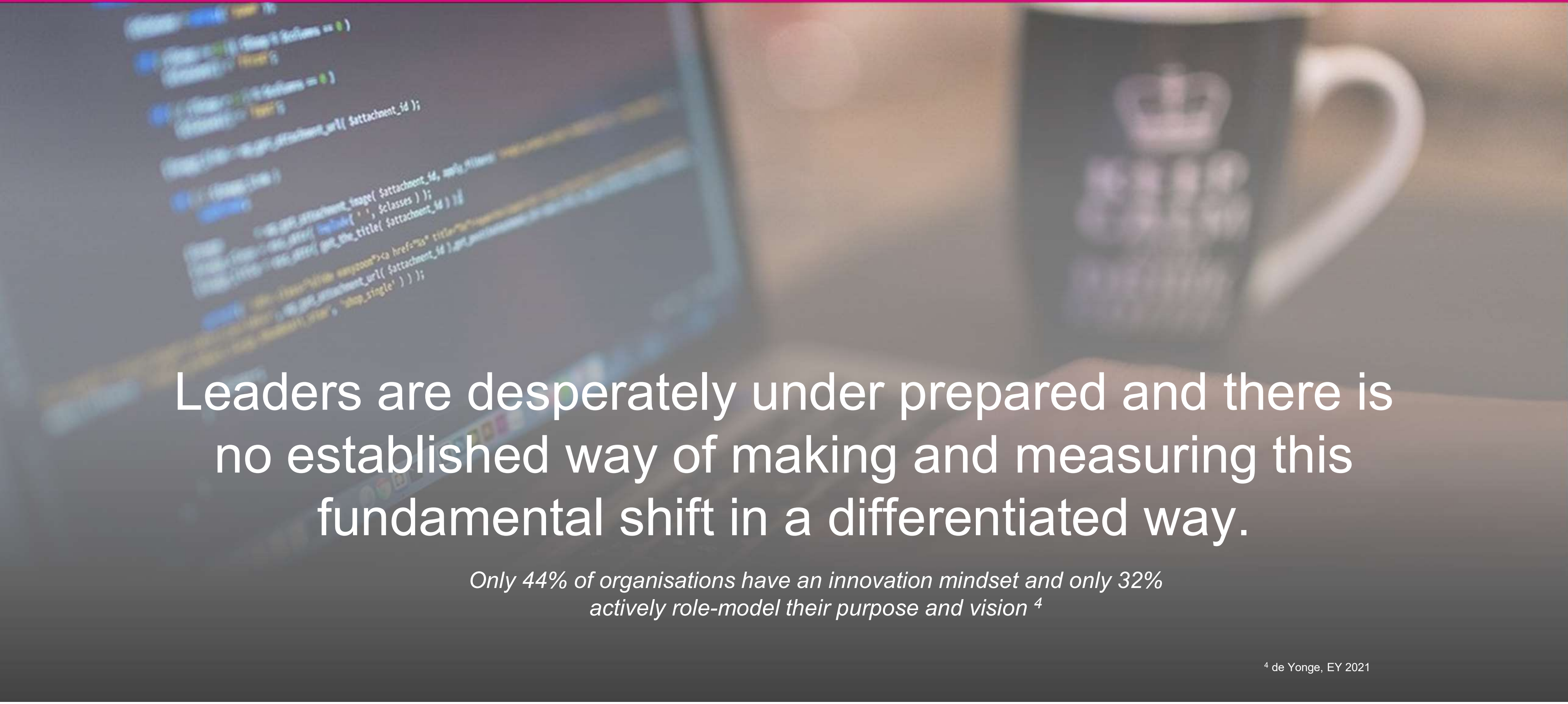
[1] Polman / Winston, HBR 2021

A lack of diversity is restricting the required creativity and innovation

Organisations are too rigid in the face of change, and 70% of change efforts continue to fail[1]. The very survival of organisations is now at stake.

There is a shortage of talent and a mismatch of expectations between organisations and employees

Business models and leadership capabilities are struggling with the status quo, let alone the future



Leaders are desperately under prepared and there is no established way of making and measuring this fundamental shift in a differentiated way.

Only 44% of organisations have an innovation mindset and only 32% actively role-model their purpose and vision [4]

[4] de Yonge, EY 2021

What the EU & Social Taxonomy could mean

Directive on corporate sustainability due diligence[1]
(Proposal adopted Feb 2022)

- **Process effectiveness and driving value across the organisation AND supply chain**
- **Being fit for the future**
- **Posture shift – to outward looking, stakeholder-driven change**

Social Taxonomy
(Final report published Feb 2022)

- **Meaningful approaches – evidence of having done your thinking early, being prepared will matter**
- **Decent working conditions for an entity's own workforce (including value-chain workers and understanding of how these impact end-user customers)**
- **Robust leadership management and people development at all levels**
- **Expectations on the employer to help staff cope**
- **Greater focus on partnering and bridging skills**
- **Metrics that monitor and measure progress**

[1]https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1145

How can leaders respond and create more reliable and honest organisations?

….by creating value from the social energy in their organisations

One of the most under-used resources in organisations is their **Social Energy**. The complexity of modern times means that now is the ideal time to understand and expand this resource.

Human Capital

The skills, knowledge, and experience possessed by an individual or population, viewed in terms of their value or cost to an organisation or country.

Social Capital

"Networks together with shared norms, values and understandings that facilitate cooperation within or among groups."
Scrivens and Smith

Social Energy

The ability of the Social Capital of the organisation to do work. Releasing this energy creates productivity gains, empowered and engaged people and ensures compliance with ESG legislation.

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Social Energy

Social Energy

Consciously working with Social Energy yields new insights, with more responsive and stable operating models. It is a key factor in the reason why certain people and organisations perform better than others.

"It is hardly possible to overrate the value of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar.. .such communication has always been, and is peculiarly in the present age, one of the primary sources of progress."
John Stuart Mill 1806 - 1873

BONDING
(same social group)

BRIDGING
(different social groups)

LINKING
(different organisations)

ICBE Advanced Productivity Skillnet

xenergie

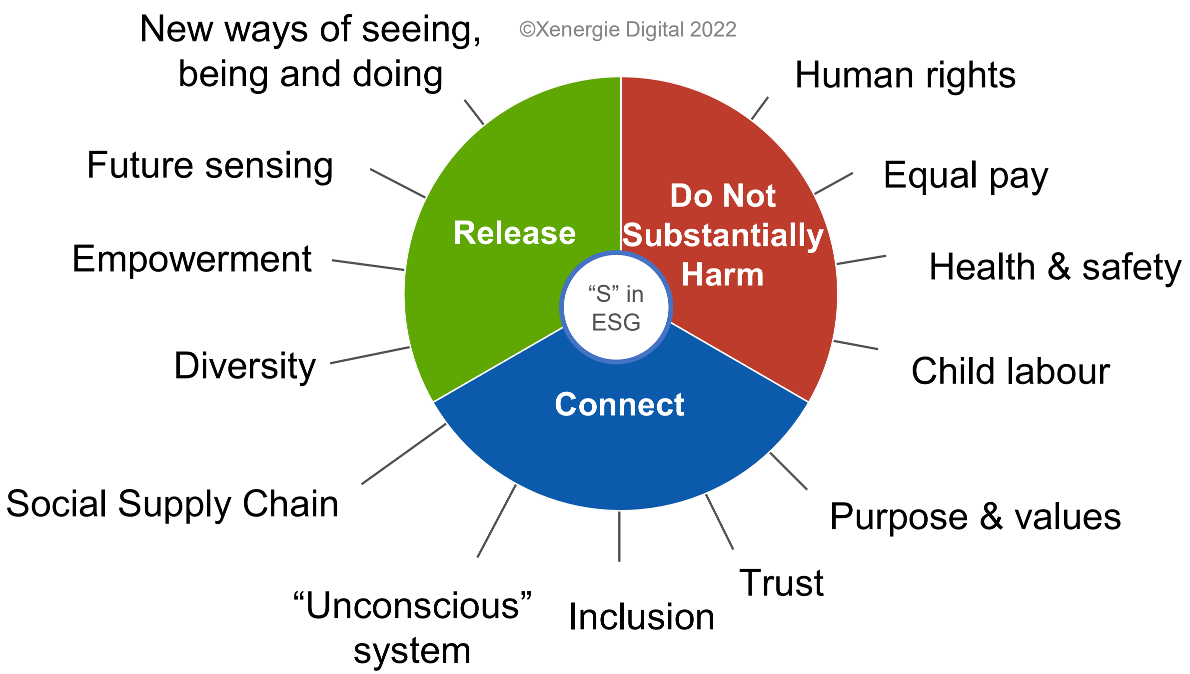
The importance of collaborative working is recognised within Goal 17 of the UN Sustainable Development Goals

17 PARTNERSHIPS FOR THE GOALS
Strengthen the means of implementation and revitalize the global partnership for sustainable development

Source: Robert Putnam

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Most Social measures have focused on “Do Not Substantially Harm”….



….but real organisational value comes from connecting and releasing social energy

Scaling the Journey

DEVELOP YOUR INFLUENCERS, MENTORS & PROTOTYPES
(Explore & Develop Yourself with Others)

AWARENESS
(1-2 Explorers)

SCALE THROUGH CROSS FUNCTIONAL COHORTS & ENERGISED HYBRID LEARNING ENVIRONMENTS, LINKED TO BUSINESS IMPERATIVES
(Explore with Others)

BONDING
(same social group)

BRIDGING
(different social groups)

LINKING
(different organisations)

Source: Robert Putnam

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

Moving forward – What some of our clients are doing now

ESG Journey Development Cohorts & Diploma

An in-depth experience and learning process to build capability in releasing the social energy in the organisation

Awareness workshops

Familiarization with the concepts, tools and business impacts of working with the "S" in ESG

Creating business impact through the "S" in ESG

Transforming Energy Academy

An on-demand set of learning modules and measurement tools to manage social energy

Corporate Innovators & NEDs Social Energy Community

A cross sector community of leaders and practitioners with the shared purpose of transforming organisations through their social energy.

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

The benefits of developing "net-positive" Social Energy

Increased organisational value through an uplift in ESG performance.

Greater attraction and retention of talent by becoming a desirable organisation driven by purpose.

Reduced business risk and improved performance by working in a holistic, people-centric way.

Improved innovation and creativity by enhancing diversity and working on the connections between people.

Decreased operational risk through demonstration of regulatory compliance.

ICBE Advanced Productivity Skillnet

xenergie

ICBE IRISH CENTRE FOR BUSINESS EXCELLENCE

QUESTIONS & ANSWERS