The *ESG revolution* and how it *affects you*

Today, companies are confronted with many different ESG regulations around the world. For multinational companies, this has become a significant challenge. ESG compliance therefore requires a rigorous governance structure, sophisticated data measurement and transparent reporting processes. Understanding the impact of ESG regulations on a business model and its underlying strategy provides new opportunities by considering all stakeholder feedback to help improve the corporate ecosystem and society at large.

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joined Sika four years ago and is now leading non-financial reporting as Corporate Head of ESG & Investment Controlling. Before joining Sika, he worked for 11 years at Omya in various finance positions. For two of those years he worked in Sydney, Australia as Director of Finance & Controlling Australasia (AUS & NZ).

The European Green Deal, which aims to transform the EU into a modern, resource-efficient and competitive economy, acts as a catalyst for new ESG regulations by ensuring:

- net zero GHG emissions by 2050
- economic growth decoupled from resource use
- no person and no place left behind

The main regulations impacting Swiss and European companies are the EU Taxonomy and Corporate Social Responsibility Directive (CSRD). In Switzerland, a "lighter" version of ESG regulations as part of the counter proposal of the responsible business initiative (RBI) is being prepared with a focus on non-financial reporting obligations, conflict minerals and child labor. As part of the non-financial reporting obligations, Switzerland asks large companies to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) provided in the current climate reporting ordinance.

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These regulations will make it even more attractive for companies to weave ESG into the fabric of their everyday operations. The more reporting structures and disclosures that are put into place, the more insights emerge about an organization's environmental, social and governance impact. Stakeholders – including customers, investor, and the public – have become much more sophisticated when it comes to sustainability. They demand transparency and change. Investing in sustainability is therefore no longer just a prerequisite for risk management, but also a key innovation driver, inspiring new products that will meet environmental standards or social needs. This paves the way for new business opportunities.

The 360-degree pressure to be more sustainable has led to a reassessment of material topics by many companies. Through a materiality assessment, a company gains valuable insights about how employees, customers, investors, supplier, and other stakeholders rank ESG topics. Currently, various materiality assessments show that the is one of the most important topics. It is therefore no surprise that more and more companies are signing up to the science-based target initiative (SBTi) for their net zero journey and using TCFD as a framework to manage their climate risk. For companies that commit to the SBTi, a whole new momentum is born. Everything – from the company's product portfolio and operational efficiency to supplier engagement and dialog with customers – must now be seen through an ESG lens. This shift also brings a lot of opportunities, including better engagement with key stakeholders, which in turn further improves the sustainability performance in various ESG dimensions. Regular ESG stakeholder engagement, or frequently updated materiality assessments, are a requirement by many regulators in order to encourage companies to highlight their weak spots and how they are impacting the environment.
Will these new regulations expose many companies? Yes, absolutely, companies today can no longer ignore the fact that ESG topics are heavily scrutinized and involve all stakeholders. The sustainability revolution is here to stay, and it emphasizes the importance of considering ESG as part of a resilient business model, strategic positioning, innovation, governance and risk management. Companies should get ahead of the curve and use this momentum not only to navigate the ESG regulation maze, but also to maximize the new business opportunities that will arise. This can have a positive impact on the current business model of companies and help avoid embarrassment as sustainability goes mainstream. Companies that embed sustainability into their business strategy will naturally become more innovative, and build relationships of mutual trust with employees, customers, suppliers, investors and communities.

Sources:
A European Green Deal | European Commission: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en#relatedlinks

Federal Council initiates consultation on ordinance on climate reporting by large companies: https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-87790.html

CCR Roundtable

Driven by a multitude of regulatory ESG reporting requirements across different jurisdictions, often underpinned by corresponding standardization, ESG reporting is running the risk of being reduced to a compliance exercise. At our next CCR Roundtable, experts Florian Angelsberger (Sika) and Jens Reissmann (BAYER) will share how they unlock the potential of ESG regulation, the benefits that come from a robust ESG data management approach and how increased transparency can ultimately lead to better decision-making. Sign up now (for CCR members only)!

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