

ESG strategy – basis for sustainable corporate development 1/39/23

The rise of sustainability, a dynamic and fast-growing part of business, is significantly driven by EU climate and social goals and the subsequent legislation. This legislation mainly lays down requirements for disclosing information on a company's key sustainability impact areas and relevant performance. However, these requirements are gradually expanding beyond the company's direct impacts.

Approved in late 2022, the Corporate Sustainability Reporting Directive (CSRD) widens the range of companies liable to report on their sustainability and introduces unified standards and principles for the reporting process. Looking at the information to be disclosed by subjects of the CSRD, there is a clear need for a comprehensive sustainability or ESG strategy. The CSRD requires companies to answer a number of strategically important questions around how they are managing their material ESG areas:

- What are the company's goals and KPIs in its material sustainability areas, including progress in achieving those goals?
- How is the company managing and monitoring sustainability matters?
- What are the company's key policies on sustainability matters?
- What are the main risks and opportunities related to sustainability that have a financial effect on the company's business currently or in the future?
- How is the company ensuring the supervision of ESG aspects across its value chain at both supplier level and product level (due diligence)?

An ESG strategy is the first step companies need to take in order to manage a structured transition from traditional operations to a modern and sustainable business model. An ESG strategy is like a bridge that, on the one hand, allows the company to meet the CSRD requirements and, on the other hand, helps it define its sustainability course by setting goals and adopting processes that support the achievement of its overall strategic objectives. For measures the company is taking to be effective, sustainability needs to be embedded in its business model and be functional.

For ESG strategy development it's advisable to begin by analysing the present situation, which involves reviewing the measures taken and related data and understanding the regulatory requirements, development policies and trends of the particular industry. Completing this task will give the company an overview of its current performance and future development prospects.

Given the wide scope of sustainability areas, while building its sustainability strategy, the company should narrow that scope by identifying its material topics under the CSRD's double materiality assessment method. While the idea of this method is rational and comprehensible, i.e. to analyse the company's impact on ESG areas and identify any areas with a financial impact on the company (risks and opportunities), this method can be difficult to apply in practice. To carry out a double materiality assessment, the company needs to summarise information on its value chain, key business processes and their outputs, and organise engagement with various stakeholders. This analysis aims to determine the company's priority areas of sustainability within the ESG framework.

Having identified its material sustainability topics, the company can proceed to determine its level of ambition, set goals, and select performance indicators. It's important for the ESG strategy to not only complement the company's vision for its overall development but serve as a practical source giving everyone information on the company's sustainability. It's therefore advisable to include aspects such as a

description of governance and responsibilities in ESG areas and the company's approach to monitoring its material sustainability topics.

To find out more about building an ESG strategy and other corporate sustainability aspects, you are welcome to attend [PwC's ESG Academy](#) webinars running from 19 October to 14 December 2023, and reach out to [Santa Roberta](#), Sustainability Leader at PwC Consulting (m. +371 26 455 852).