



Shaping the way from Non-Financial Reporting towards a proactive Sustainability Performance Management

“New Era” of Performance Management

Horváth
MSG



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- Confidential -

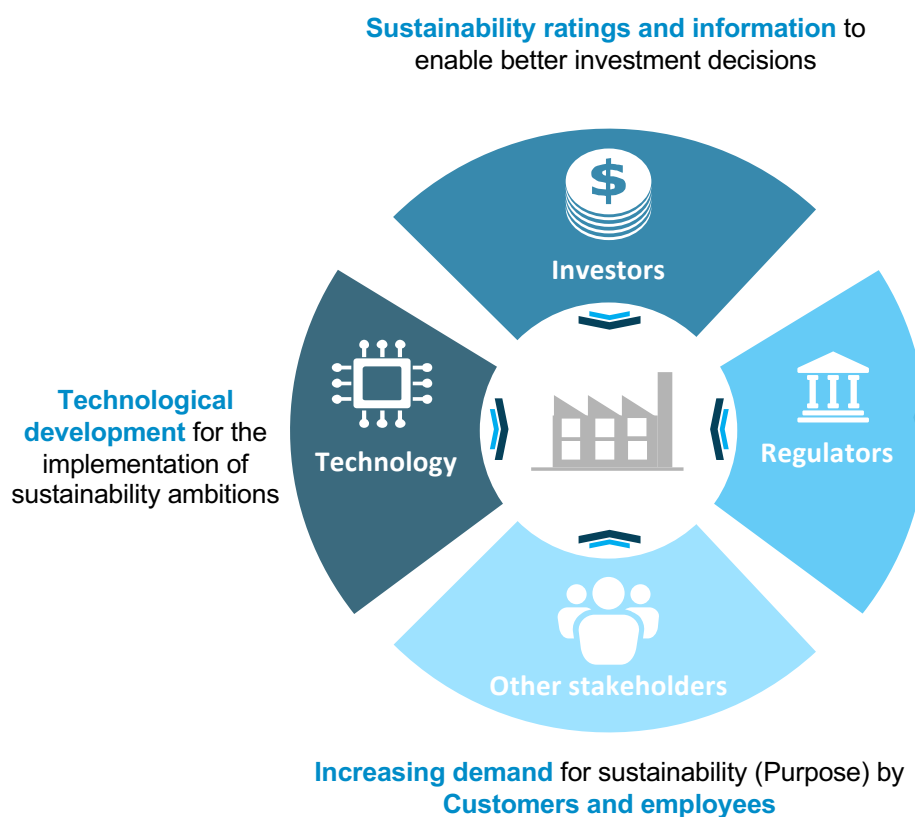
„NEW ERA“ OF PERFORMANCE MANAGEMENT

- Which are **current and future REQUIREMENTS** within ESG Reporting and Steering?
- What are the **CHALLENGES** with regard to **data management and automation**?
- How to **BENEFIT** from insights via **Sustainability Analytics Excellence**?
- How to **SET UP** a **Sustainability Accounting System** and implement CSRD, TCFD and EU Taxonomy requirements?



Which are **current and future requirements** within ESG Reporting and Steering?

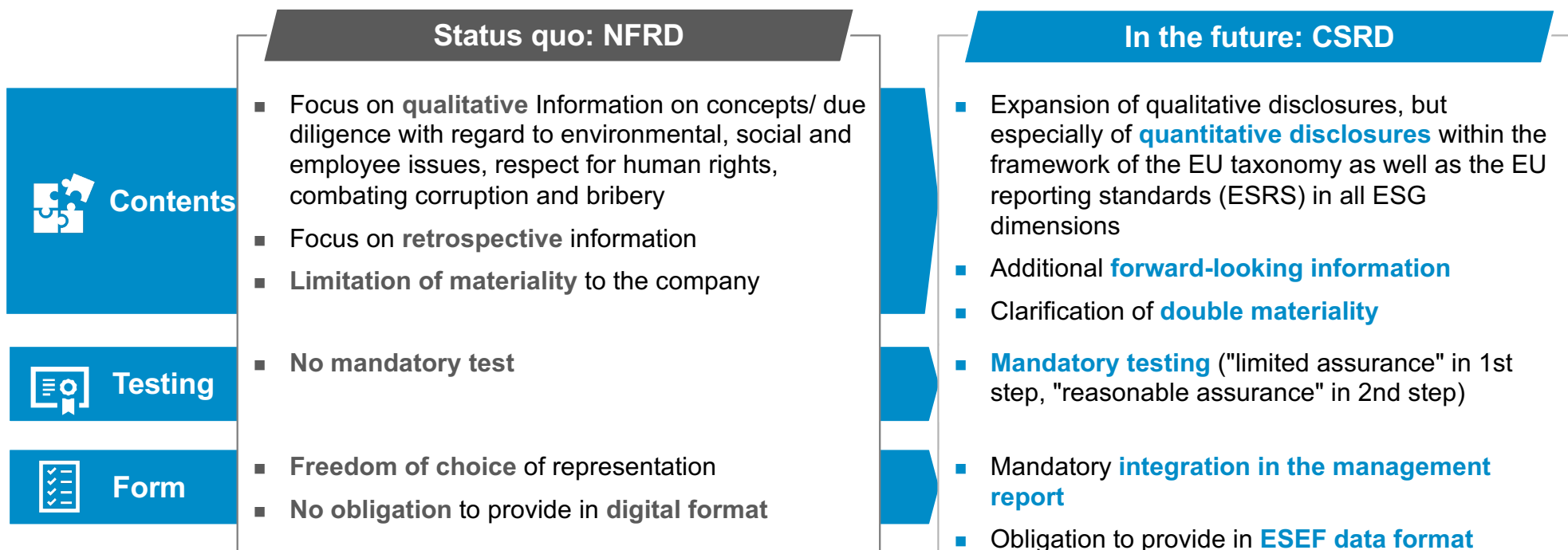
New regulatory and capital market requirements are increasingly driving sustainability management and reporting



Regulatory requirements (excerpt)	
<p>-Global-</p>	<ul style="list-style-type: none"> Paris Agreement UN Guiding Principles for Human Rights UN Sustainable Development Goals OECD Guidelines for Multinational Enterprises ISSB Standards for Financial-related Sustainability Disclosures (IFRS1, IFRS 2)
<p>-USA-</p>	<ul style="list-style-type: none"> SEC Climate Disclosure Requirements
<p>-EU-</p>	<ul style="list-style-type: none"> European Green Deal EU Due Diligence Legislation (EU LkSG) EU Taxonomy (EUT) EU Corporate Sustainability Reporting Directive (CSRD)
<p>-Germany-</p>	<ul style="list-style-type: none"> German Supply Chain Act (LkSG) German Corporate Governance Code (§161 AktG) CSR-RUG „CSR-Richtlinienumsetzungsgesetz“

The CSRD acts as a "catalyst": The beginning of a new "era" of (sustainability) reporting

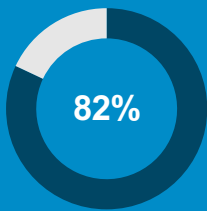
Financial and non-financial information at eye level



Sustainability is a strategic CxO priority - but with a wide range in terms of the current state of expansion in the companies

Importance of sustainability for companies

The importance of sustainability as a strategic priority is steadily increasing



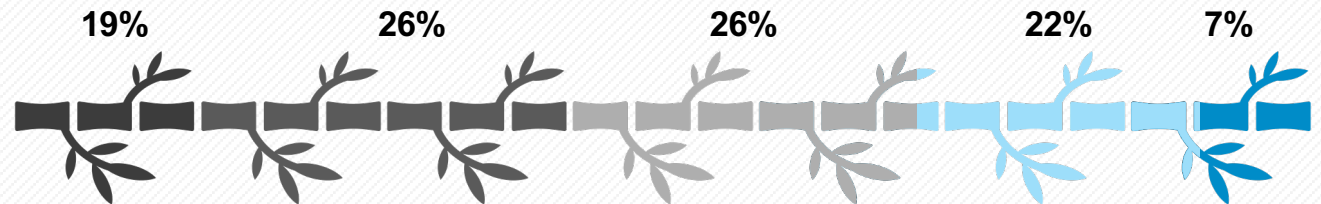
... of all CxOs see the integration of environmental sustainability into the corporate strategy as an important topic at



Ecological sustainability is continuously gaining importance and has been ranked **3rd place among the strategic priorities for 2022** (out of a total of 13)

So far, only 55% of all companies have developed a target for sustainability - the rest should act now, as stakeholders will successively increase their pressure

Status quo of the study participants



Starting point

There were still no steps undertaken regarding sustainability

Measuring

We already have transparency about the current status of sustainability in the company (e.g. is CO2 footprint known)

Target image

We have defined a clear target picture for ecological sustainability and for measures that contribute to achieving the target picture

Control

We actively steer our company in the direction of the defined target image

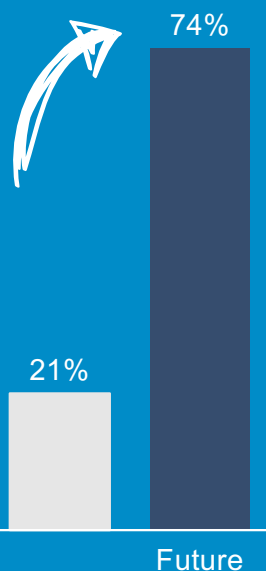
Integration

We have aligned our entire business and operating model with our goal of ecological sustainability

The CFO area is required to take an active role in the sustainability transformation










Future role of the CFO area

The importance of sustainability for the CFO area will increase significantly



Three quarters of all CFOs believe that sustainability will be of great importance for their department in the future

The role of the CFO area will expand in the area of sustainability by taking an active role in shaping the sustainability transformation

Possible roles for the CFO area	Active Design	Current Role (%)	Future Role (%)
 Sustainability avoiders No active participation in the design		9%	 4%
 Sustainability Reporter Transparency and compliance with standards		41%	 16%
 Sustainability Controller Risk management and initiatives		31%	 28%
 Sustainability Performance Manager Integration into Performance Management		8%	 50%



What are the **challenges** with regard to **data management and automation**?

Key challenge data availability and quality: companies often have significant gaps to fill for sustainability reporting and management

Data availability and quality in green controlling

Data availability is a key challenge for sustainability

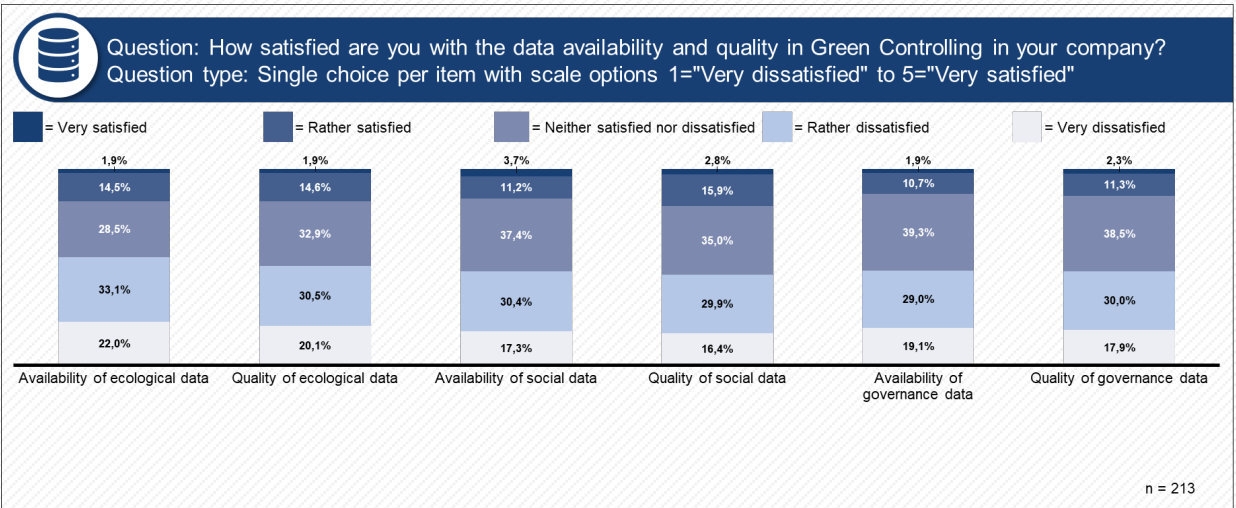


... of respondents are currently dissatisfied with **data availability and quality of sustainability information**



In particular with regard to **environmental information**, the future **need for action** is assessed as **particularly high**

The lack of data availability and quality exists across all sustainability dimensions



The current CSRD projects illustrate the enormous implementation effort and resource requirements for regular operation

First Experiences in the framework of the CSRD Implementation

Numerous reporting and control requirements in the future



>600 qualitative and quantitative CSRD KPIs, >1000 data points



Linking retrospective and future-oriented data



Reconciliation of financial and non-financial KPIs

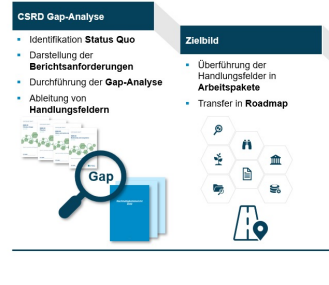


IT is a key success factor for efficient reporting and control

Even well-positioned companies will have to invest a great deal of effort to ensure that the requirements are met in a timely manner

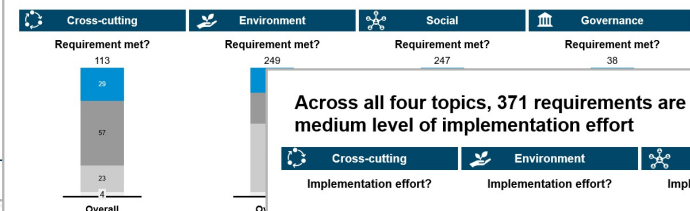
CSRD: Die Umsetzung der Anforderungen erfolgt in aufeinander aufbauenden Phasen

← Fokus: Ermittlung Anforderungen & Vorgehen → → Fokus: Detaillierung & Umsetzung ←



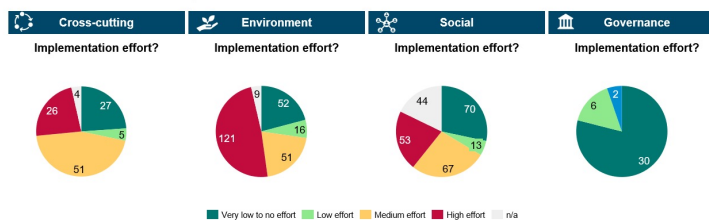
PROJECT EXAMPLE

420 requirements are not or only partly fulfilled, leading to a substantial gap between requirements and status quo



Major gaps are particularly to be found in standard and Cross-cutting

Across all four topics, 371 requirements are associated with a high or medium level of implementation effort

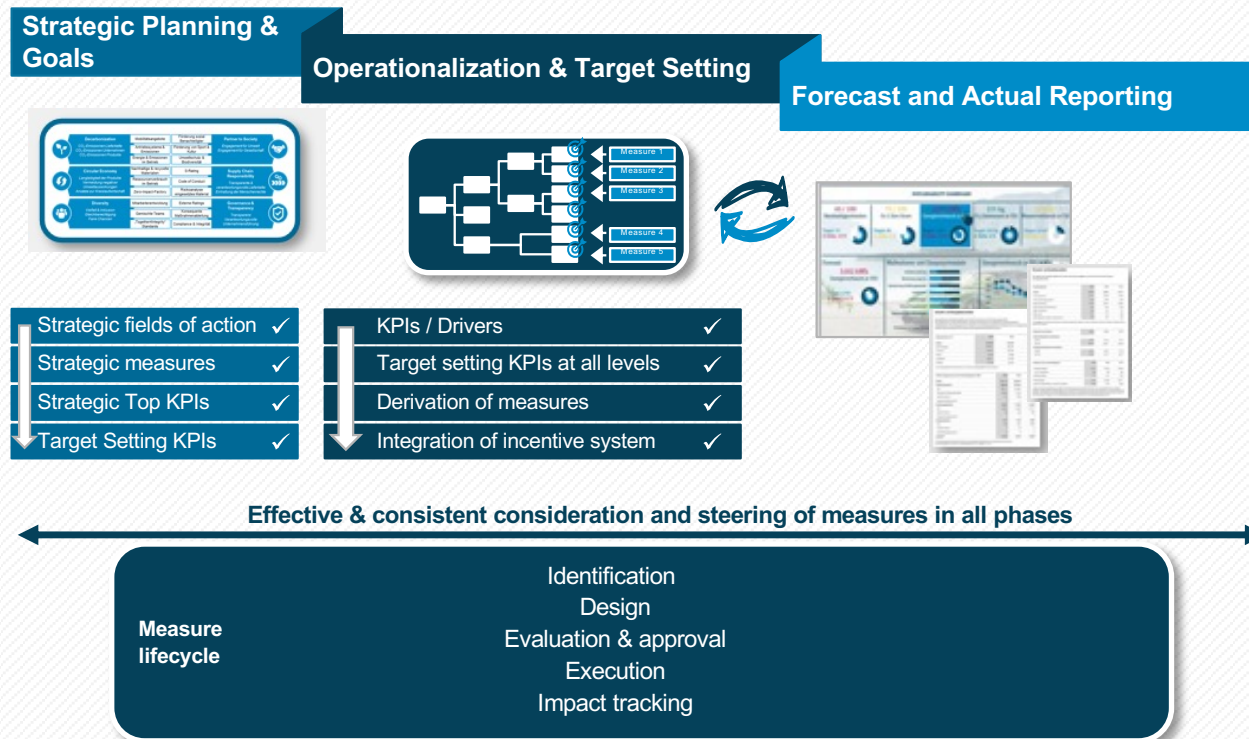


Despite Governance all other topics require substantial effort in order to be compliant with the CSRD regulation even though the new materiality assessment is still pending

* Based on own breakdown of disclosure obligations. Depending on individual materiality considerations by phase-in-period.

External Reporting as starting point - Integration in performance management via KPIs and sustainability measures crucial

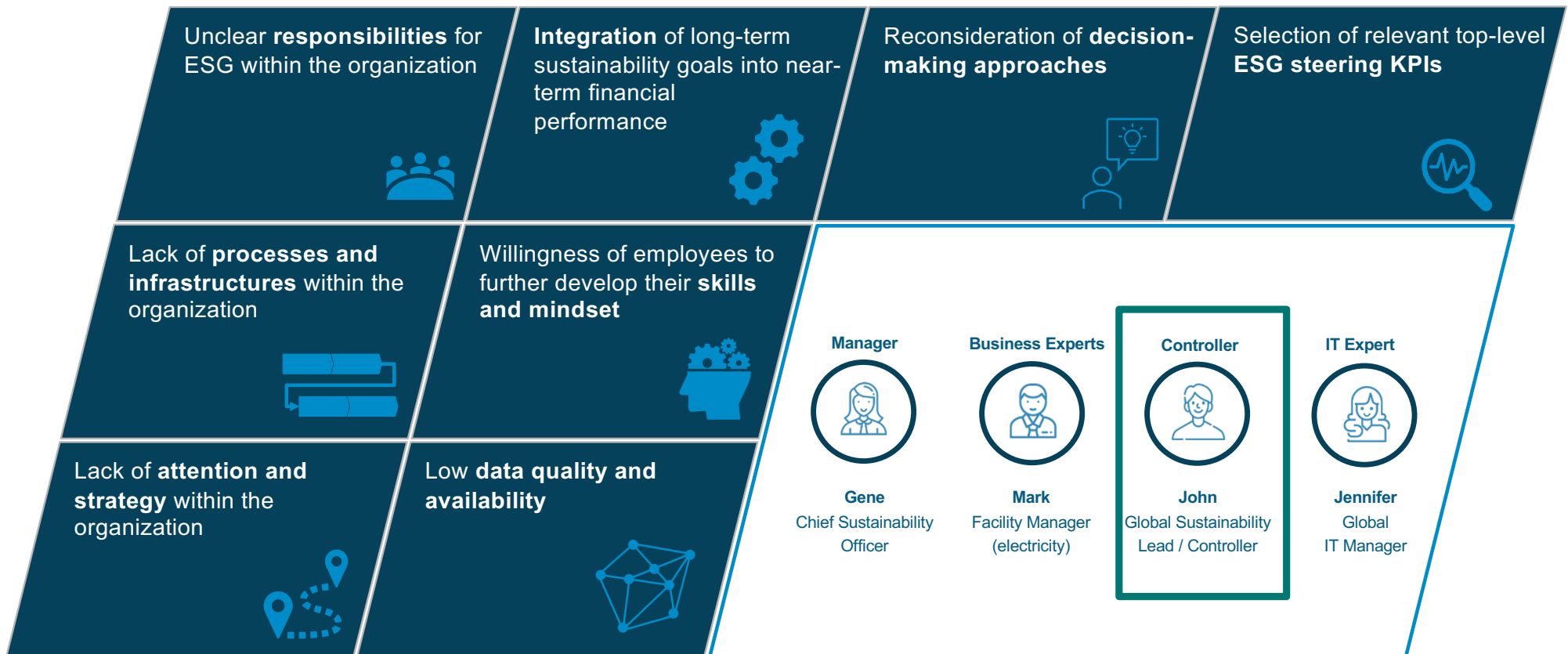
Processes - Integration into planning, target Setting and reporting



- Tracking ESG performance needs the **right KPI set** and **effective measure tracking** (as KPIs might lack steering relevance, e.g. due to delay of measure impact)
- ESG action fields and the corresponding initiatives are already part of the **strategic planning process**
- These should then be further operationalized; **concrete targets** need to be **assigned** and their achievement anchored in **incentive systems**
- **Functional responsibility** (e.g., procurement, operations,...) should be clearly assigned
- Implementation status of measures as well as respective KPIs need to be **integrated into management review meetings**
- **Degree of integration** in the **steering processes** (Price, Score, Rules, Fines) must be defined

Sustainability performance management brings major challenges with it and requires innovations in company-wide processes

Challenges for sustainability performance management





How to **benefit** from insights via **Sustainability Analytics Excellence?**

Main Corporate Challenges

To properly coordinate the **differ recourses needed** to develop the sustainability process Also to comply with **verification by a third party**, where supporting information is requested.

Definition and harmonization of the sustainability process

Gather and collect data from different sources, systems, owners and formats

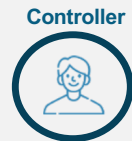
Information from **different places**, that has to be harmonized. Input is maybe based on various **data sources that have different data formats**.

Multiple scenarios can be the outcome of Sustainability plans and actions and may affect the accuracy of decision making.

Projecting the results of ESG plans and actions

Response to different types of initiatives and regulations

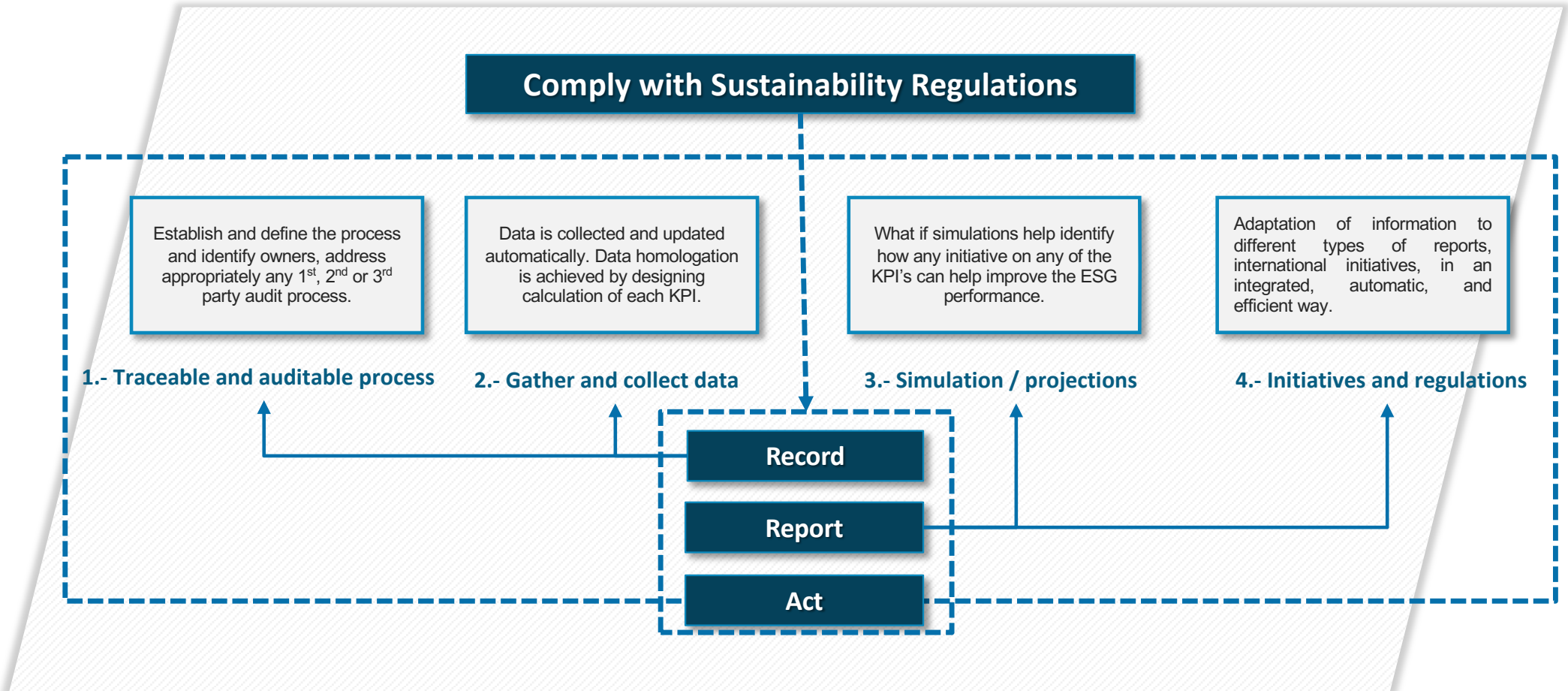
Comply with the increasing number of **different regulatory frameworks** and stakeholders' requests. **Similar information is used for different reports**.

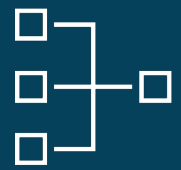


John
Global Sustainability
Lead / Controller

COMPLY WITH REGULATIONS is one of the most important activities of the Sustainability Process. The use of technology is ESENCIAL for this task.

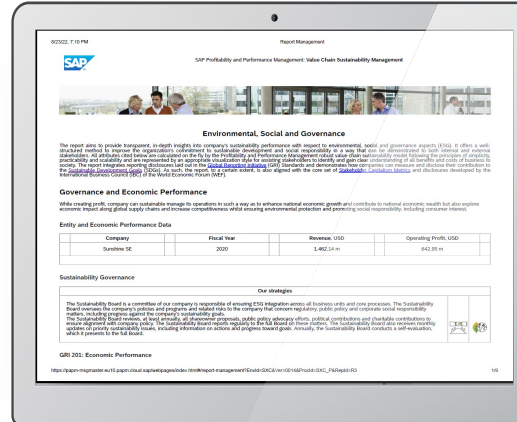
Add value to the Sustainability process



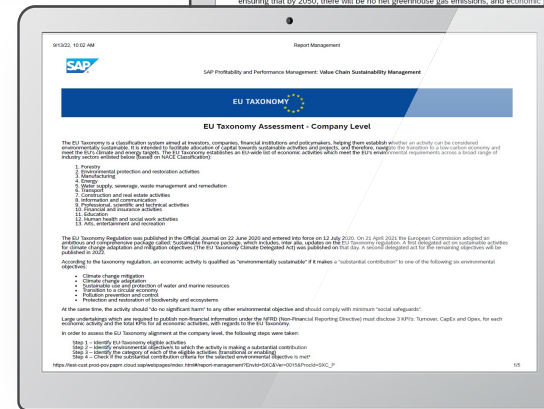


How to **set up a Sustainability Accounting System** and implement CSRD, TCFD and EU Taxonomy requirements?

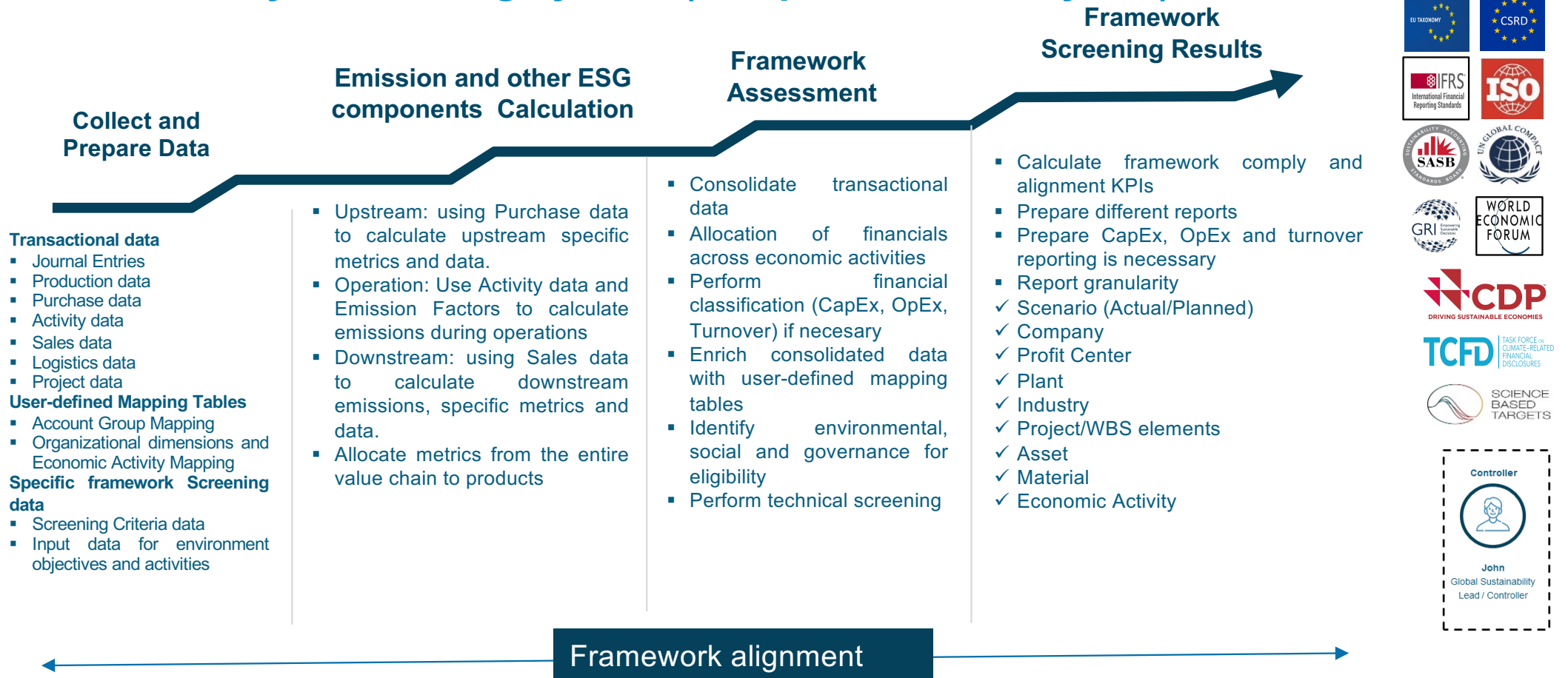
Sustainability accounting system (compliance and beyond)



- Obtain corporate reports automatically.
- The same data is used to adjust to the requirements of different reports.
- Match the reporting needs of mayor stakeholders.
- Customize the reporting interface with corporate information such as targets, goals and ambitions.
- Increase the validation and evaluation of ESG performance by generating the reports in shorter periods.
- Support all mayor GHG Protocol KPI's linked to Scopes 1,2 and 3.

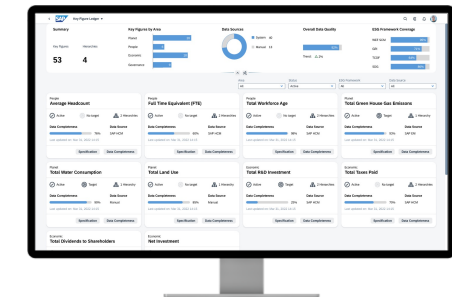
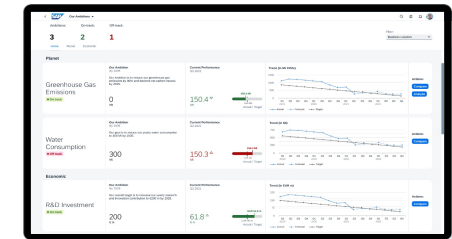
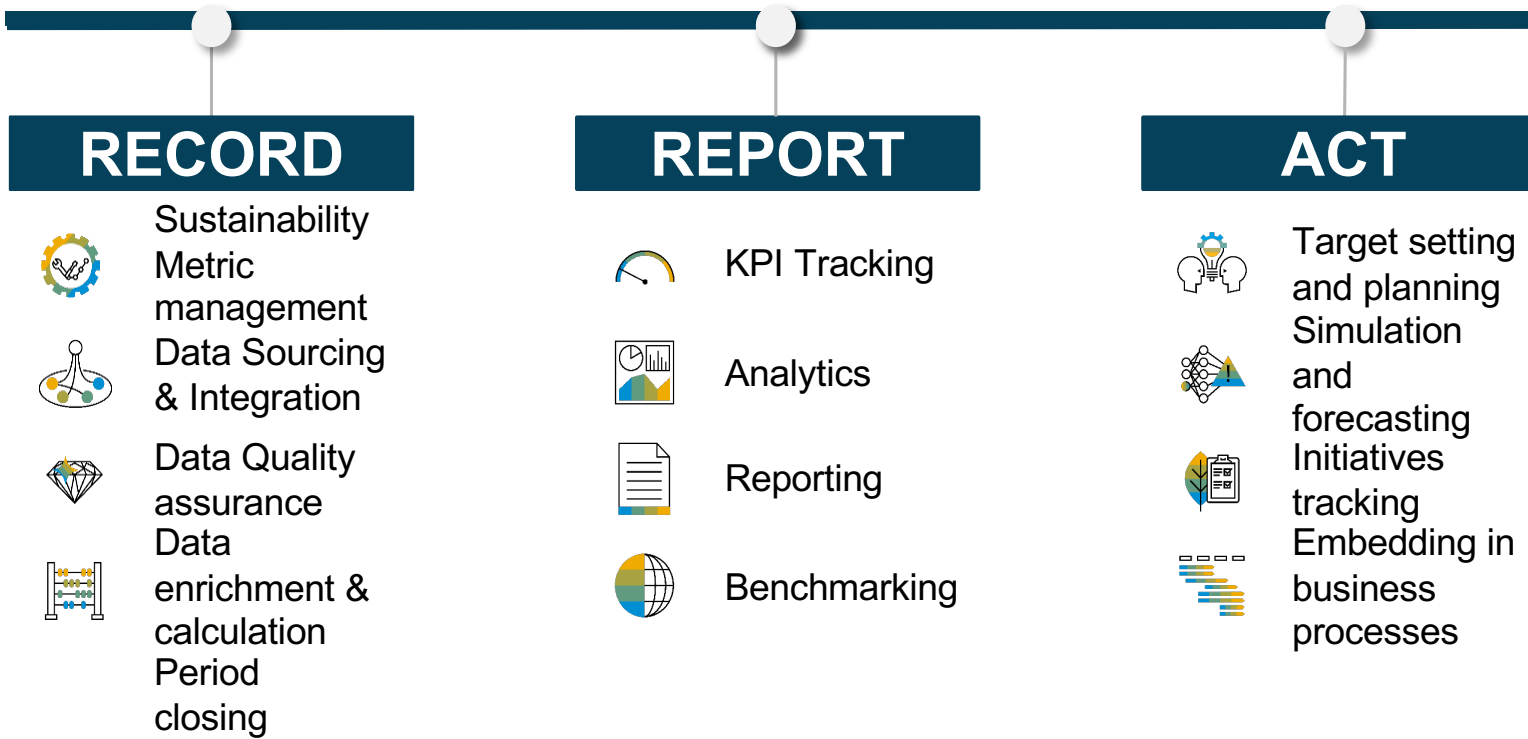


Sustainability accounting system (compliance and beyond)

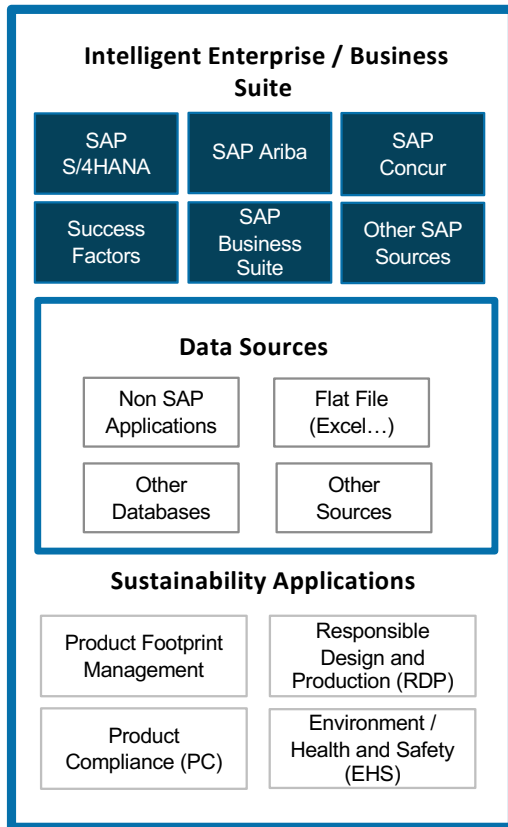


Sustainability accounting system / Sustainability Control Tower

Automated, auditable, compliant reporting with actual data & insights to embed sustainability into business processes



Sustainability accounting system / Sustainability Control Tower



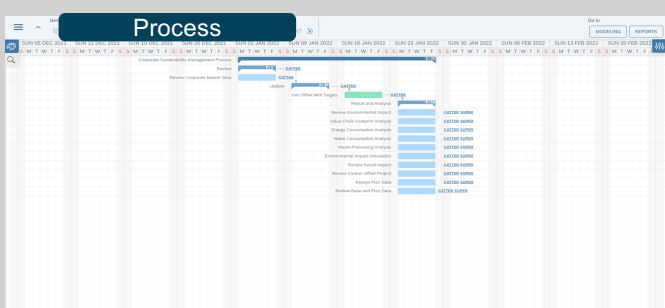
IT Expert

Jennifer
Global
IT Manager



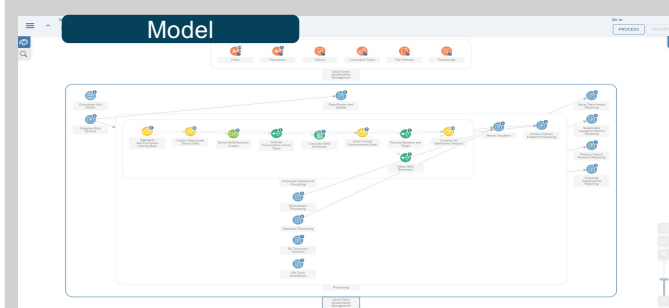
- Our main goal is to automate as many data sources as required.
- Minimize the manual data collection as part of the harmonization process.
- We transfer knowledge so the organization can develop this task on their own.
- Intuitive graphical modelling environment requiring low /no coding skills

Sustainability accounting system / SCT accelerators



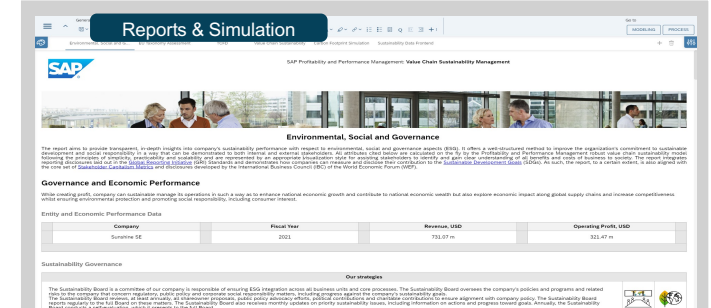
Predefined End-User Processes

- Process activities & workflows to guide end-users through the whole sustainability process
- Four-Eyes principle to structure data input and review



Predefined Data and Calculation Model

- Corporate, value chain, product, and portfolio sustainability ESG calculations and assessments based on sample data
- Quarterly updates on premise
- Content available on Public and Private Cloud
- Standard-compliant result views



Predefined End-User Reporting and Simulation

- Supports GRI, WEF Stakeholder Capitalism Metrics, TCFD, GHG Protocol, PCAF Standard, EU Taxonomy, SFDR PAI, SBTi
- Powerful simulation capabilities to analyze different scenarios





Questions and answers?

Thank you very much for your attention!



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