

ESG maturity on the rise

Croatia 2024 ESG Champion initiative results

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ESG is a key topic in boardrooms today – not only for securing a company’s right to operate but also to enable it to thrive.

Companies are expected to **do more than comply** & perform financially; losing it’s Right To Operate is the ultimate risk.

License to thrive *Doing MORE by leading*

- Leverage innovative thinking to develop new approaches to ESG – and act as a leading example
- Align processes so that ESG represents a driver of value and an opportunity to lead and push the boundaries of the industry
- Pushing the limits of "profitability" – redefining the values of the company

License to compete *Doing GOOD by optimizing*

- Understanding trends expectations and long-term scenarios,
- Innovating offerings
- Engaging supply chain

License to operate *Doing RIGHT by complying*

- Focusing on risk, compliance and reputation, typically in the short-term
- Below-average participation and development of ESG criteria

ESG 2.0

Up to

100 %

higher valuation of the company than the competition at the expense of the leading position in the field of ESG¹

Firms voluntarily committing to sustainability see a **16% boost in employee productivity**³

Companies with the highest ESG ratings **outperformed** lowest-rated firms by **40%**²

70% of consumers consider environmental impacts when **making a purchase** decision⁴

65% of consumers expect companies to **exceed government standards** on environmental impact⁵

Value at risk from sustainability issues (regulation, rising operating costs, supply-chain disruption) can be as high as

70% of earnings²

Number of companies

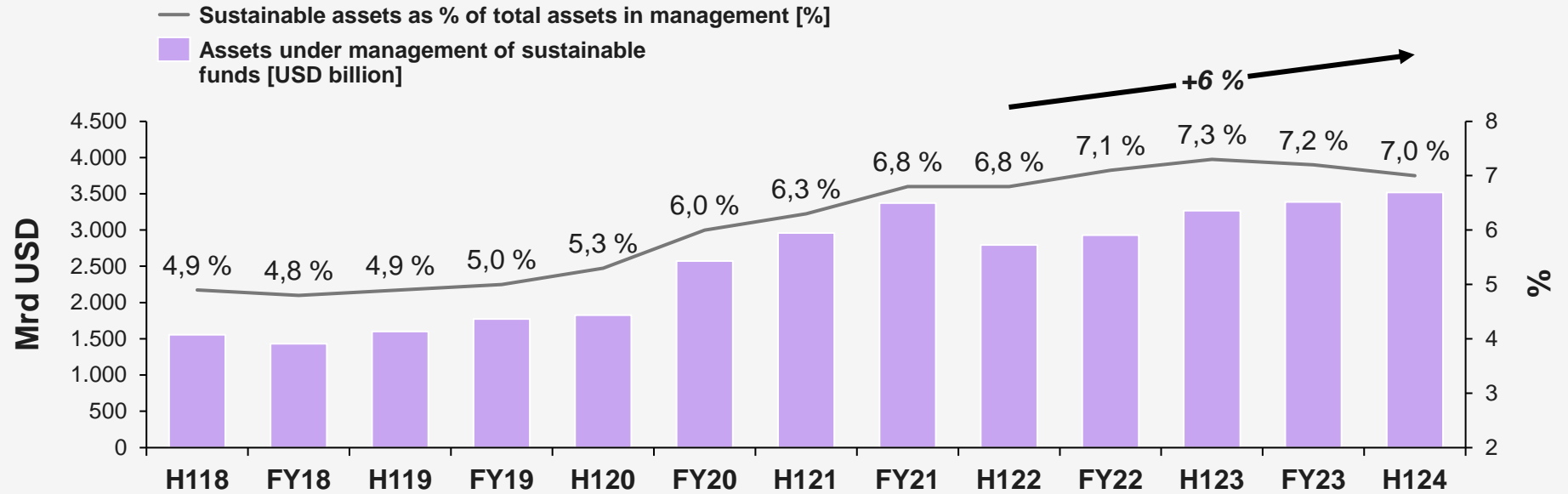
1. Kearney's analysis, which covered the following industries: aluminum, automotive OEM, automotive parts, cement, oil and gas distribution, electricity supply, infrastructure, steel, chemicals, airlines, oil and gas, marine transportation, coal, minerals, service companies; 2. Harvard Business Review 3. Network for Business Sustainability 4. Global Sustainable Investment Alliance 5. Kearney study – Earth Day Consumer Sentiment Study

Investments in ESG are still increasing, and at the same time, ESG is playing an increasing role in investor decisions and asset management processes.

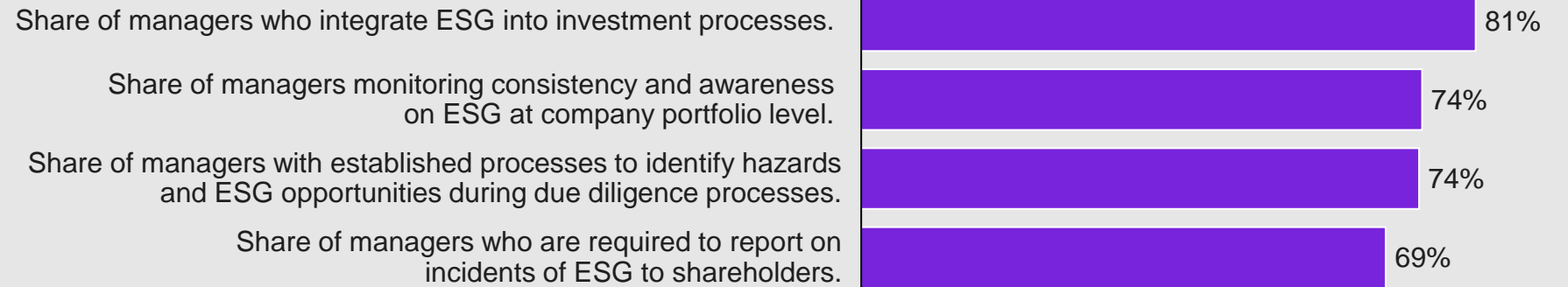
Sustainable funds had inflows of \$20 billion in the first half of 2024, less than in recent periods, and assets rose to \$3.5 trillion.

Sustainable funds outperformed traditional funds by 0.6 percentage points in the first half of 2024, driven by equities.

2018 – 2024 Resources in the management of sustainable funds



Share of private equity managers carrying out ESG activities¹



¹. Based on 220 shareholders from all over the world.
Source: LGT Capital Partners study, Morgan Stanley, Pitchbook, Kearney

Second year in the row we have conducted ESG Champion initiative to assess enterprise practices and single out national ESG champions in Croatia.

ESG Champions Initiative

Comprehensive, yet simple assessment of companies ESG maturity across all three dimensions – **environmental, social and governance**.

Companies are **benchmarked** against peers from different industries that participated in the survey **to understand** their current **ESG maturity level** and **assess potential improvement areas**.



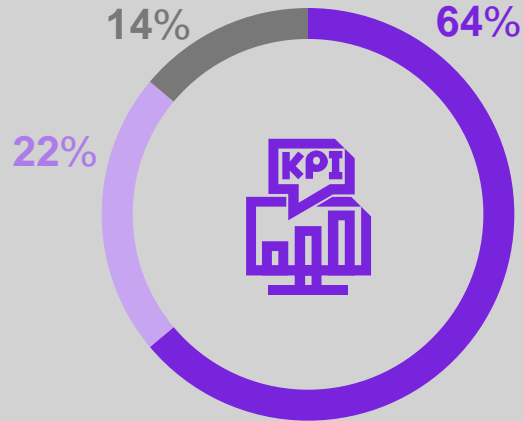
Source: Kearney

Croatian companies prove to be leaders in the field of strategy and have a high level of development in the segment of environment (E).

- Score between 4.5 and 5 (ESG Champion)
- Score between 2.5 and 4.5 (Advanced companies)
- Score between 1 and 2.5 (Traditional approach)

Segment results, Croatia (% represents the share of companies)

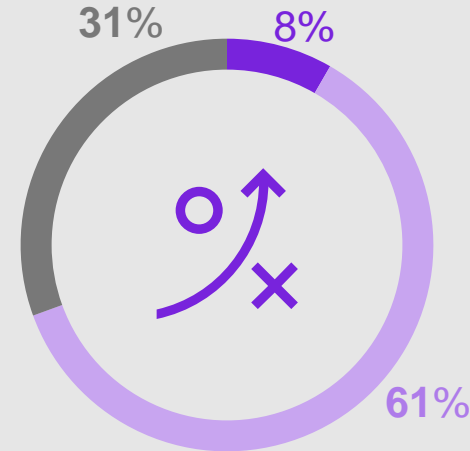
Strategy and business plan, purpose statement and monitoring



Strategy is in place:

- More than **2/3 of companies report that they have a clear strategy and business plan**, as well as a wide range of KPIs that are associated with the statement of intent.
- **Less than 15% of companies do not have a clear strategy** and business plan (mostly micro-enterprises).

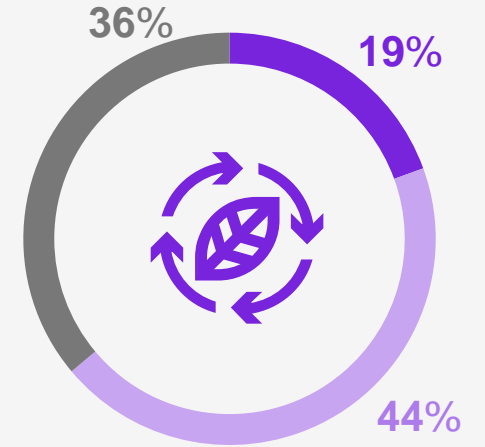
ESG strategy, guidelines and reporting



ESG strategy and targets are in place, but still lacking in reporting results:

- Most of the companies do have a clear ESG strategy and consider it a strategic priority.
- Not all companies report on ESG.

Environmental impact



ESG strategies are focused on Environmental impact:

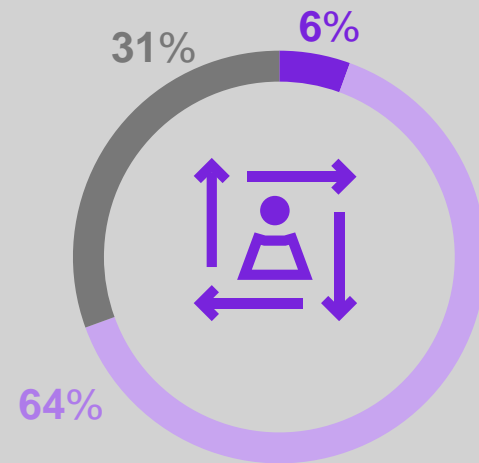
- **63% of companies are advanced or leaders**, with significant efforts to monitor and reduce emissions, waste, and energy consumption.

Source: Kearney analysis based on participants' self-assessment through the ESG Champion survey. The graphs show the results within each segment rather than separate questions.

There are opportunities for improvement in the social (S) aspect – in DEI and governance no ESG Champion couldn't be singled out.

Segment results, Croatia (% represents the share of companies)

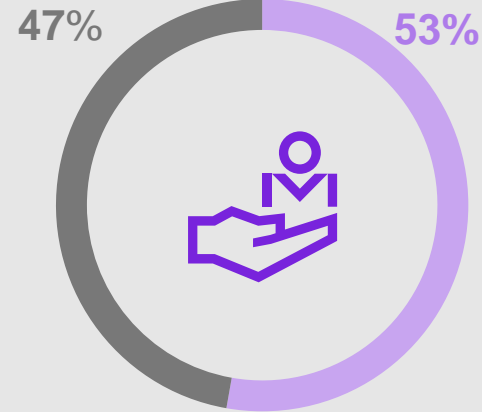
Stakeholders' and societal impact



Maturity in working with external stakeholders is still low:

- Only 6% of leaders have the highest level of commitment to customers, choosing only sustainable suppliers and constantly giving back to society.
- 64% of companies are advanced

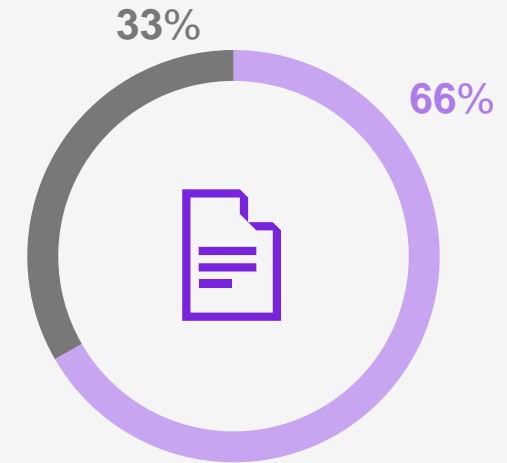
Employee wellbeing & DEI



None of the surveyed companies has yet achieved top performance in the field of employee well-being and DEI:

- Most companies do not have specific programs for the inclusion of minority groups.

ESG governance model



ESG governance is improving, but is still very traditional:

- Companies put little or no effort into succession plan.
- More than third of the companies surveyed have less than 40% of women in senior management (at levels C and C-1).

- Score between 4.5 and 5 (ESG Champion)
- Score between 2.5 and 4.5 (Advanced companies)
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Source: Kearney analysis based on participants' self-assessment through the ESG Champion survey. The graphs show the results within each segment rather than separate questions.

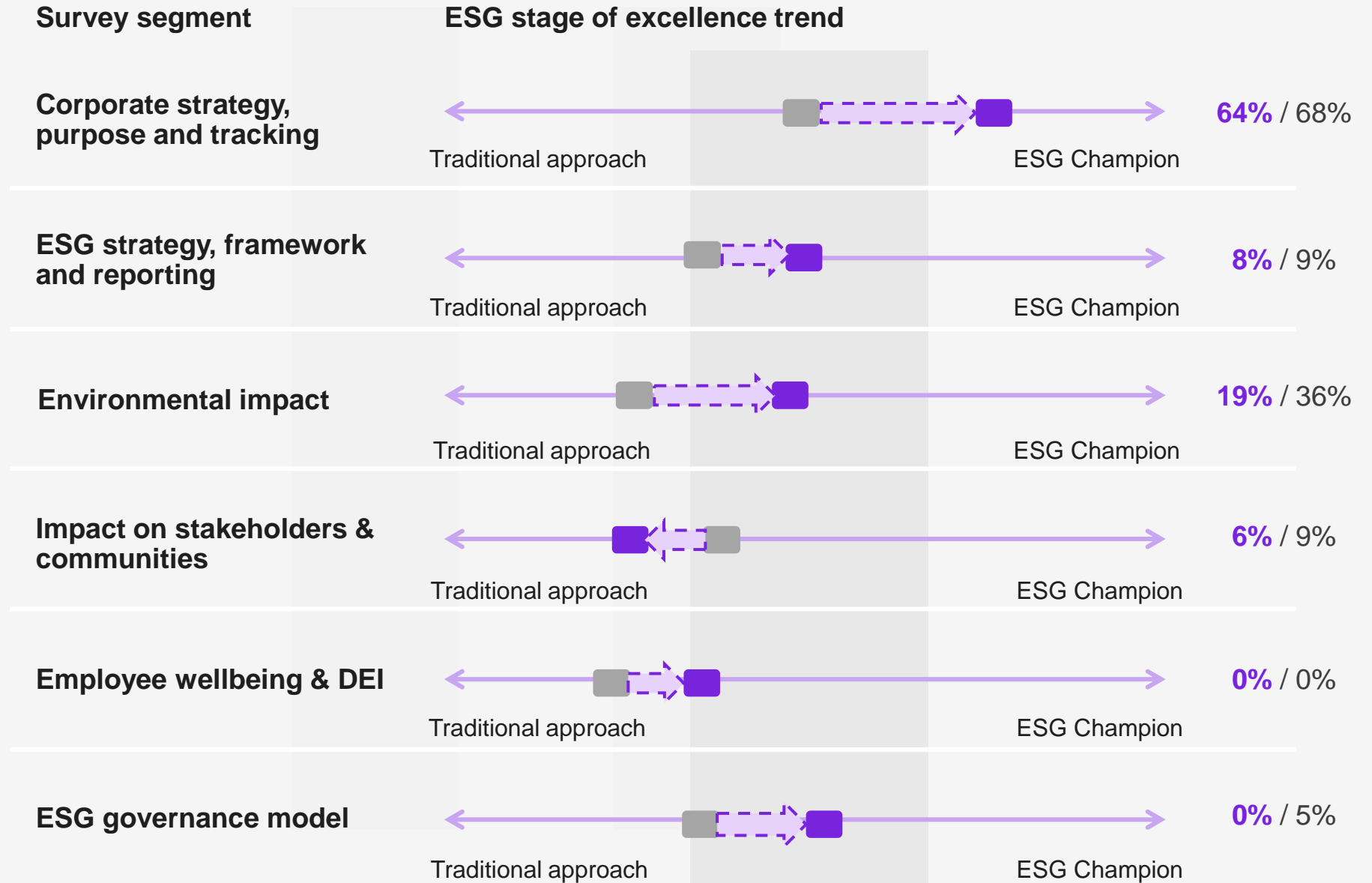
Overall, ESG maturity of Croatian companies is increasing, with social impact only one having negative trend.

Illustrative

Legend:

- Croatia 2023
- Croatia 2024
- X% % of companies that are ESG Champions in Croatia
- X% % of companies that are ESG Champions in Slovenia
- Maturity trend

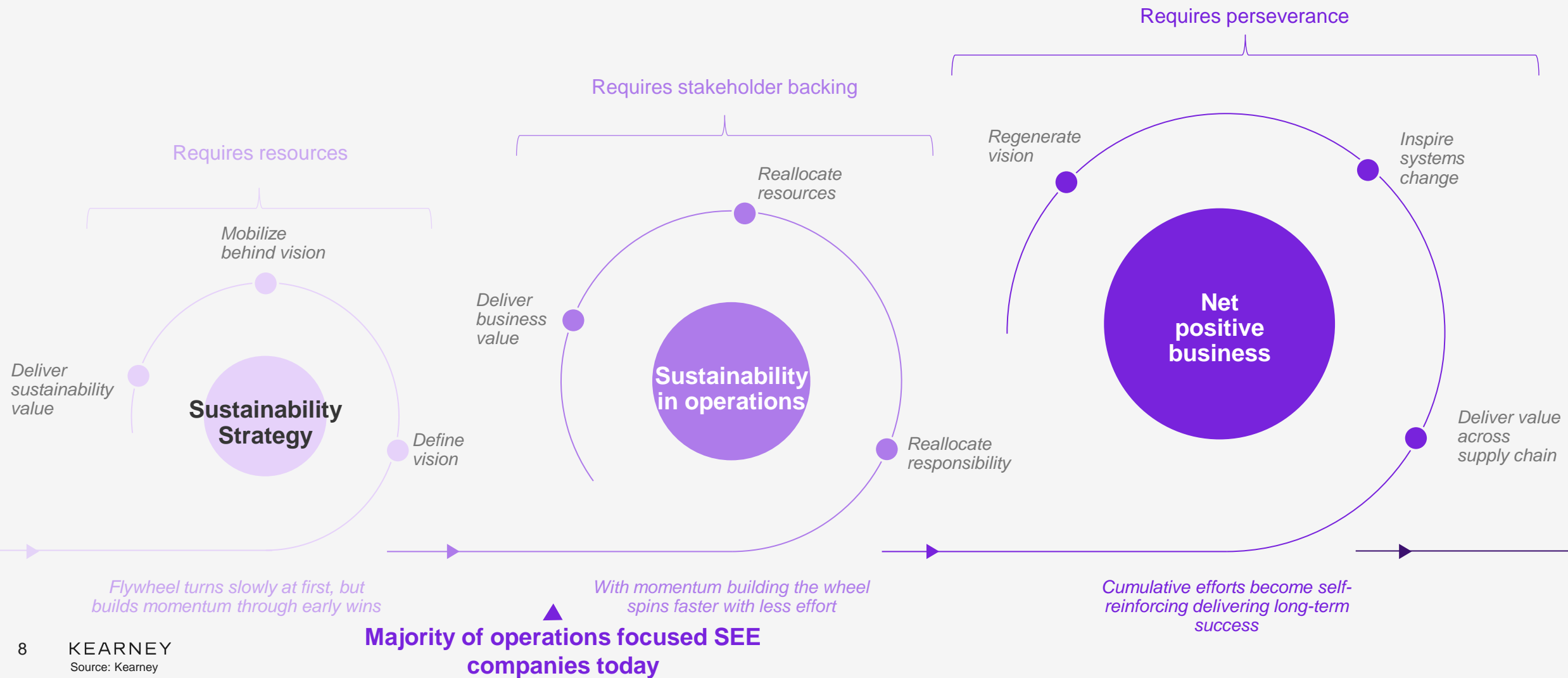
Comparison of results of ESG Champion in Croatia in 2023 and 2024



The results are based on the self-assessment of the companies participating in the Kearney 2023 and 2024 survey in Croatia and 2024 survey in Slovenia. Source: Kearney




The next turn of the flywheel will be critical for companies to build the momentum needed to become a truly sustainable business.

Sustainability flywheel

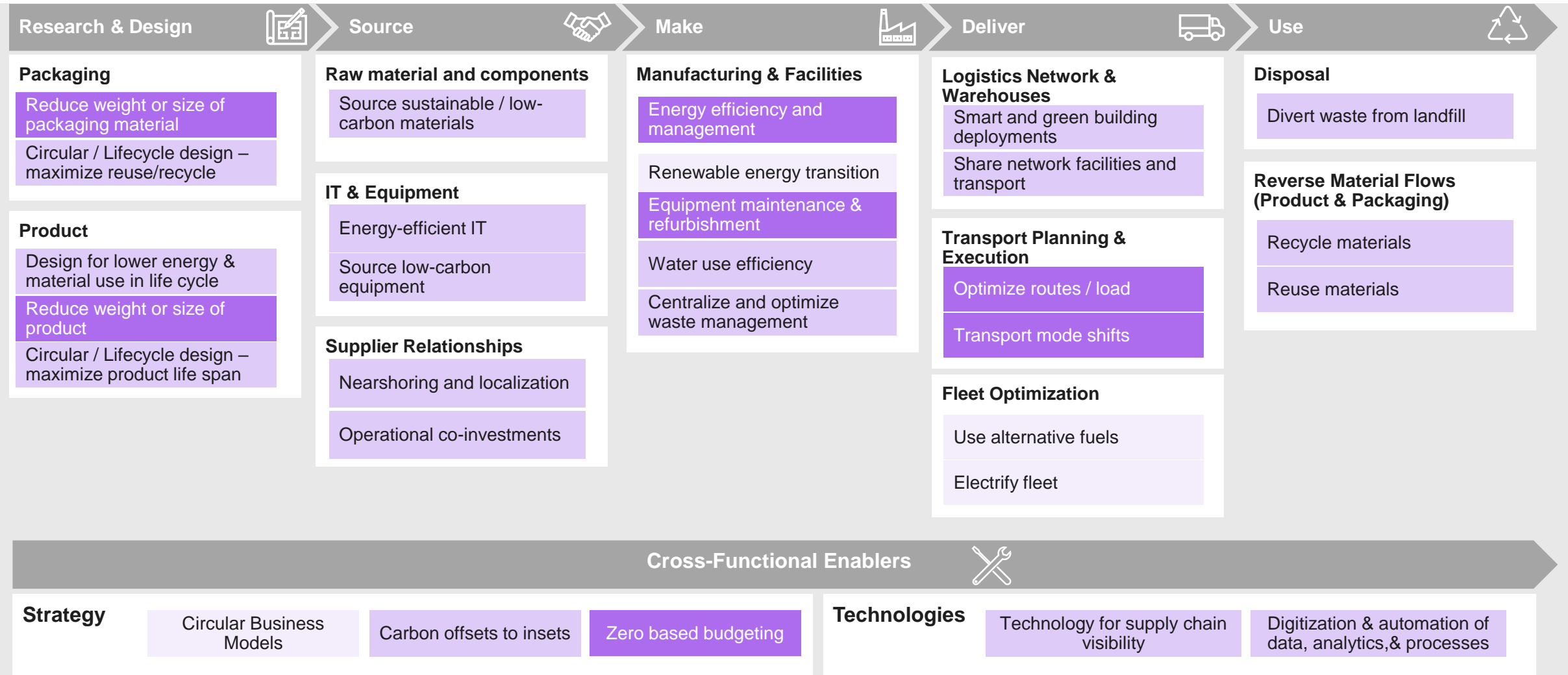


Sustainability levers can be implemented to drive cost savings, which can be used to offset investments elsewhere.

Business case maturity

-  Most mature; lead to cost and carbon reduction
-  Mature; requires upfront financial investment
-  Lowest maturity; longer-term investment

Example of sustainability and cost levers in Operations & supply chain

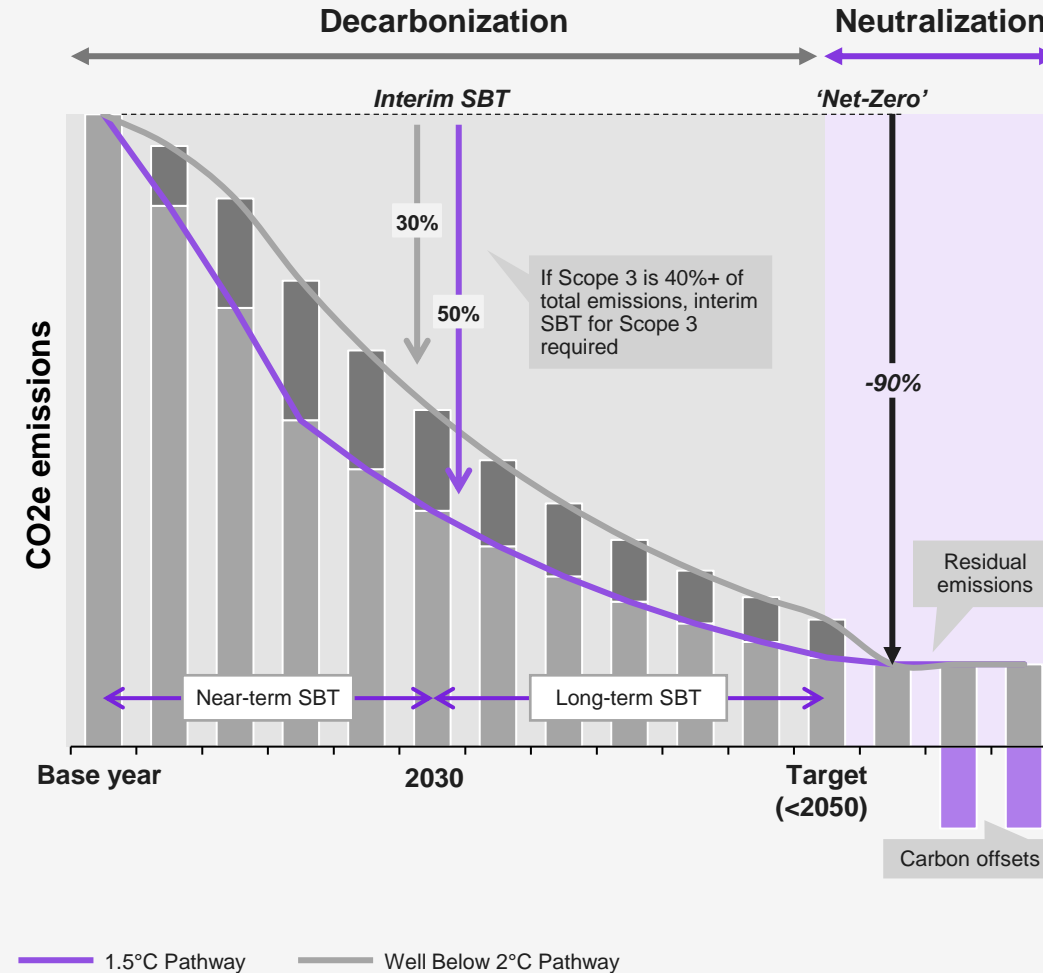


Perspective on Scope 3: the headache and how procurement can help



A solid Net zero strategy has two key components: decarbonization and neutralization; Companies need to decarbonize at least 90% and neutralize no more than 10% of their greenhouse gas emissions

Journey to 'Net-Zero' (CO2e¹, All Scopes)



1. CO2e = CO2 equivalents (all GHG can be expressed in CO2 equivalents)
Paris Agreement protocol mentions for the pathway to limit the global warming at 1.5°C, world must reduce carbon emissions by half by 2030 and Net-Zero emission by 2050
Source: Kearney

Scope 3

Step 1: Decarbonization

Internationally-aligned emission reduction strategy, in accordance with the Paris Agreement

- Short-term targets: Outline for the next 5-10 years to reduce emissions in line with mitigation pathways
- Long-term targets: Emission reductions needed to achieve Net-Zero: at least 90% no later than 2050

Step 2: Neutralization/offsets

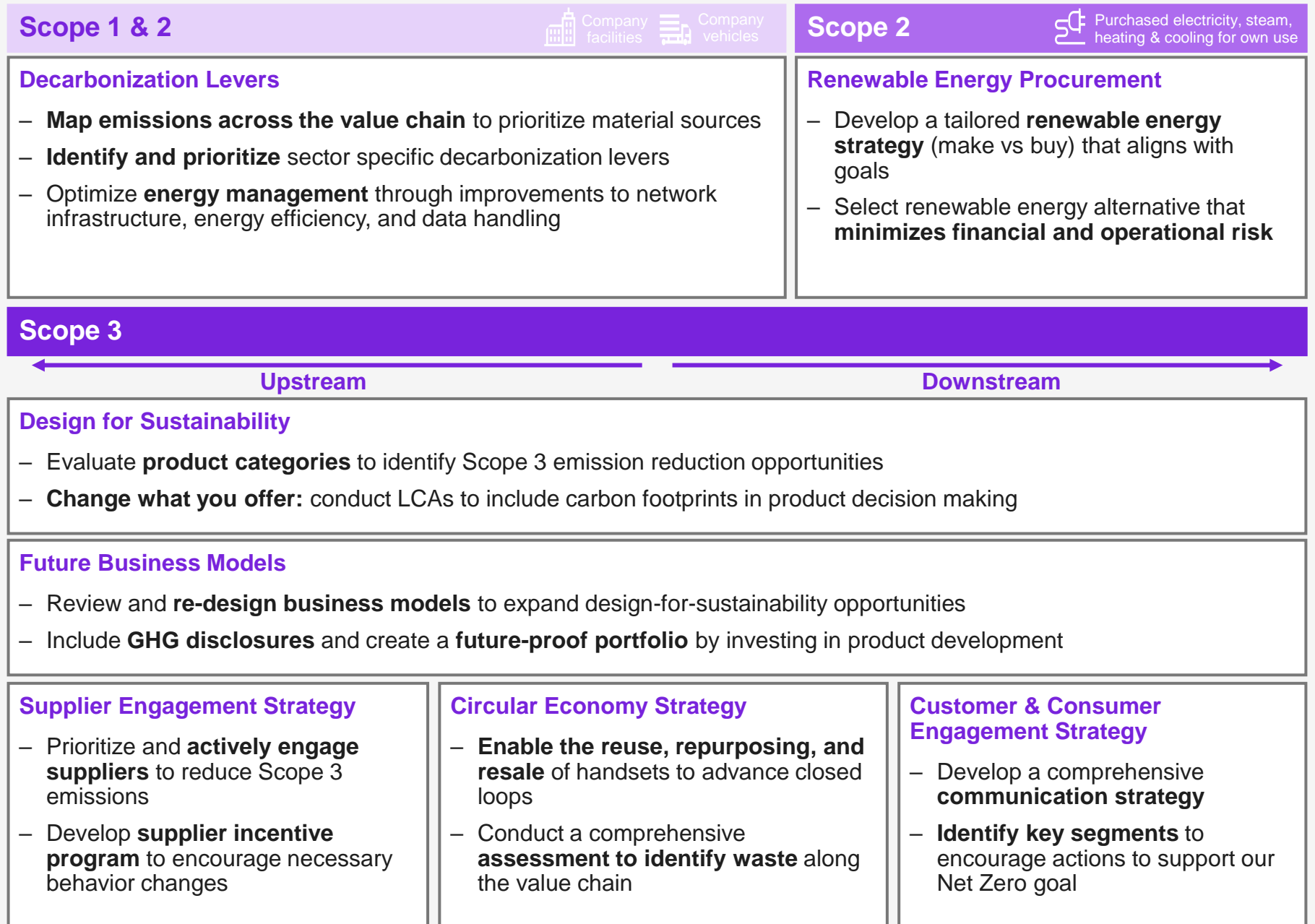
100% of unabated emissions (max 10% of total) must be neutralized post target year

- Neutralizing means reducing CO₂ from the atmosphere with technology/nature-based solutions, e.g.:
- Reforestation
- Direct Air Capture

Companies have various levers to decarbonize their operations, but **Scope 3 emissions are the most challenging to address as they stem from activities outside the company's direct control, including those of suppliers and end-users across the value chain**

Scope 3

Decarbonization Strategy Framework



Our perspectives on Scope 3 & Sustainable Supply Chain – Procurement is key in driving decarbonization and ESG impact

Non-Exhaustive

Scope 3

1

Procurement as key stakeholder in ESG risk and GHG emissions

ESG is becoming a pre-requisite to operate and Scope 3 represents the majority of GHG emissions for most industries

The Procurement function, with its influence over the supply chain, is ideally positioned to be the corporate sustainability enabler, including management of ESG risk upstream

2

Our framework for Sustainable & Responsible Procurement

The Scope 3 measurement journey is gradual: our proprietary Carbon Cube tool supports Scope 3 baseline creation and hotspots identification

Along with a pragmatic ESG risk we integrate ESG criteria in the Supplier Segmentation and Relationship Management through multiple strategies

3

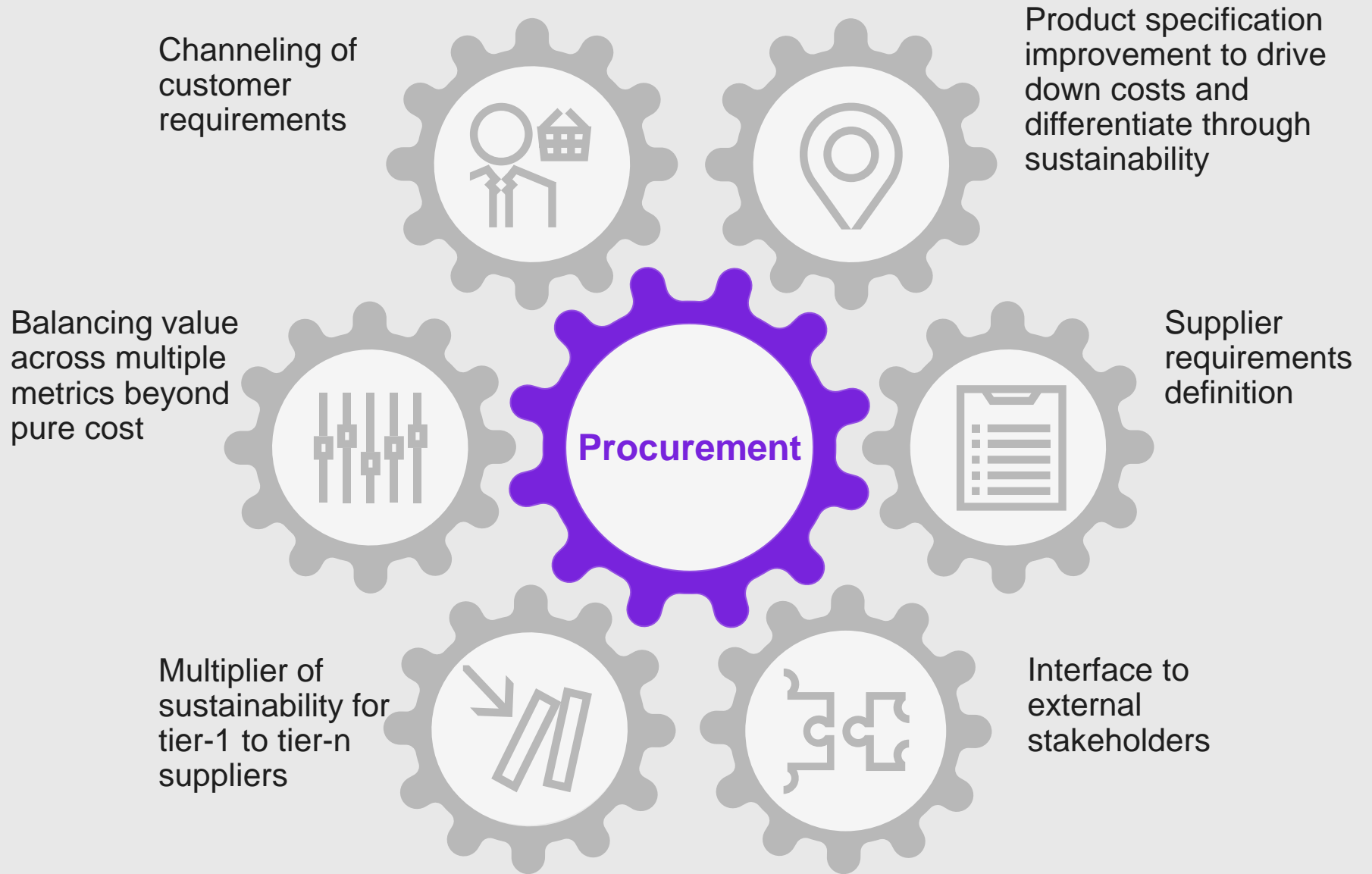
Top- and bottom-line improvement opportunities from ESG

Scope 3 reduction and ESG risk should not be viewed as purely cost-generating measure to comply with regulations

Focus on Scope 3 and sustainability overall brings tangible top-line (through differentiated competitive advantage and better investor image) and bottom-line impacts (e.g., direct cost savings).

Procurement is uniquely positioned to lead the sustainability in operations

Golden opportunity for Procurement



Scope 3

While cost remains a priority, sustainability priorities and resilience are the areas with the highest value creation for procurement.

Forward-thinking CXOs are focusing on enhancing operational resilience, investing in innovation and sustainability, and forming innovative partnerships with suppliers

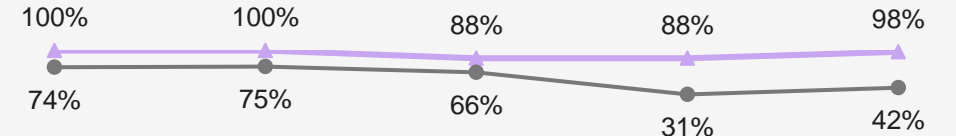
Scope 3

Value dimensions

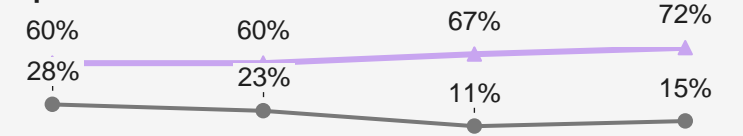
Margin	Margin continues to remain a priority – but the gap has doubled between leaders and others
Sustainability	Sustainability priorities remain consistent with an uptick in sustainability for leaders – gap is widening between leaders and others
Resilience	Supply chain resilience continues to be a focus point
Innovation	Leaders focus significantly more on Innovation as means to leverage inflation and enhance revenue
Efficiency	Factors such as cost inflation, labor challenges, macropolitical tensions, and disruption in supply chains have heightened focus in Gen AI and therefore, efficiency

% Respondents reporting high value creation in ...

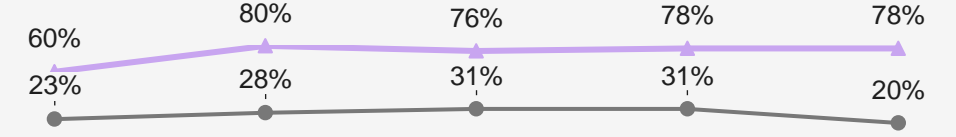
Price Reduction



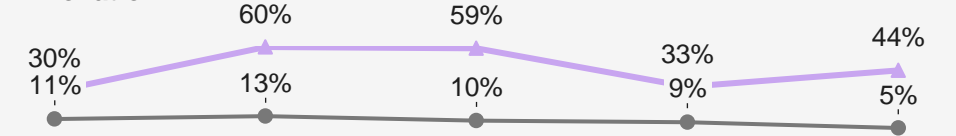
Environmental Impact¹



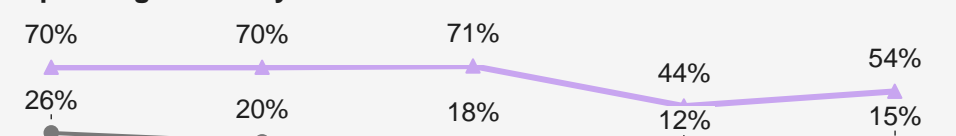
Resilience



Innovation



Operating Efficiency



2019 2020 2021 2022 2023

Leaders All Others

¹ Data not represented in years where category was not surveyed.

Source: Kearney Annual Excellence in Procurement (AEP) 2017 – 2023, Kearney COO Annual Survey 2024

A successful Sustainable Procurement strategy must be underpinned by a holistic operating model

Scope 3

Procurement strategy

- **Definition of targets** derived from corporate sustainability targets
- **Translation** into tangible Procurement dimensions and KPIs

Supplier relationship management

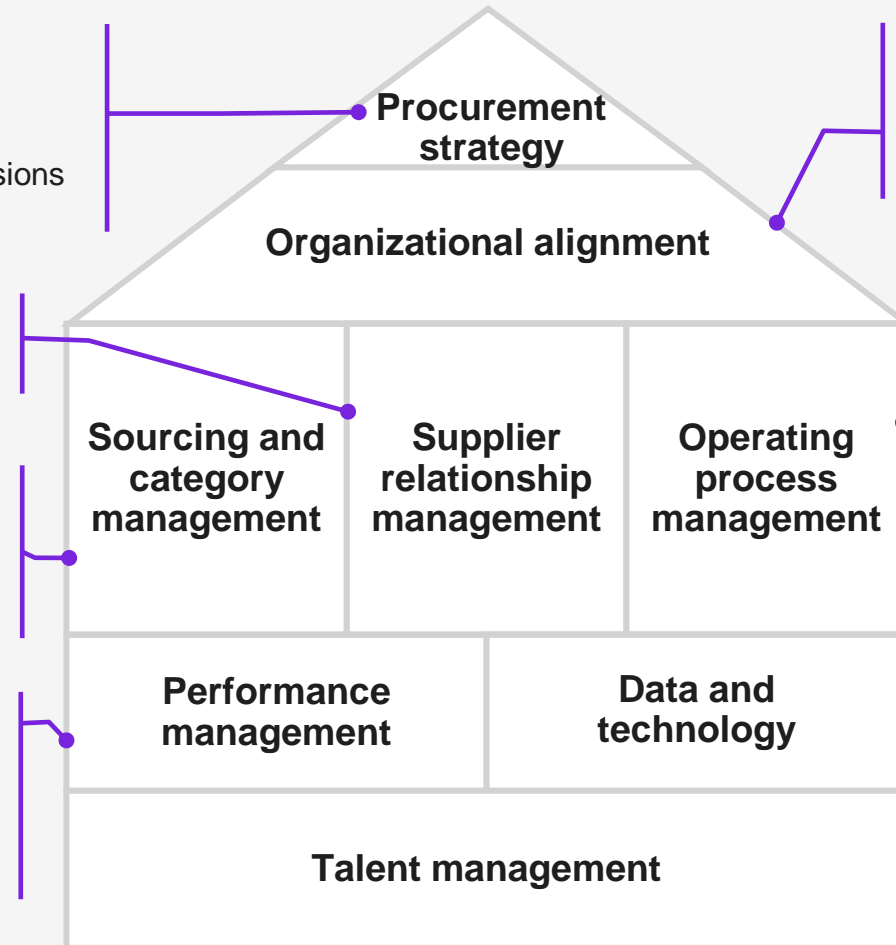
- Integration of **sustainability measures**

Category management

- Breakdown of targets by category
- **Monetization** of targets **including sustainability**

Performance management

- Development and systematic assessing of **KPIs**
- **Quantitative definition** of target agreements



Organizational alignment

- Incorporation of sustainability into procurement **roles and accountabilities**
- Special department/role only during the build phases

Operating process management

- Incorporation of sustainability into source-to-contract and procure-to-pay processes (track the execution!)

Data and technology

- Selection of right **supporting IT-Tools** and evaluation platforms
- Definition of governance within the organization

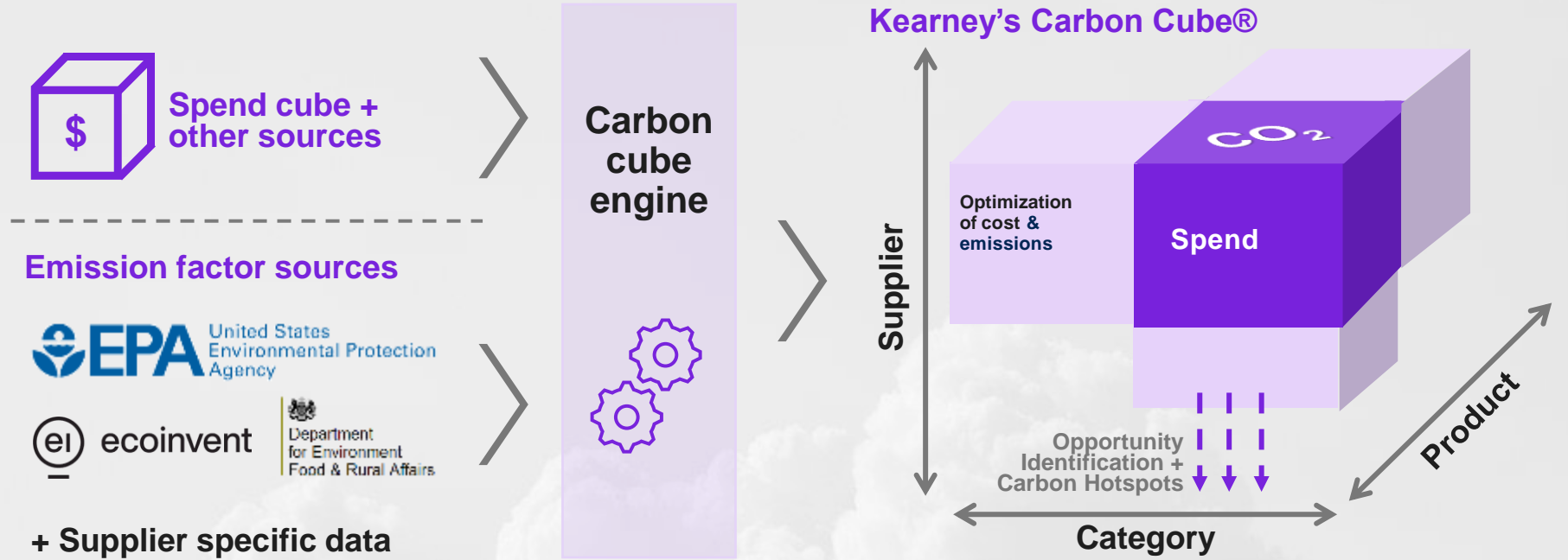
Talent management

- Discover **sustainability talents**
- Develop a **sustainability training curriculum**
- Create an **environment** to foster an **active exchange**

Our proprietary Carbon Cube® allows to quickly measure and track Scope 3 emissions, identifying hotspots for the decarbonization journey

- ✓ Gen-AI enabled
- ✓ Web-based secure login
- ✓ Integrable with client ERP systems
- ✓ Customizable according to client data systems

Scope 3



① Leverage existing Spend Cube & Taxonomy

- **Define In-scope/Out-of-Scope categories** (based on applicability & relevance to Scope 3/emissions)
- **Classification & mapping of spend categories** to Emission factor databases

② Calculate CO₂ emissions by category

- Mapping of carbon emissions factors from the mapped categories
- Calculating **line-item level carbon emissions footprint**

③ Identify category/supplier/product hotspots

- Power-BI visualization Dashboard
- Identify and highlight **emission hotspots**
- Target suppliers/products for LCA

What Kearney is doing to help its clients in ESG

5 major platforms built around key 'big' issues our clients tackle



1

ESG Transformation

- To address ...**
- “I don’t know where / how to get started”
 - “I want to embed in our culture / ways of working”
 - “I want to add ESG to our deal flow and thrive the business”
 - “Are our goals ambitious enough?”



2

Net zero

- “I have to deal with scope 1, 2, 3”
- “I need to decarbonize my operations”
- “I need to decarbonize my supply chain”



3

Sustainable & responsible sourcing

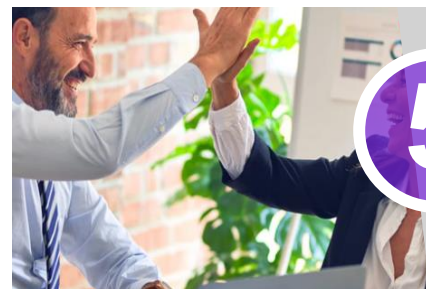
- “I want to think more holistically about my supplier strategy – supplier diversity, human rights, supplier risk”
- “What about how I build my products?”



4

Circularity

- “I want to close the loop in my processes”
- “I want to involve the customer more in the recycle / reduce phase”
- “Are reverse logistics circular solutions?”



5

Equitable & inclusive societies

- “How do I measure the impact of my social goals / efforts?”
- “Am I doing enough and am I doing the right things when it comes to community impact?”
- “What about engaging employees on ESG?”

Thank you

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