

ESG maturity research and findings in Croatia

**AmCham Croatia Conference:
Business sustainability with ESG principles**

November 2023

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Kearney

KEARNEY

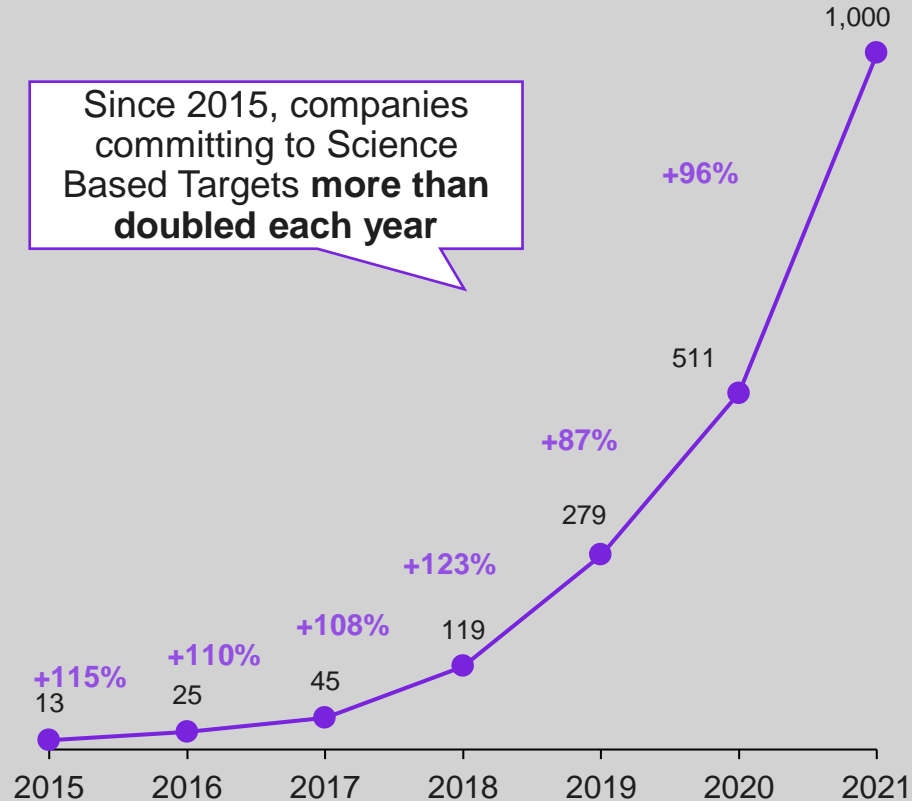


- 1. Our perspective on ESG**
- 2. ESG maturity in Croatia study results**
- 3. Finalists in ESG maturity in Croatia**

Companies are setting ambitious ESG targets but are struggling to make them into reality due to execution gap.

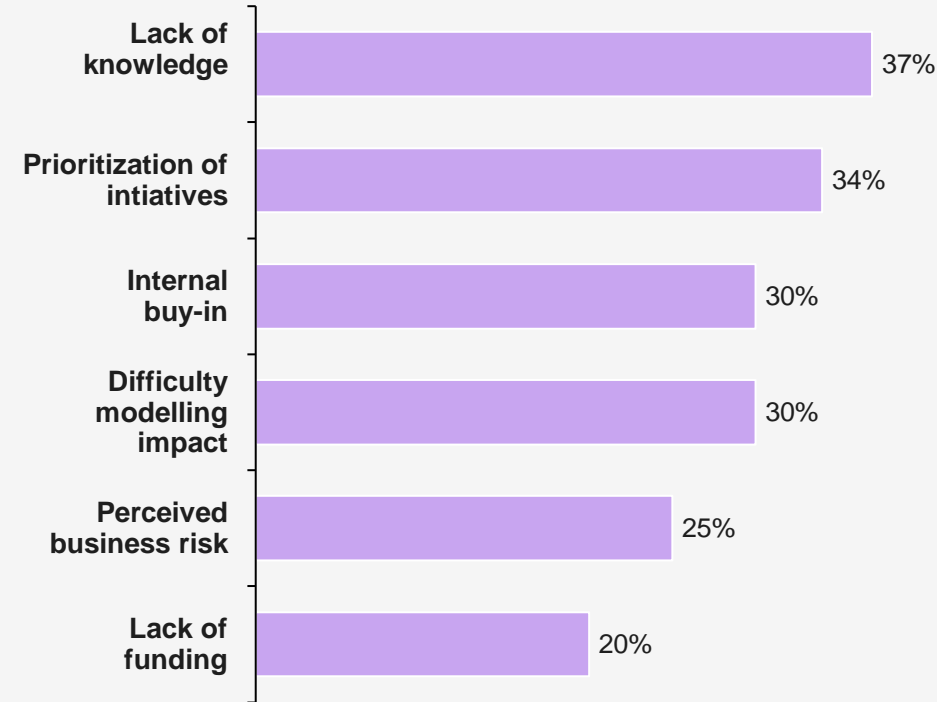
Commitment to sustainability targets is growing exponentially ...

Global commitment to Science-Based Targets¹
(2015-2021)



... and companies are facing challenges closing the execution gap

Top problems to implement ESG strategies
Kearney's 2021 CEO Sustainability Survey



1. Science-based targets (SBTs) are measurable, actionable, and time-bound objectives, based on the best available science, that allow actors to align with Earth's limits and societal sustainability goals.
Source: desktop research, Science based Targets, Kearney's 2021 CEO Sustainability Survey

ESG creates long term value in cultural progress, brand credibility and cost savings. ESG ambitions must be integrated deep into the organization, otherwise results might trail behind.

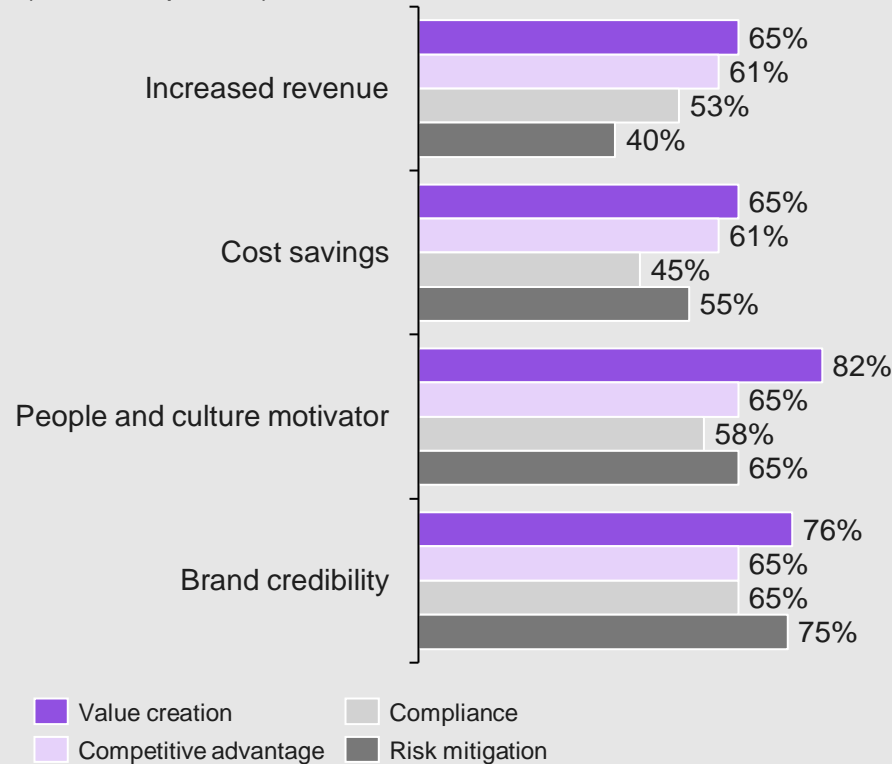
COOs and CSOs globally believe that when approaching daily work with an ESG mindset, they created more value across multiple categories

Kearney 2021 State of Sustainability Assessment

Why are you in the ESG game?

Benefits from four sources of advantages of ESG

(% of companies)



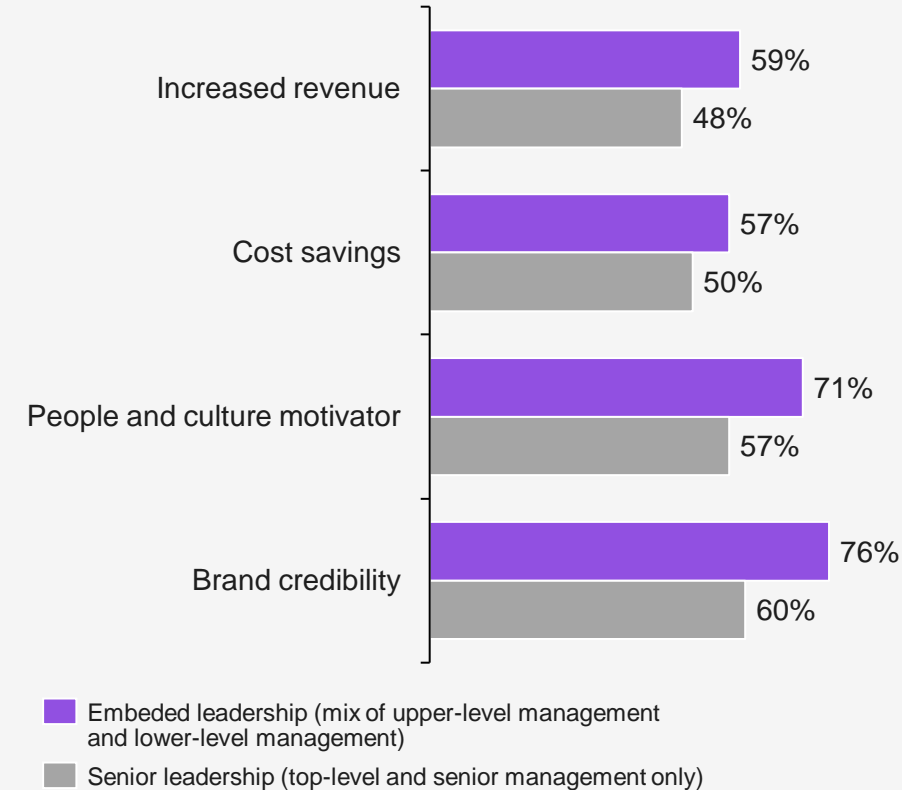
- Of the companies that **use ESG programs for value creation**, a higher share report seeing **increased revenue, cost savings, more highly motivated people, and higher brand credibility** than those companies focused on compliance and risk mitigation

Source: Kearney

Embed ESG ambitions instead of just cascade

Level of ESG integration

(% of companies)



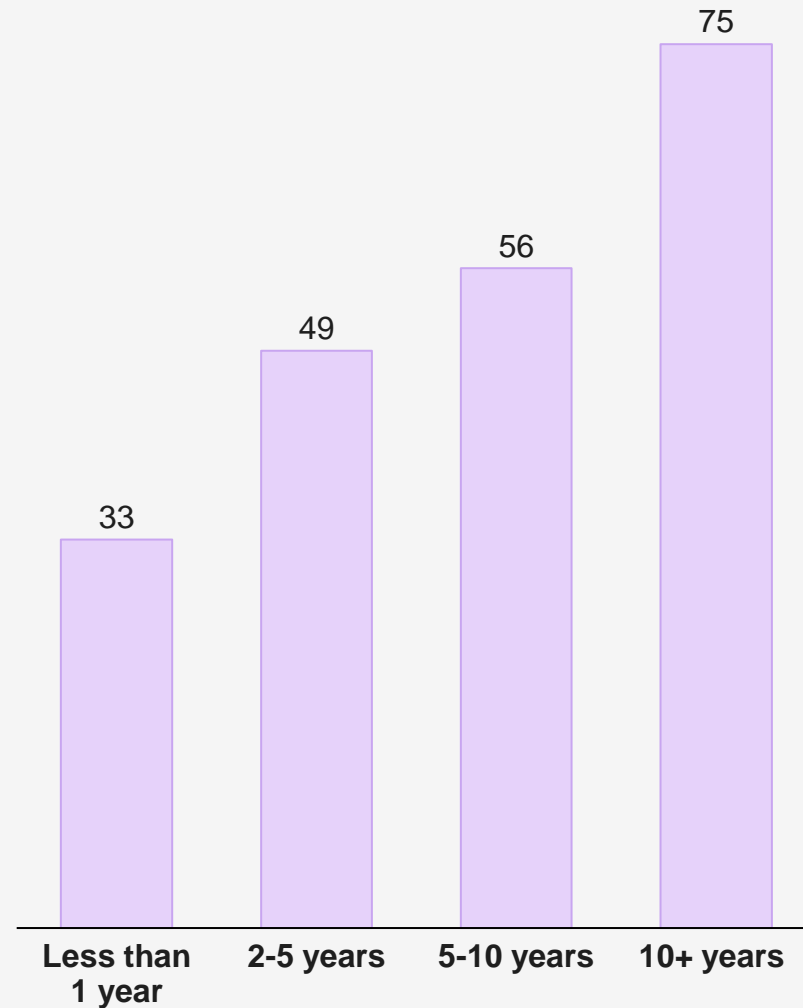
- When **ESG metrics are integrated into performance evaluations or compensation structures at the middle management level**, rather than stopping at executives, **returns follow**

True value from ESG initiatives comes in the long run, especially in terms of revenue.

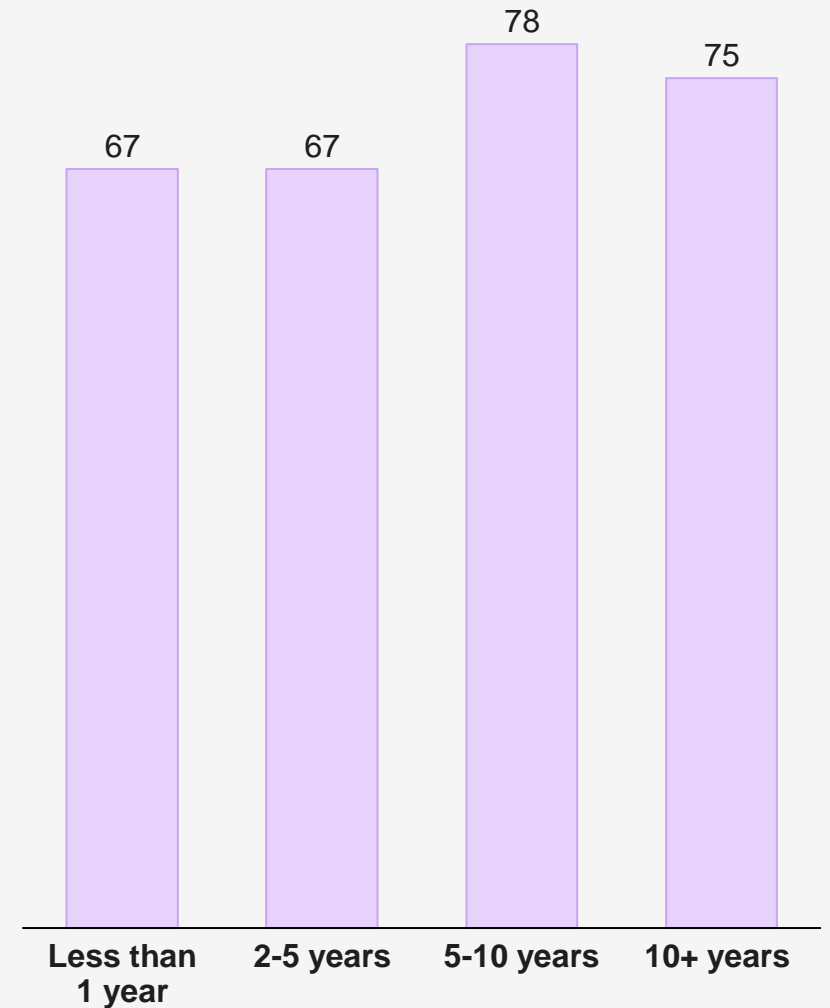
Companies with more mature ESG programs see increased revenue benefits

What value do current ESG projects bring to your company?

Increased revenue: value accrues over time
(% of companies)



Brand credibility: has short-lived effect
(% of companies)



ESG is more than compliance – it creates value and presents a business opportunity if correctly utilized.

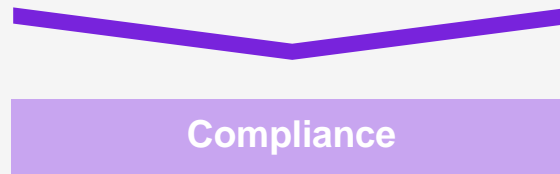
Compliance and regulatory perspective

Alignment with **new regulatory EU and national legislations** presents a risk to most large enterprises in the EU.

- Reporting differs per country

As such, companies need to consider various perspectives

- Financial (e.g., carbon tax)
- Compliance (e.g. CSRD¹ non-compliance)
- Access to certain supply chains (compliance driven procurement)



Business perspective

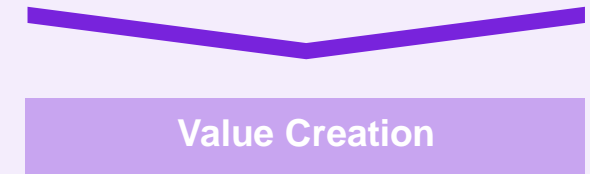
Companies that succeed in executing ESG strategies have many benefits.

- Top line revenue
- People
- Culture

Most companies have successfully created ESG strategies and set the ambition.

However, companies **struggle with the execution of ESG strategy** and fail to grasp the full potential of ESG, which leaves them exposed to **risks**:

- Social risks (e.g., greenwashing accusations)
- Market competition advancements
- Lack of new talent and high-quality workforce
- Poor company culture



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

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

CORPORATE’S LICENSE

License to thrive
Doing MORE by leading

Being role model to peers, transforming the industry, driving positive impact (e.g. shape value chains, policy changes)

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

Companies with the highest ESG ratings **outperformed** lowest-rated firms by **40%¹**

Firms voluntarily committing to sustainability see a **16% boost in employee productivity²**

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

65% of consumers expect companies to **exceed government standards** on environmental impact⁴

Value at risk from sustainability issues (regulation, rising operating costs, supply-chain disruption) can be as high as **70% of earnings¹**

Number of companies

Beyond procurement, the change requires increasing levels of operational change, co-investment and executive sponsorship.

Drive growth

Drive radical **business model/ ecosystem transformation** across customer, competitors, regulators, industry bodies, etc..

Reconfigure the supply to support new business models **that drive a step-change in carbon emissions** (e.g., circular systems)



Drive end-to-end innovation

Partner on R&D/joint innovation projects to investigate low carbon products / materials or closed loop solutions

Support the development of new standards for industry that drive disclosure, accountability and change across the value chain

Invest / acquire start-ups or new suppliers that enable solutions for carbon reduction



Optimize current state

Assess and **grow relationship with suppliers** that have lower emissions impact but ambitious goals

Influence or phase out those suppliers with low maturity to achieve carbon reduction goals



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We have launched **ESG Champions initiative to assess enterprise practices and single out national ESG champions.**

We have surveyed **35 companies** spanning across **diverse range of industries** including retail, banking, insurance, telecommunications, postal and financial services, chemicals, food and beverage, utilities, energy, oil and gas, pharmaceuticals, basic materials, and construction.

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.**



ESG Champion process in Croatia



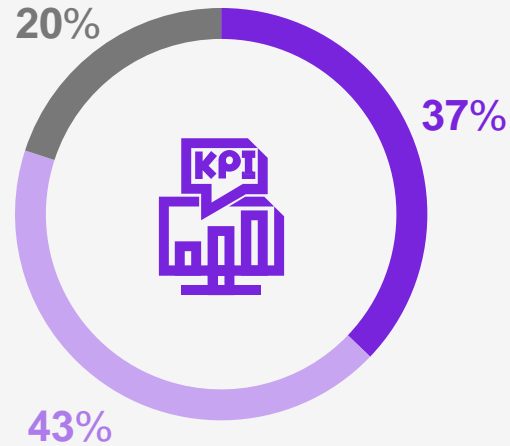
Source: Kearney

Croatian companies have good performance in strategy and business plan segment as well as impact on stakeholders and the community (S).

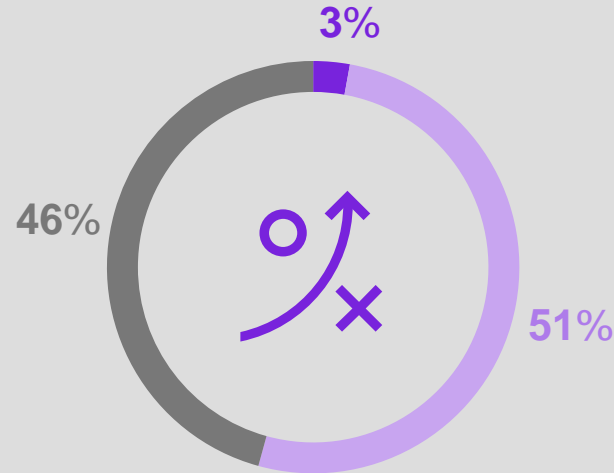
However, opportunities for improvement in all segments including ESG strategy and environmental impact (E), employee matters (S) and governance (G).

- ESG excellence
- Advanced companies
- Traditional approach

Strategy and business plan, purpose statement and monitoring



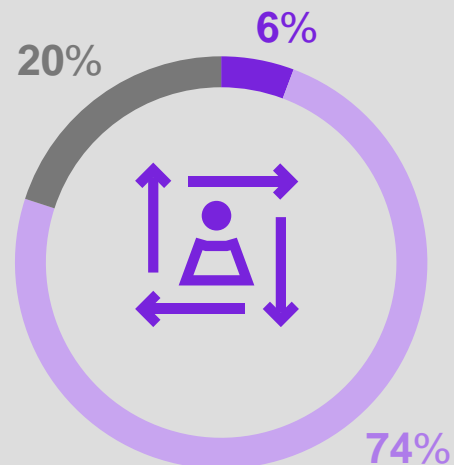
ESG strategy, guidelines and reporting



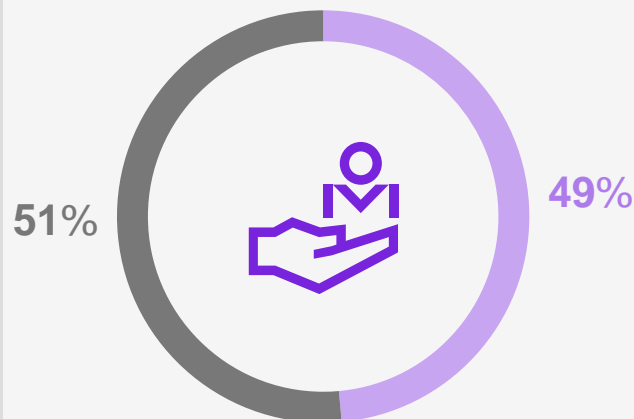
Environmental impact



Stakeholders' and societal impact



Employee wellbeing & DEI



ESG governance model



Regardless of the success shown, there are areas, from every ESG aspect, where companies could leverage best practices.

Almost half of the companies (49%) do not have emission targets set in place and 54% of companies do not track emissions at all or only do so sporadically

Less than a half of the companies (46%) regularly track the wellbeing of their employees and only a quarter has developed a system in place to address it

Fewer than a quarter of the companies (23%) are tracking the diversity within the workforce and have an action plan in place to address it

Key steps

- Start tracking the Scope 1 emissions and set the appropriate targets
- Establishment of specific wellbeing programs
- Development of surveys and assessments along with other resources
- Start of diversity tracking and investing the time and resources for diversity action plan formulation

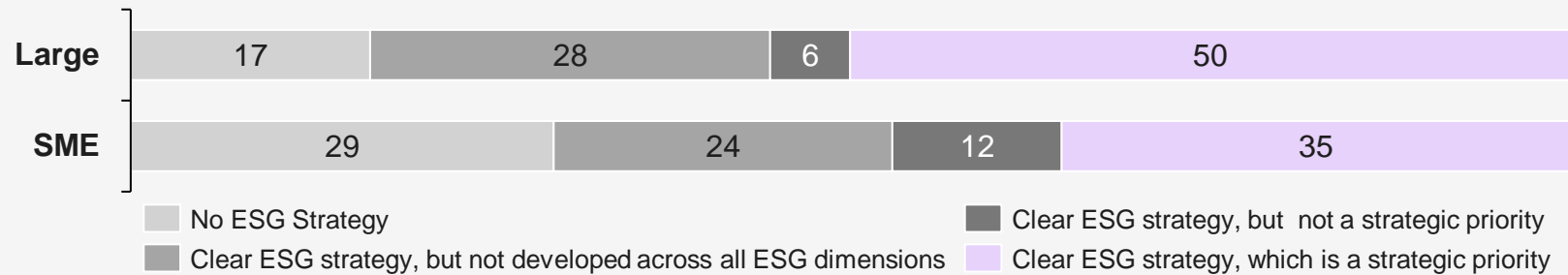
Best practices

- Tracking and targets set for all 3 Scopes of emissions
- Benchmarking and adjusting the targets accordingly
- Developed long-term ESG strategy
- Regular wellbeing surveys with ensured anonymity and confidentiality
- Identification and active development of actionable insights along with their implementation
- Collecting and tracking relevant diversity data on monthly basis through voluntary surveys or other data collection methods
- Diversity and inclusion policy in place
- Active implementation of diversity and inclusion policy

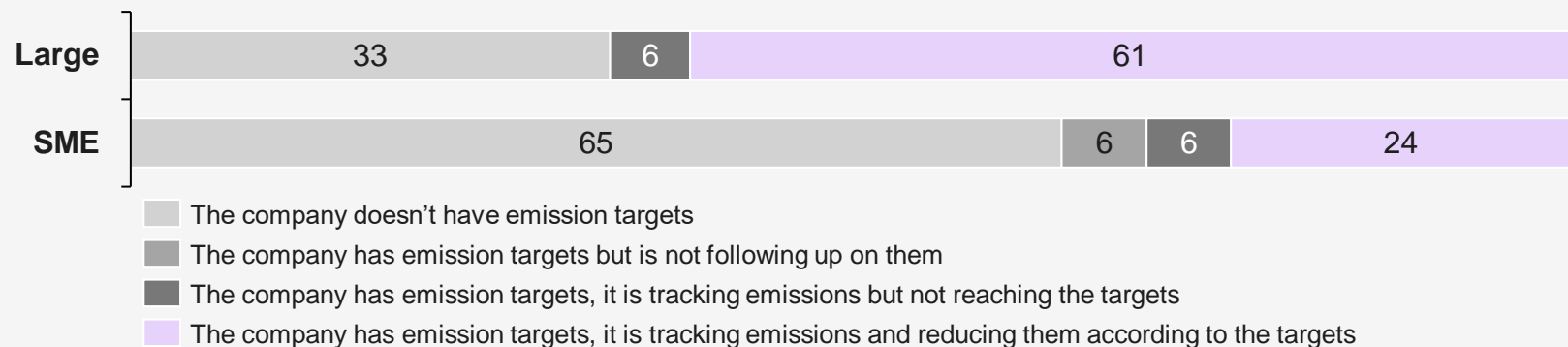
Examples

Larger Croatian companies tend to exhibit better emphasis on developing ESG strategy and setting the emission targets.

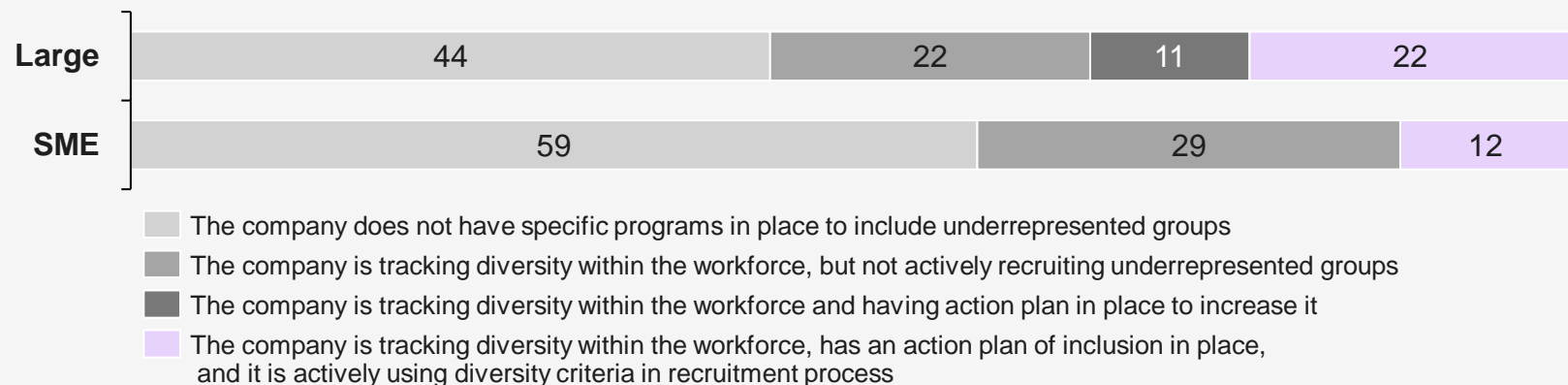
ESG Strategy



Emission targets

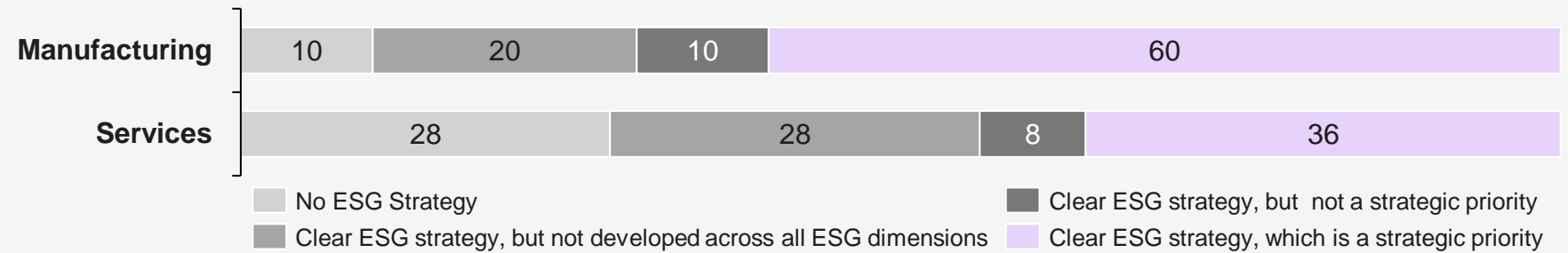


DEI (Diversity, equity and inclusion)

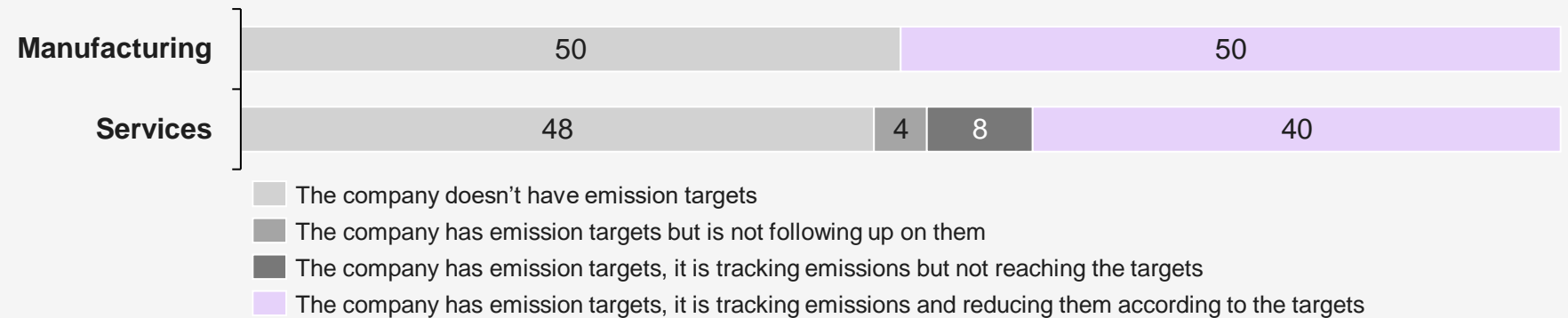


Manufacturing companies excel in formulating comprehensive ESG strategies encompassing all ESG aspects, while also taking proactive measures to promote DEI in their workplace.

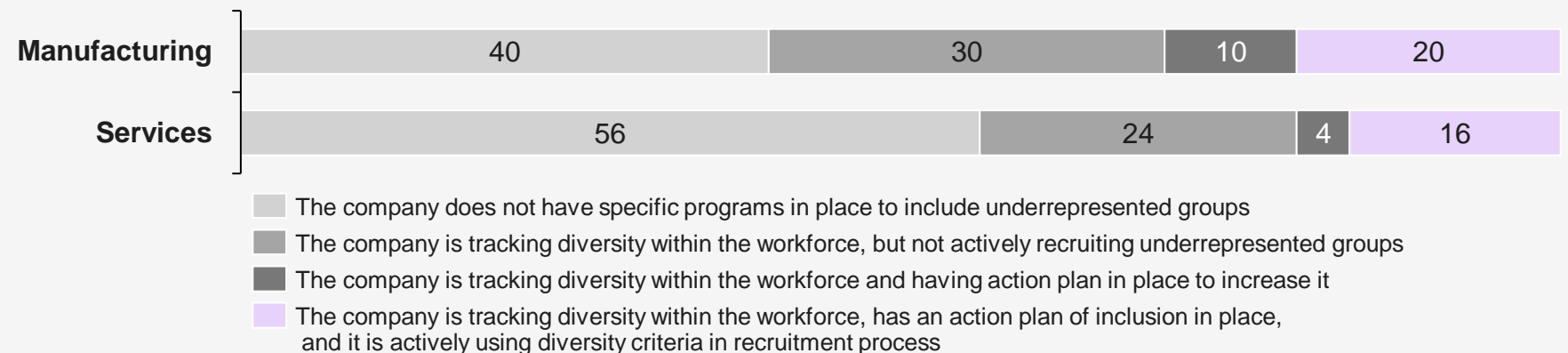
ESG Strategy



Emission targets



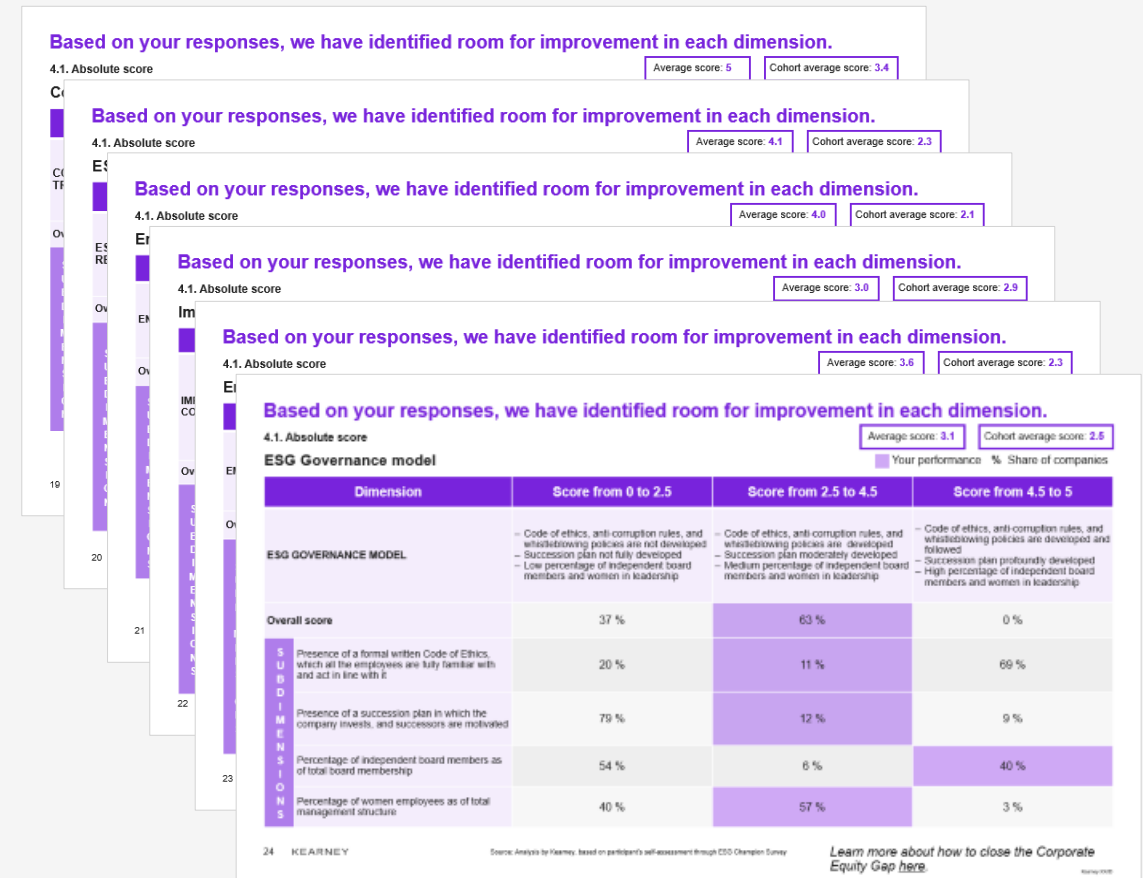
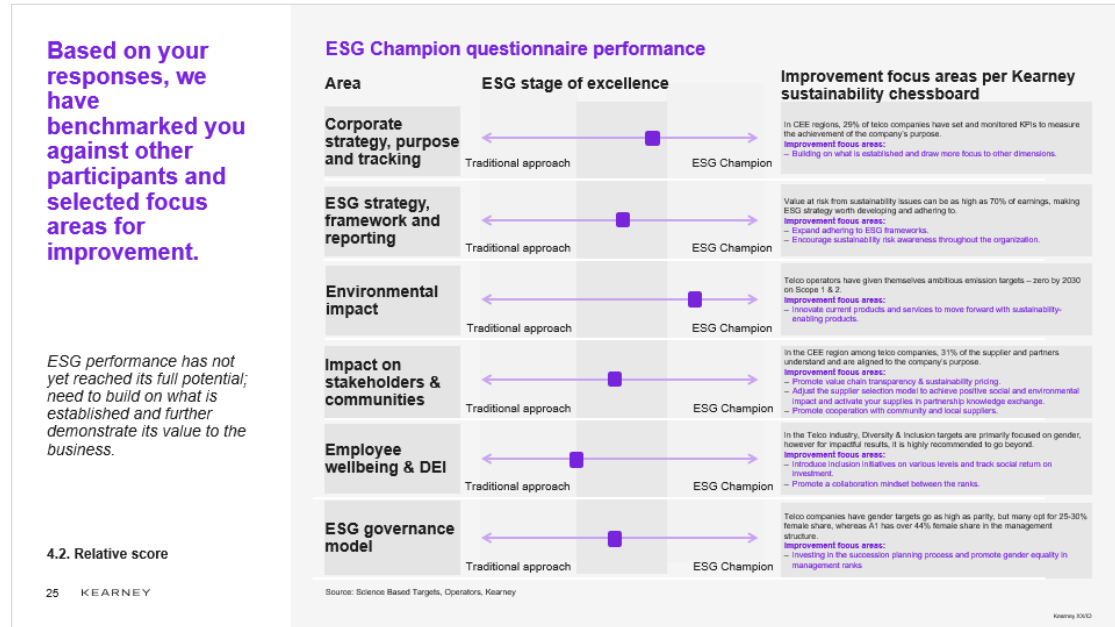
DEI (Diversity, equity and inclusion)



Participating companies will receive individualized report that benchmarks them with peers.

Companies will receive a rating of their overall ESG performance split across six key areas and **specific recommendations for improvement.**

Additionally, participating companies will receive a **detailed explanation of their rating per each question in six of the ESG categories.**



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And the finalists
are...

A1 Hrvatska



Coca-Cola HBC Hrvatska



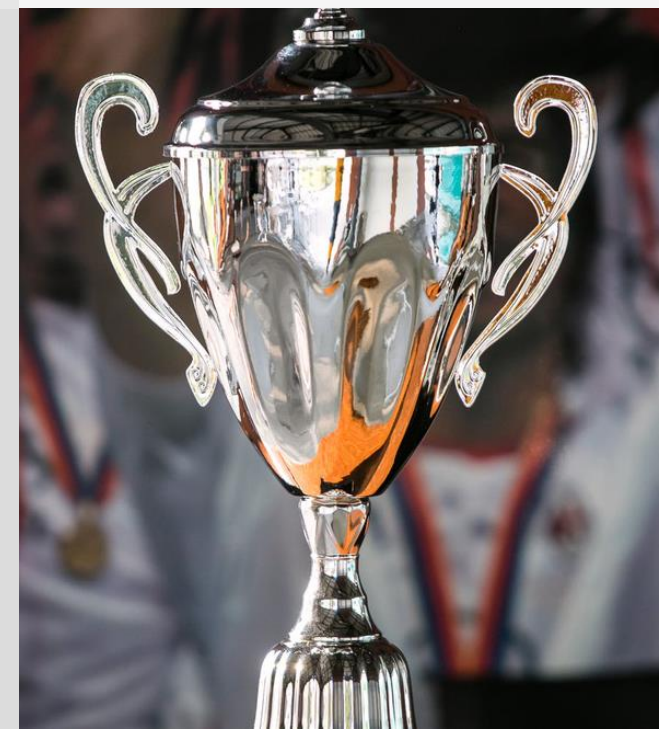
HP-Hrvatska pošta d.d.



Hrvatski Telekom d.d.



Hilton Rijeka Costabella
Beach Resort & Spa



Thank you

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