

# ESG is climbing the corporate and societal agenda in CEE

**AmCham Croatia**  
October 2022


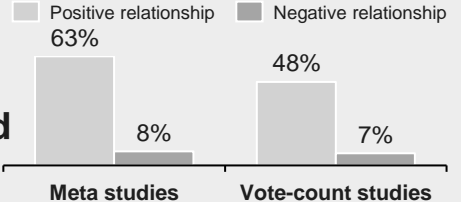


Dr. Mitja Pirc, Senior SEE team leadership member

KEARNEY



# ESG has become a mainstream topic with widespread adoption across industries globally

## Factors impacting ESG

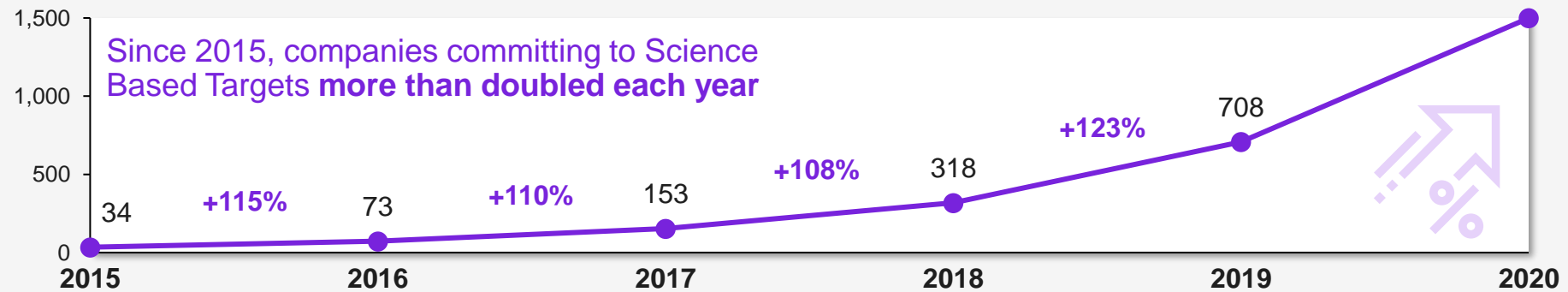
	<p><b>Superior returns</b></p>	<ul style="list-style-type: none"> <li>– Statistical studies<sup>1</sup> indicates a <b>positive relation between ESG and Corporate Financial Performance</b></li> <li>– <b>Global green and ESG loan volume has grown by 15X in the past four years and is expected to increase further</b></li> </ul>	 <table border="1"> <thead> <tr> <th>Study Type</th> <th>Positive relationship</th> <th>Negative relationship</th> </tr> </thead> <tbody> <tr> <td>Meta studies</td> <td>63%</td> <td>8%</td> </tr> <tr> <td>Vote-count studies</td> <td>48%</td> <td>7%</td> </tr> </tbody> </table>	Study Type	Positive relationship	Negative relationship	Meta studies	63%	8%	Vote-count studies	48%	7%
Study Type	Positive relationship	Negative relationship										
Meta studies	63%	8%										
Vote-count studies	48%	7%										
	<p><b>Increased awareness towards Environmental issues</b></p>	<ul style="list-style-type: none"> <li>– <b>64% of global consumers are worried about climate change<sup>3</sup></b></li> <li>– <b>Companies' impact on the environment is increasingly being scrutinized</b></li> </ul>										
	<p><b>Growth of Ethical Consumer</b></p>	<ul style="list-style-type: none"> <li>– <b>Ethics is the 3rd most important factor in consumer purchase decisions after quality and price<sup>4</sup></b></li> <li>– <b>Consumers are increasingly demanding actions around human rights, business ethics, diversity and inclusion</b></li> </ul>										
	<p><b>Upsurge in demand for transparency</b></p>	<ul style="list-style-type: none"> <li>– <b>83% of Millennials believe it is important for the brands they purchase from to align with their values<sup>5</sup></b></li> <li>– <b>Stakeholders are demanding more transparency around companies' activities</b></li> </ul>										

In every industry, businesses make ambitious sustainability commitments, and require their suppliers to align

2017	2018	2019	2020						
<b>HSBC</b> Providing \$100B of sustainable financing by 2025	<b>AkzoNobel</b> Carbon neutral by 2050	<b>ArcelorMittal</b> Cut carbon emissions by 30% by 2030	<b>Unilever</b> Halve GHG impact of products by 2030	<b>SOLVAY</b> Reduction of 1Mt CO <sub>2</sub> by 2025	<b>BlackRock</b> Reduce emissions per employee by 45%	 CO2 neutral by 2050	<b>TOTAL</b> Develop business that will help achieve carbon neutrality	<b>Deutsche Telekom</b> Climate neutral by 2050	<b>bp</b> Net zero by 2050
<b>MARS</b> 67% reduction in emissions by 2050	<b>BMW GROUP</b> Reduce resource consumption per vehicle by 45%	<b>Nestlé</b> 100% of packaging recyclable or reusable by 2025	<b>BASF</b> Grow CO2 neutrally until 2030	 Reducing footprint per product by 70% by 2030	<b>Allianz</b> Use 100% renewable energy by 2023	<b>Google</b> 100% of products will include recycled materials	<b>Carrefour</b> 100% reusable packaging + halving food waste by 2025	<b>REPSOL</b> Reduction of 3M tons of CO <sub>2</sub> eq in Refining operations	<b>IBAYERI</b> Carbon neutral by 2030
 Halve carbon footprint of products by 2050	<b>Mondelēz International</b> Reduce total waste in manufacturing by 20%	<b>DAIMLER</b> CO <sub>2</sub> reduction of 44% for all cars in the new-vehicle fleet by 2030	 Make all packaging 100% recyclable by 2025	<b>SIEMENS</b> Carbon neutral by 2030	<b>ABInBev</b> 100% of packaging is returnable or recyclable by 2025	<b>VOLVO</b> Reduce carbon footprint of every car by 40% by 2025	<b>e-on</b> Carbon neutral by 2030	<b>ING</b> Double funding to combat climate change by 2022	<b>Microsoft</b> Carbon negative by 2030

- Energy & utilities
- Chemicals
- Tech
- Industrials/Infrastructure
- PE
- Consumer
- Financial Institutions

Number of companies committed to Science Based Targets<sup>1</sup>



1. Targets adopted by companies to reduce greenhouse gas (GHG) emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement  
 2. Estimation based on commitments from 2020 Q1 and commitment patterns from previous years; Source: desktop research, Science based Targets

A lot of companies are still not fully committed



Too often, the ESG is more a PR for businesses than a strategic advantage...

2/3 global investment funds say they have integrated ESG initiatives into their investment strategies.

Only 8% of PE funds are co-signatories to the UN principles of responsible investment and only 12% of them publish data on the realization of targets.

## But the message is clear...

In Europe, more than **60% of employees** in recruitment processes ask and believe that sustainable operation is essential for businesses.

In Europe, **3 out of 10 end customers** are already willing to pay a small price premium for products with positive impact on ESG.

Investments in ESG initiatives bring a **premium in multiple valuations**, in high-emission industries valuations are greater than 25%, in Europe 60%.



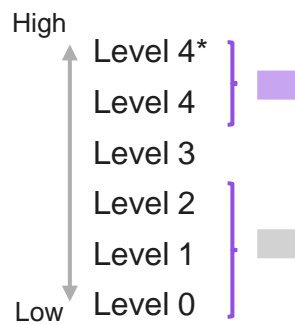
# Kearney's ESG study uncovers that valuation premiums and gaps<sup>1</sup> are associated with ESG leadership<sup>2</sup>

## Value Premiums and gaps associated with ESG leadership

- ESG laggards (TPI level 0-2)
- ESG leaders (TPI level 4-4\*)



### TPI<sup>3</sup> levels:

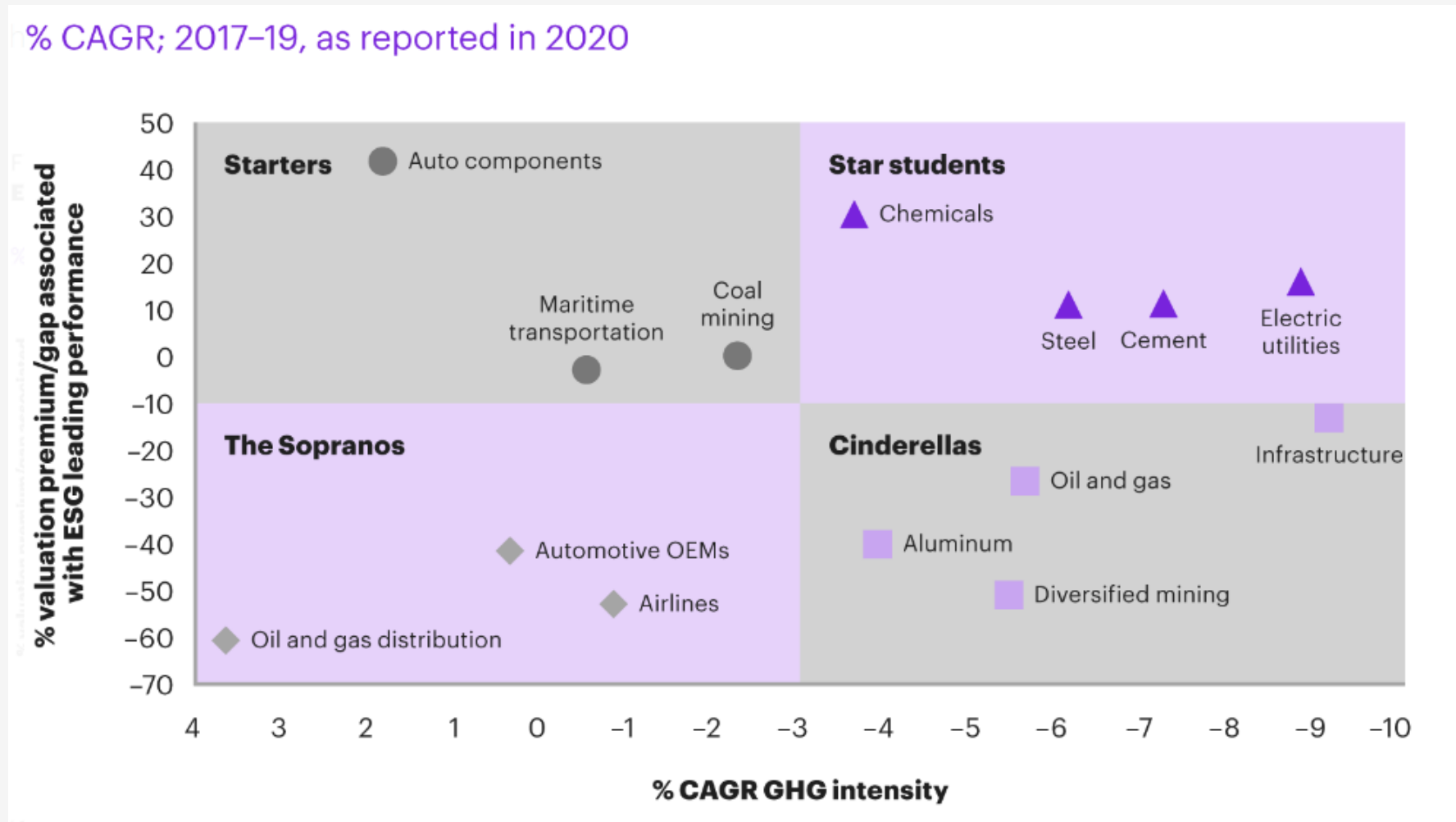


- |                    |                    |                              |                      |                         |
|--------------------|--------------------|------------------------------|----------------------|-------------------------|
| Cement             | Cement             | Other industrials            | Airlines             | Oil & gas (upstream)    |
| Chemicals          | Chemicals          | Services                     | Aluminum             | Oil & gas (downstream)  |
| Coal               | Coal               | Auto components <sup>1</sup> | Automotive OEMs      | Maritime transportation |
| Electric utilities | Electric utilities |                              | Diversified minerals | Infrastructure          |
| Steel              | Steel              |                              |                      |                         |

1. Valuation premium and gaps defined as Enterprise Value/EBITDA 2. ESG Leadership per TPI and SPA where SBA is a function of GHG intensity = Scope 1 and 2 Greenhouse gas emissions / Revenues versus sector peers

3. Transition Pathway Initiative; Sources: Transition Pathways Initiative; Capital IQ; Bloomberg; Kearney

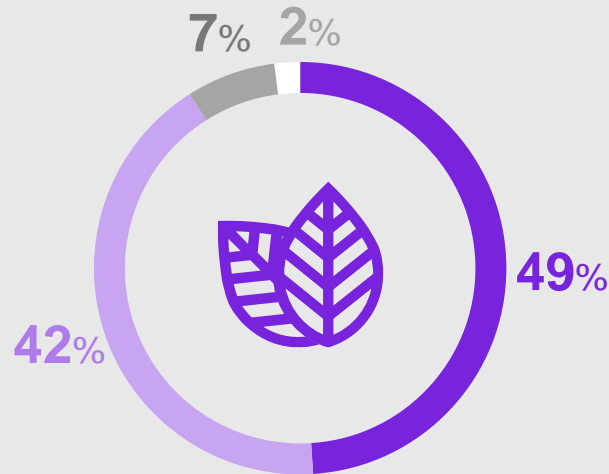
# The leadership in reduction in GHG intensity does not always lead to valuation premiums and companies need to improve beyond the E in ESG



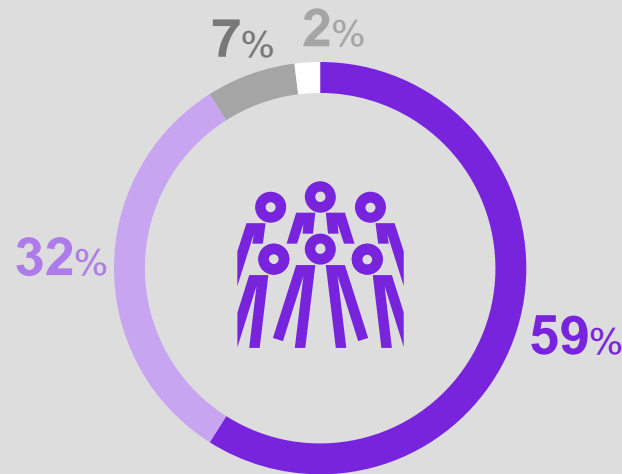
# ESG is already important in the eyes of the CEE citizens

In September 2021 we carried out a survey among citizens of five CEE countries (Czech Republic, Poland, Slovenia, Romania, Russia)

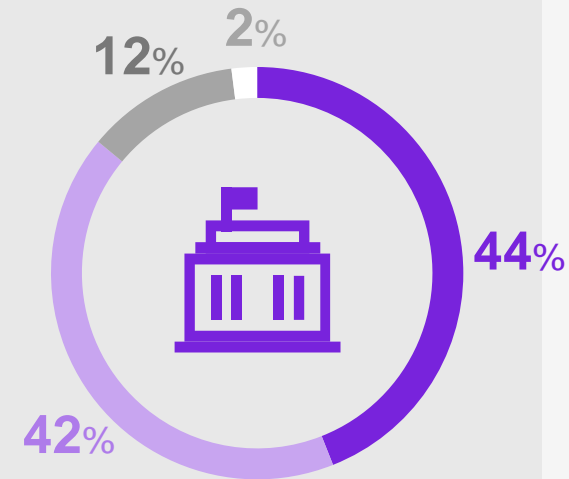
## Environmental impact and sustainability



## Social responsibility



## Good governance



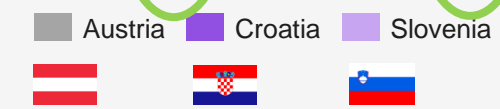
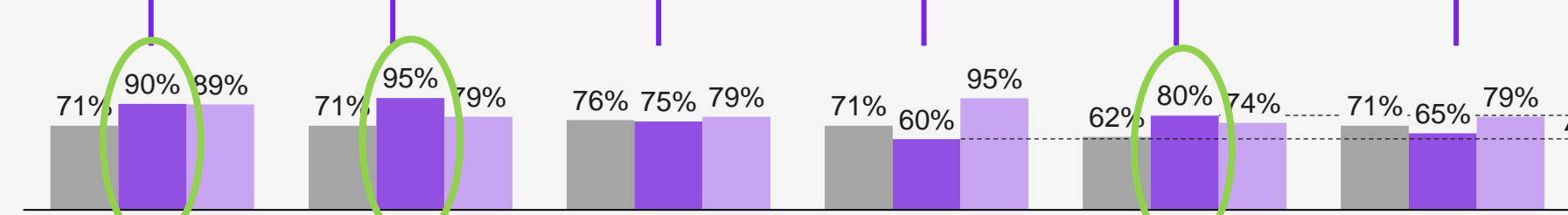
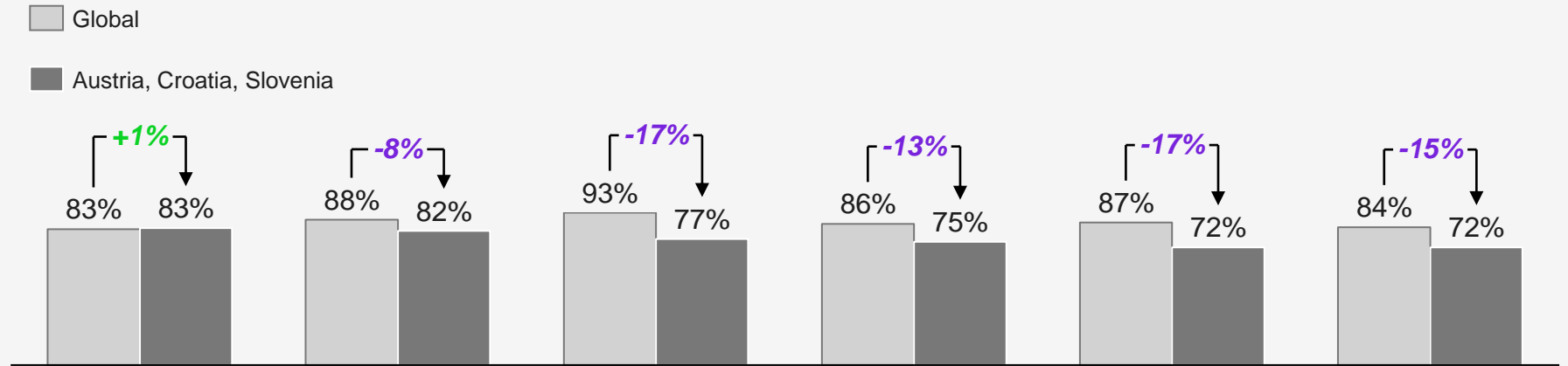
Very important
  Fairly important
  Fairly insignificant
  Irrelevant

ESG: Environmental and social responsibility, corporate governance  
 Vir: Kearney – ESG in Eastern Europe (2021)

On average, executives in CEE set their ambition lower than their global peers, across all categories...

### Leadership ambitions

% of managers – indications of the areas where their company intends to generate a total public value



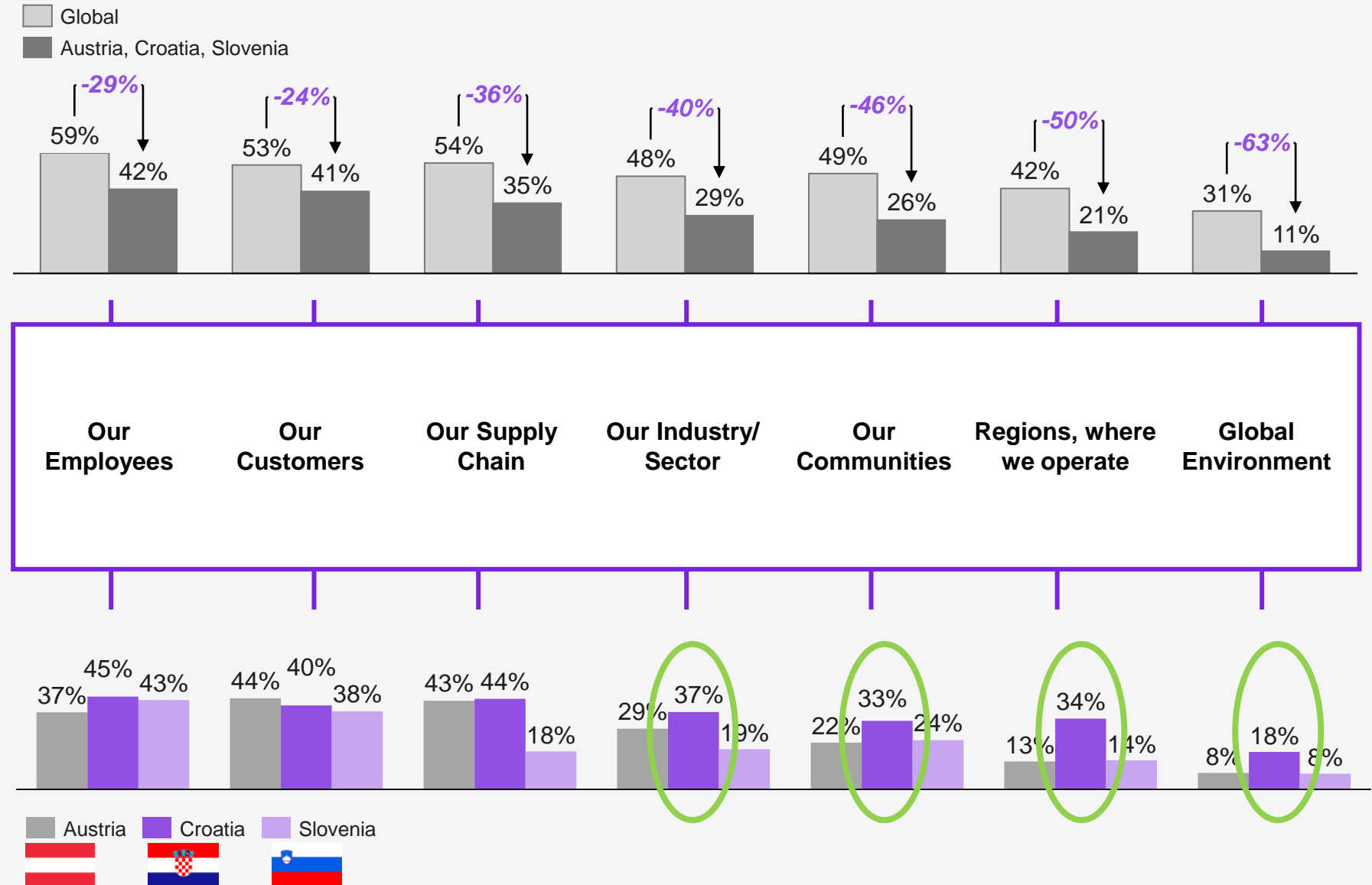
### Regional and global view



... however, the gap between CEE and global peers is even greater with regards to execution

### Planned area of execution and impact

% of managers – indications of the areas where their company intends to generate a total public value



### Regional and global view

# After conversations with industry leaders, these were the largest common challenges in order to accomplish ESG goals

## Internal Challenges

### Inordinate goals lack collective momentum

- A goal misalignment exist between business strategy and also between business areas

### Emerging ESG priorities / policies lack clear roadmaps

- Some ESG trends tend to be temporal and with no playbooks, complicating actions on long term solutions

### Difficulty collaborating across the value chain

- The lack of sustainable sourcing precludes the desired ESG results

### Inconsistent Reporting, Data, and Governance

- Incongruous tools used to collect data create disparate reporting standards

## External Challenges

### Challenges with cost and access to infrastructure

- Certain goals and actions are not possible because a lack of infrastructure, being too expensive or unavailable in some locations

### Political gridlock creates disparate local decisions

- Different regional politics and regulations difficult a wide program adoption across geographies

### Solutions are a 'Valley of Death'

- Too many solutions or digital platforms saturates the consumer and confuses them

### Federated consumer messages widen education gap

- Inconsistent messages and a lack of a clear product-specific ESG indicator makes consumers unsure to how to act

# Five ways to deliver ESG shareholder value

## a. Asset-level ESG or a climate-risk adjusted build/ hold/sell

All companies must assess **which assets** within their operations can be economically brought up to company and industry best practices as **ESG high impact projects**. For example, this may include M&A activity to achieve scale.

## b. ESG leadership purpose and brand strategy

The years 2022 and 2023 will be pivotal to cement each **company's "brand" with ESG investors** as well as to retain and potentially seek out new strategic investors who value both returns and ESG leadership.

## c. New markets

Companies should be ready to disrupt markets where there are sizable **opportunities that may or may not be economic in the business-as-usual market structure**. Stimulus funds, including next-gen funds, may be relevant.

## d. Current markets

All companies should prepare to deliver an **ESG-differentiated value proposition** to customers seeing value in rapidly reducing their supply chain emissions. For example, engaging B2B customers on plans for ESG-differentiated offerings may lead to establishing profitable new niches.

## e. Supplier and operations

Companies might want to offer greater scale and certainty to developing **supply chains** to secure sourcing cost and product advantages **for ESG offerings**. This may require extended revenue visibility with customers to reduce sourcing and operational CAPEX risk.

# We are supporting building regional ESG champions

## Kearney ESG Champion Initiative

We recognize efforts that companies make in the ESG arena. That is why we want to **award the ones that are doing the best.**

We want to help companies **understand their ESG pitfalls** and how to overcome them.

## Only requirement is that you are a company!

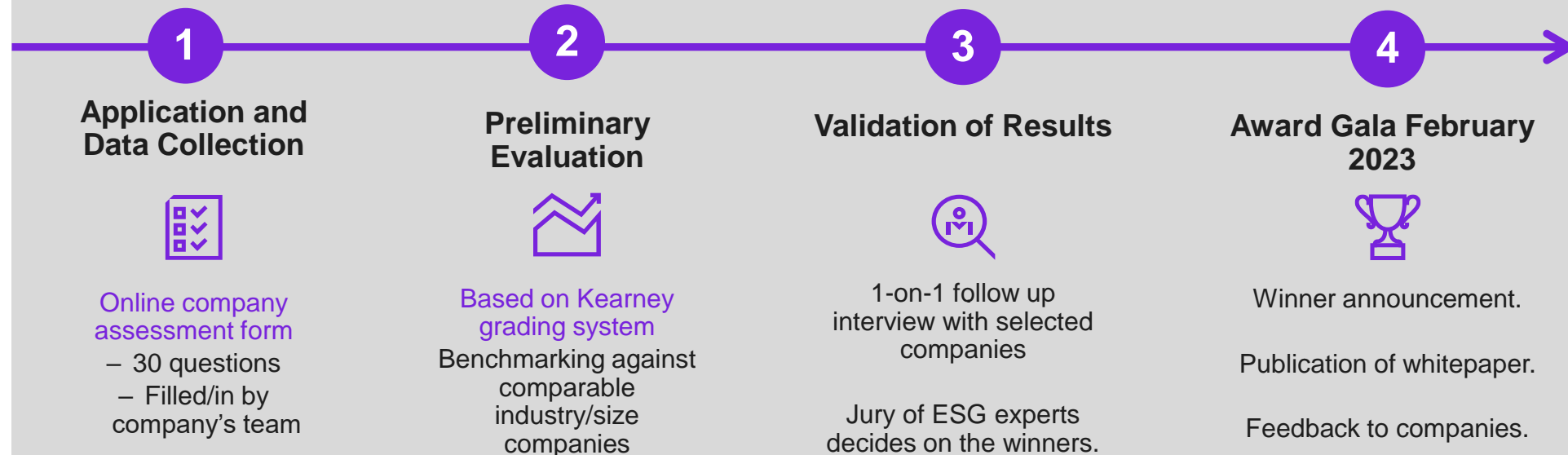
### Industry is not a dealbreaker.

- Our assessment will benchmark against companies from the same industry.

### Size is not important.

- Our tool compares companies of similar size, therefore small and big enterprises are encouraged to participate.

## How does it work?



# Thank you

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