

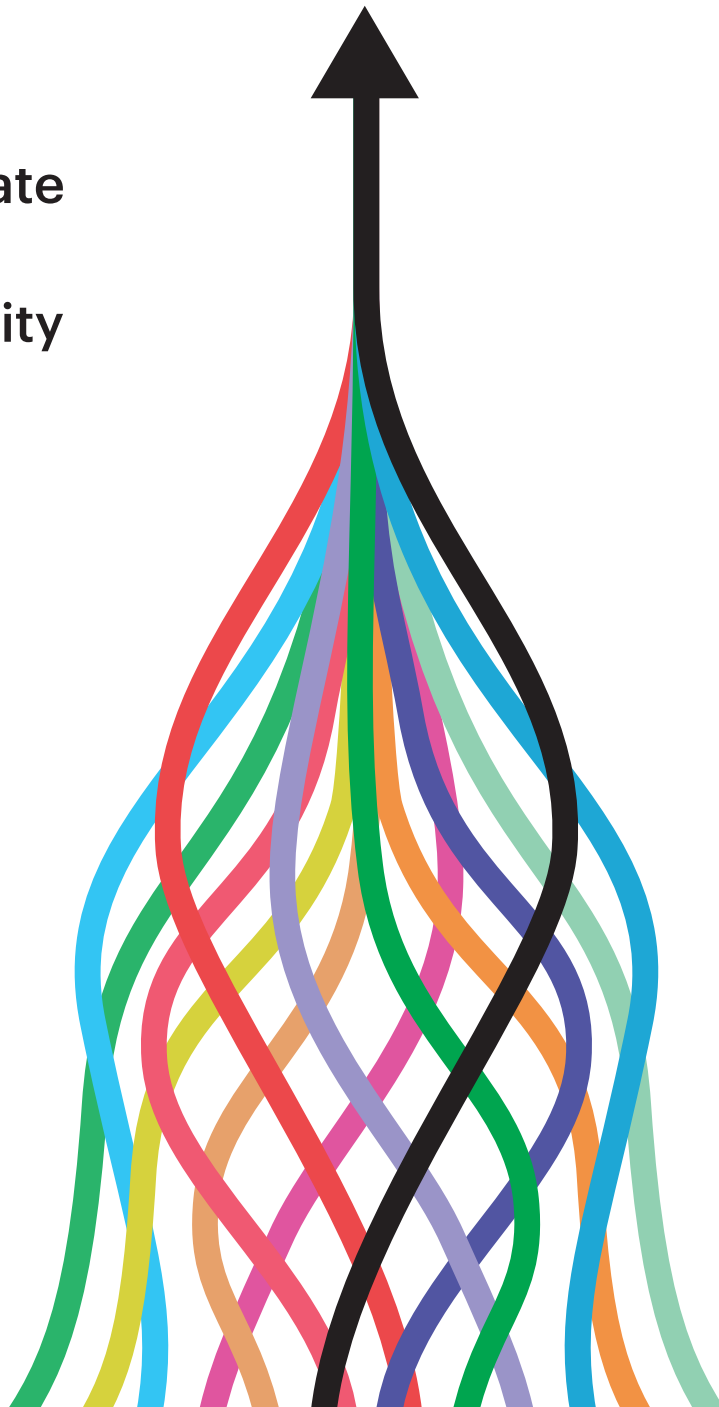




# OPERATING WITH POSITIVE IMPACT

How  
to navigate  
ESG  
complexity

Axel Smits  
Jochen Vincke



Lannoo  
Campus

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# Foreword

Our world is seriously out of balance. The climate is off kilter, biodiversity is being reduced at an alarming rate, a number of vital eco-systems are endangered. Growing inequalities threaten our social cohesion, and increasing migratory flows put pressure on our societies and on our political systems.

Clearly, many situations, trends and behaviours that this generation is facing are unsustainable. What is unsustainable will, by definition, come to an end. The question, however, is whether we will be able to course-correct in time and avoid the most negative outcomes, or whether we will face a very hard landing. The jury is still out.

Unfortunately, there are no easy answers. There are no quick fixes or all-encompassing solutions. In order to change our trajectory before it is too late to avoid ever more catastrophic consequences, the conjunction of many efforts is required. It will take the combination of far-sighted political will, smart regulation, massive technological innovation as well as behavioural changes both at the individual, corporate and collective level. It will not do to shift the burden of adaptation and of intergenerational solidarity on someone else. We are all in this together.

The conscience thereof is growing. Following a number of pretty stark warnings which the media and the scientific community have brought to us in graphic clarity, we have seen some more hopeful developments. There is a growing understanding of the need for a more sustainable development.

An increasing number of citizens, especially in the younger generations, are actually changing their behaviours. Politicians are enacting more decisive legislation and redirecting funding, led by the European Union and recently also by the United States. International cooperation is making slow but steady progress. Innovation driven by academia and the business world is bringing new solutions more rapidly than many had thought possible. And many businesses are actually re-inventing their strategy and re-examining their modus operandi.

But, to date, all of this is not going fast enough. We need to act with more fortitude and steadfastness. This is also true for the business world.

Personally, I am convinced that corporations should take the sustainability concerns to heart if only out of pure (long-term) self-interest. It is companies that take see sustainability concerns and constraints earlier than others, and act on them, that will have the more resilient business models. It is companies that perceive sustainability-related opportunities earlier than their competitors, that will innovate faster and create new sources of competitive advantage. And it is companies that will take sustainability as a true priority (rather than as a communications imperative) that will attract the best talent.

But this belief is not universally shared in the corporate world. There are front-runners, but also laggards, sceptics and more opportunistically orientated actors.

This is why the ESG concept has been created. Originally driven by a number of front-running corporations, academic thought leaders, consultants and by financial players promoting socially responsible investments, it is now increasingly being embraced by governments and standard-setters.

This formalisation of ESG frameworks and reporting standards has the great merit of forcing the laggards to address their issues more forthrightly and to help level the playing field for the more advanced companies. It carries some risks of bureaucratic overkill and box-ticking though. Therefore, it is crucial that we all work towards thoughtful, clear and eventually globally harmonised standards.

In any case, it appears that the notion of ESG is here to stay. The EU has made it a centrepiece of its regulatory strategy. In the United States it has recently been caught up in the culture wars, but also there the long-term trend appears to be inescapable. The rest of the world is moving ahead at various speeds, but it will be gradually pulled in as European and North American companies are forced to take more responsibility for their global supply chains.

This book is therefore a very timely overview of this rapidly evolving and complex subject matter. It is practical, precise and comprehensive, and I hope it can bring very concrete insights and inspiration to many in the corporate world.

Navigating the ESG complexity is now a priority for all of us.

Thomas Leysen  
Chairman Umicore

## A word from the editors

Environmental, social and governance (ESG) considerations are becoming increasingly vital in the corporate world today. Businesses are realising the importance of not only achieving profitability, but also having a positive impact on society and the environment. As companies grow more aware of the negative consequences of their operations on society and the planet, taking a sustainable approach helps mitigate these impacts and creates a more equitable and resilient future.

Aside from being socially and environmentally responsible, companies that prioritise ESG considerations also tend to experience better financial outcomes. Studies by McKinsey<sup>1,2,3</sup> show that companies with strong ESG performance are more likely to have stable earnings and are considered less risky investments. A strong ESG proposition can drive value creation in different ways: top-line growth (e.g. attracting more customers, better access to resources, brand spillover), cost reductions (e.g. lower energy costs), productivity uplift (e.g. improved employee motivation, talent attraction and retention), and investment and asset optimisation (e.g. enhanced investment returns, improved access to capital).

It therefore makes a lot of sense for companies to invest in a more sustainable operating model; one that takes into account the best interests of all of its stakeholders and not merely those of its shareholders. Even if some movements – in particular in the US – seem to disagree with focusing on ESG for the benefit of all stakeholders.

A lot has been written about ESG and its related topics, but we felt that what was missing was a roadmap not only providing insights into the various elements to consider, but also showing how to achieve a more sustainable business strategy. We hope this book provides that roadmap.

Operating with Positive Impact is a practical guide, based on decades of practical experience, written to help companies develop both a clear vision and a roadmap of what they can actually do to achieve greater positive impact. We hope it can guide and inspire you to identify areas for improvement and implement concrete actions to steer your business towards greater positive impact. We start with some basic insights to provide a broad understanding of ESG from a business perspective, from high-level concepts and principles to more specific details. We then dive into what companies (will) need to do in terms of strategy, reporting, transforming their operating model, etc., and what should be considered when engaging in M&A transactions.

We hope that this book will help companies that are seeking to make a more positive contribution to the impact economy. First, to assess and understand their current situation when it comes to their ecological, social and governance footprint. And secondly, to define their own transformation roadmap to achieve greater sustainability.

Axel Smits & Jochen Vincke

## Editors



### Axel Smits

Since 2016, Axel has been Chairman and Senior Partner at PwC Belgium, a network firm with a revenue of €400 million and around 2,400 employees.

Before assuming his current position, he was head of both PwC's Belgian Tax and Legal practice, and its EMEA Tax and Legal network.

In addition to his roles as Chairman and Senior Partner, Axel remains active as a client partner within the Belgian firm. He is also a member of the PwC Europe Board.

A lawyer by training, with additional degrees in taxation, accounting and finance, Axel is a chartered tax consultant.

For the first 20 years of his career, starting in 1990 with the predecessor firm Coopers & Lybrand, Axel was a chartered tax consultant with a particular focus on international tax planning. He served clients across the globe and was very active both as a speaker and as a writer of articles and books in his area of expertise. Topics included intellectual property as well as substance in international tax planning. Later on, while continuing to serve clients, Axel took on various management positions in the Belgian and EMEA firms, leading up to his current position.



### Jochen Vincke

Jochen Vincke is Management Consulting Partner at PwC, coordinating services in the field of ESG, and consulting leader for PwC's EMEA industrial manufacturing industry practice. He is also a member of the Board of FlandersMAKE, a strategic research centre for the manufacturing industry, with over 750 researchers.

Jochen's ambition is to help drive a new industrial model that makes an overall net positive contribution to society; a model built on innovation, data, customer proximity, and short and circular supply chains.

After graduating as bio-engineer in environmental sciences, Jochen studied business economics and attained an MBA from Vlerick Business School. He is certified Master Black Belt in Lean Six Sigma.

Jochen has extensive experience in industry, including the food and beverage, chemical, steel processing, pharmaceutical and process industries. He has worked with ESG matters throughout his career, from developing corporate social responsibility (CSR) policies, to coaching and training, and business transformation consultancy.

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# Understanding ESG

## A primer on ESG and sustainability

01. Perspectives on today's world		
02. A brief history of ESG		
03. E for Environmental	04. S for Social	05. G for Governance
06. From ESG to SDG		
07. From SDG to circular economy		

Part 1 of Operating with Positive Impact focuses on the basics of evolving towards a more sustainable business operating model. Starting from our perspective on the world we live in today, we explain the concept of ESG, the introduction of the UN's SDGs and the movement towards a more circular economy.

## Terminology

The terms 'sustainability' and 'ESG' can be confusing. 'Sustainability' has been defined in a thousand ways... Unless it's specifically defined, the only way to discern the meaning is to be guided by the context. It can mean:

- long-term economic/financial health and viability (of a company, operation, activity, etc.)
- [eco]system longevity
- survival of the human (or other) species
- survival of the planet
- all of the above.

The term ESG – environmental, social and governance – is defined in detail in Chapters 3, 4 and 5. More broadly speaking, 'ESG' is a relatively new umbrella word that's increasingly replacing or being used interchangeably with 'sustainability'.<sup>4</sup> We frequently use it like that in this book (e.g., ESG reporting  $\cong$  sustainability reporting).

See the Appendix for a glossary of other terms and abbreviations used in this book.



# 01. Perspectives on today's world