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# ESG Guide

for Board and  
Management

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# Introduction: "The moment is now"

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Sustainability is more serious business than ever – on numerous levels. Excellence in this area is an existential question greater than ever before, while the expectations placed on organizations to act responsibly and have a positive contribution to society are higher.


After the Paris Agreement and with the European Union deciding to become a climate neutral region by 2050, regulations and mandatory reporting on sustainability and ESG indicators increased significantly.

The latest of these, the Corporate Sustainability Reporting Directive (CSRD), creates an imperative to act for more than 50 000 companies operating in the EU.

Simultaneously customer behaviour has changed and forces companies to act on sustainability and climate change.

**Boards are ultimately responsible for guiding the company for long term sustainable survival. The board is responsible for ensuring that relevant sustainability matters are incorporated into purpose, governance, strategy, decision-making, risk management, reporting and disclosure.**

**Boardman** and its knowledge partners in **the Sustainability Forum**, **Futurice** and **PwC**, have created this playbook to help boards of directors of listed, large and/or midsize companies in Finland to understand the importance of sustainability as a key strategic topic and to get an initial understanding of the latest developments in this area.



**Tip:** For a quicker dive into action, a **“How to get started”** checklist is available at the end of the document, together with **the list of useful terms.**

# Overview and background to ESG

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Sustainability and ESG – these terms all aim for similar things. The goal is to ensure that companies consider the impact they have on the world and society, as well as the impacts sustainability can have on business. This can be achieved by having a sustainable business, and implementing activities and goals within **E, S and G: Environmental, Social and Governance**.

In recent years, we've seen dramatic changes in our world. As impacts of the climate crisis, geopolitical instability, resource scarcity, growing inequality and accelerating effects of technological development become increasingly clear, companies need to adapt. Developing new business strategies that successfully integrate ESG aspects can help them continue to succeed today and in the future.

In 2004, the United Nations Global Compact published the whitepaper "Who Cares Wins" and was the first to use the term "ESG". Since then, ESG has made its way into loan agreements, regulatory frameworks and customer expectations. It has become a vital part of almost all listed companies' annual publications.

The significance of ESG is projected to continue growing rapidly. It is a concern for investors and regulators, customers' understanding of its value is improving and employees expect companies to take action. It can represent risks and opportunities that will impact a company's ability to create sustainable long-term value.

Sustainability includes **environmental issues** like climate-related risks and natural resource scarcity. It covers **social issues** like labour practices, human rights, product safety, and data security. And it involves corporate governance matters like board diversity and executive pay, as well as operational **governance issues** such as corruption and bribery.

For some, the term ESG still conjures notions that are unrelated to the company's financial performance. Given the heightened focus from a variety of stakeholders (including regulators, media, NGOs, consumers and employees) and the growing understanding of its impact on performance, sustainability and ESG is now a critical topic in the boardroom.

ESG presents real risks – and potentially even bigger opportunities. ESG issues are inextricably linked to a company's strategy and need to be part of the ownership strategy and the board agenda.

It is more important than ever that boards carefully consider sustainability and which ESG driven topics are appropriate for them to oversee. Equally important is the development of governance structures that support effective oversight. With greenwashing under a tight scrutiny, a company's ability to execute an ESG driven agenda can be critical to the survival and success of its brand and has a significant impact on its valuation.



# ESG driving the business

With the increasing emphasis on sustainability and ethical business practices set by investors, customers, employees and regulators, ESG topics are now transitioning from being a risk evaluation and communications exercise to being an integral part of the business strategy and value creation.

Societal, environmental, and regulatory changes are affecting how companies see their purpose and business activities. Investment seeks sustainable targets. New ESGdriven companies are being established, while existing businesses are being transformed towards sustainability.

Sustainability increasingly drives company owners' decisions on how to allocate resources: which businesses to sell out, which ones to run down, where to invest more, and which totally new business operations to start.

A key question around sustainability aspects is where to lay focus:

- on reducing the footprint?
- on increasing the handprint?
- on both of the above?
- or on creating a completely new, forwardlooking business aimed at making the world more sustainable from day one?

A company's purpose is often expressed as the reason it is in business, but it's more than that. A company's purpose needs to be aligned with the overall business strategy and how the company will achieve returns year after year and serve a diverse group of stakeholders. Therefore, the board and management need to work together to define what's important – and to measure progress.

The company should ensure that its purpose is reflected through its messaging and activities and reflects on decisions that are sustainably motivated. The board needs to make sure all these tie together.

**The board needs to make sure that  
ESG and sustainability are in the  
corporate strategy.**



## **A new regulatory landscape**

On December 19, 2019, The European Commission presented the European Green Deal – a roadmap for making the EU's economy sustainable by turning climate and environmental challenges into opportunities across all policy areas and making the transition just and inclusive for all.

The European Commission has adopted a set of proposals to make the EU's climate, energy, transport, and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels, and to make Europe the first climate neutral continent by 2050.

Sustainable finance has a key role to play in delivering on the policy objectives under the European Green Deal as well as the EU's international commitments on climate and sustainability objectives.

**The goal of the CSRD and the accompanying reporting standard is to raise the sustainability reporting to the level of financial reporting in terms of quality, transparency and accountability.**

EU's financial sector has a key role to play in reaching EU's overall goal of climate neutrality, to via few major initiatives: establishing a detailed EU Taxonomy classification system for sustainable activities, creating an EU Green Bond standard, incorporating sustainability in financial advice and connecting financial accounting to ESG accounting via the **Corporate Sustainability Reporting Directive (CSRD)** and **the European Sustainability Reporting Standard (ESRS)**.

The goal of the CSRD and the accompanying reporting standard is to raise the sustainability reporting in pair with the level of financial reporting in terms of quality, transparency and accountability.

The aim is to get more reliable, relevant and comparable data to be channelled into how the financing for the green and social transition will be directed.

Disclosure of sustainability information could attract additional investment and funding. The companies that embed ESG into their strategy are better positioned for success.

They can spot growth potential when identifying and managing ESG issues. They can also shape the narrative around their brand and practices while expanding their investor base. As companies are starting to think about telling their ESG story and integrating it into their strategy, it's important to think through the "how" of implementation. This includes forming their messaging, agreeing on the chosen evaluation frameworks and crafting disclosures.

**As companies are starting to think about telling their ESG story and integrating it into their strategy, it's important to think through the "how" of implementation.**

## **Ambition level: between managing risk and seizing opportunity**

ESG is critical to maintaining a social license to operate. Companies that fail to address ESG topics risk losing the support of key stakeholders, including customers, employees and investors.

On the flip side, forerunners in sustainability can create competitive advantage with the same segments: more commitment from customers, more engaged employees, better financing.

With the upcoming regulatory changes, all companies will need to tackle ESG issues on some level. What companies must now decide is where they want to position themselves with their sustainability and ESG efforts: will the efforts focus on risk management or creating a competitive advantage? Are they going to be followers or forerunners?

This is not an obvious choice: with a higher ambition level comes a higher investment and more stringent demands on company culture. When the bar is set higher, execution requires extra effort and attention.

Over the long term, companies that effectively manage ESG risks and opportunities tend to outperform their peers. Boards should ensure that their company's strategy takes into account ESG factors that are relevant to the business now and will enable success in the future, too.

## **Are you going to be a follower or a forerunner?**



## **Employee engagement**

Employees play a key role in the equation. On top of generally treating employees well, having ambitious, transparent and credible ESG targets and delivering on them can increase the engagement of current employees and help attract new talent. This is especially important for competitive talent markets, but not only there: happy employees often lead to happy customers and good business results.

**Navigating this journey is one of the topics to be considered by boards and management.**

## **Sustainability innovation potential**

Sustainability and ESG considerations can generate innovation and create new business opportunities. They can help companies identify new products and services, tap into new markets, transform their business models and differentiate themselves from competitors. Boards should encourage management to consider ESG factors in their innovation and growth strategies.

## **ESG reporting and data requirements**

The latest ESG reporting regulation aims at bringing ESG metrics on the same level as financial metrics in terms of transparency, accountability and comparability. This will introduce data capability requirements that most companies are not prepared for and will need time to build.

To understand the data needs and to build the necessary systems, operations and supply chain partnerships that will get the correct data in place in time, companies should start the work now.



**Questions for boards to reflect on:**

- Does the company fully understand its sustainability journey and have a long-term strategy that meets the needs of today without compromising tomorrow?
- Does the company's current strategy facilitate the transition to a sustainable economy, as described in the EU's Green Deal?
- Does the company have a clear and complete picture of what ESG factors its business impacts and is impacted by?
- Are ESG risks and opportunities identified and integrated into the company's long-term strategy?
- Does the company have targets and KPIs in place to follow progress on the ESG aspects of the business strategy?
- Has the company understood the legal requirements affecting them now and in the near future?
- What is the desired ambition level: managing risk or seizing the opportunity to be a forerunner?
- Is ESG performance reflected in the leadership's compensation structure?
- Does the company have a good understanding of the connection between its ESG performance and available financing options?

# Telling the story

ESG reporting is known by many names, including purpose-led reporting and sustainability reporting. Regardless of what it's called, the purpose is to convey how a company is weighing risks and shaping its business strategy in the context of ESG issues. It conveys risks and opportunities from both a qualitative and quantitative perspective. It is based on qualitative and quantitative messaging and the process should, like financial reporting, be overseen by the board. After all, investors will be using this information to analyse the company and make investment decisions.

To date, most of the ESG reporting has been based on voluntary standards and frameworks. Over time, regulators in some countries have begun mandating the inclusion of certain ESG data and now, as regulations evolve, voluntary will become mandatory for companies with operations in the EU when the CSRD directive is implemented in national legislations.



## ESG Reporting frameworks and standards and a deep dive into CSRD

**Standards provide specific guidance** on measurements and disclosures, whereas **frameworks provide general guidelines** on disclosures.

To understand the level of specificity that has to be given, depending on what guiding material the company uses to tell the story and progress of its sustainability work and performance, it is important to understand the distinction.

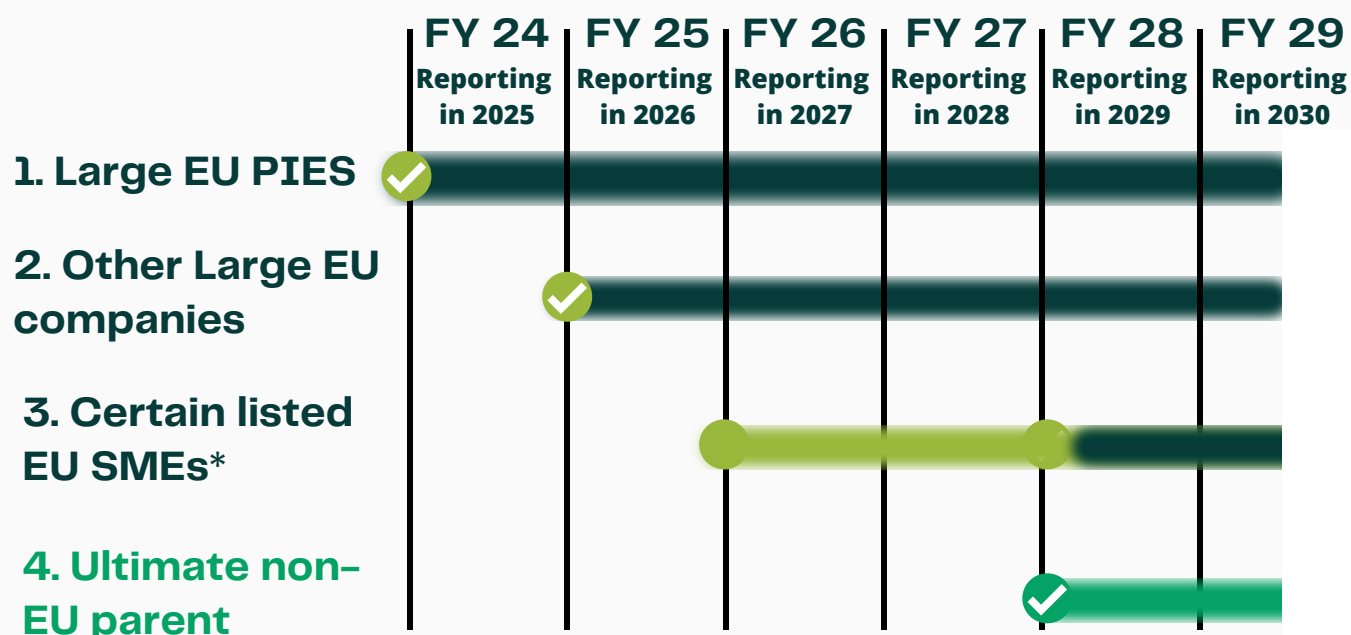
With the adoption of the **Corporate Sustainability Reporting Directive (CSRD)**, the EU is bringing sustainability reporting in line with financial reporting for a wide range of companies. In Finland, the CSRD will be implemented in the Accounting Act (KPL) and Auditing Act, but it will impact other laws as well, e.g., Company Act (OYL).

Mandatory, auditable reporting will be required for all listed companies in EU regulated markets, with the exception of listed microenterprises and SMEs, which will have an option to temporarily opt out until 2028. The requirement also applies to non-European companies if they have at least one subsidiary or branch in the EU, or are generating a net turnover of €150 million in the region. It covers large companies/groups defined as at least two criteria out of three: balance sheet total > €20 million, turnover > €40 million, > 250 employees.

**Standards provide specific guidance on measurements and disclosures, whereas frameworks provide general guidelines on disclosures.**

## Who is in scope of CSRD?

### The scope of reporting entitles over the years



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- 1**

Companies **subject to** the existing **Non-Financial Reporting Directive (NFRD)**

i.e. large public interest companies with more than 500 employees
- 2**

**All large** companies non currently subject to the NFRD

Meeting at least two of following:

  - > 250 employees (annual average)
  - >€40M in net turnover
  - >€20M in total assets
- 3**

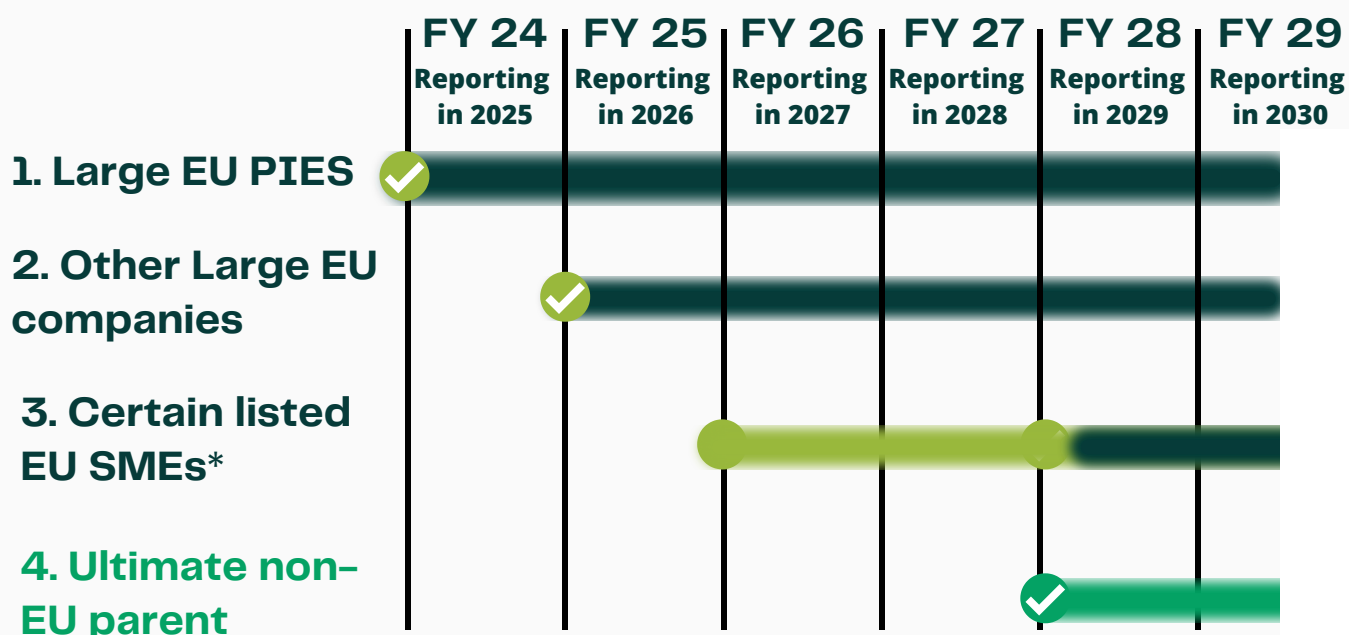
Certain listed SMEs\* and small and non-complex institutions and captive insurers

Meeting at least two of following:

  - > 10 employees (annual average)
  - >€700K in net turnover
  - >€350K in total assets

## Who is in scope of CSRD?

### The scope of reporting entitles over the years



#### 4

Large subsidiaries of non-EU parents with substantial activity in the EU report for the complete group

Reporting regulations in accordance with slightly reduced ESRS (anticipated separate disclosure standard)

An ultimate non-EU parent company would be subject to the CSRD if it has:

- Substantial activity in the EU - i.e, it generated net turnover > €150M in the EU for each of the last two consecutive years: and
- at least:
  - one subsidiary that meets the general scoping of the CSRD: or
  - one branch (in genera, a physical presence) that generated net turnover > €40M in the preceding year

According to an EU estimate, approximately 50,000 EU companies are expected to be impacted by CSRD regulation, compared to approximately 11,000 under the current Directive (NFRD). Approximately 1200 companies in Finland will be subject to this regulation and requirement of transparent reporting.

Companies will have to include in the management report information necessary to understand the company's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the company's development, performance and position, as well as the whole value chain.

This information shall be clearly identifiable, as a dedicated section. Disclosures are underpinned by "double materiality", meaning companies must report both about how sustainability issues affect their business and how their business impacts people and the environment.

Reporting requirements also cover a description of key intangible resources on which the business model depends.

## ESG assurance and GRC Program

The sustainability reporting under the ESRS standards will be subject to an external review by an independent third party assurance provider or auditor. As with financial information, before starting an external review, the company itself must have control over its internal systems and processes that ensure that the provided (sustainability) information is based on accurate and complete information. The external review then provides additional credibility for external stakeholders.

Boards and their Audit and Sustainability Committees will need to ensure that Management and Assurance functions put together a holistic ESG GRC program, as laid out by ESRS G1, Governance, Risk Management, and Internal Control requirements.

### **What are the components of this program:**

- Sustainability Objectives arising from the Strategy and Performance Measures
- Underlying and enabling business and financial processes
- Regulatory (external) framework and ambition (internal) based on values. Hence definition of ESG GRC objectives on Group level (ESRS objectives)
- Risks that may disrupt the achievement of those objectives
- Mitigation, including internal controls
- Responsibilities of the 1st, 2nd and 3rd Lines and how they work together in support of the program implementation

The board's Audit Committees will need to ensure oversight over the progress of the preparatory work by establishing regular reviews with assurance functions and Management. Boards need to review that the Requirements and the Controls over Sustainability Reporting are defined according to the ambition ('risk appetite') set on Group level.

## Other ESG reporting standards

The Global Reporting Initiative (GRI) was established in 1997 to create an accountability framework for companies to display to their stakeholders their responsible environmental business practices.

The Sustainability Accounting Standards Board (SASB) began in 2011 to develop standards that display both sustainability and financial fundamentals and aims to create comparable information in order for capital to be directed to the most sustainable outcomes.

## The board's responsibility according to CSRD

The directive points out enhanced audit committee responsibility related to the sustainability reporting:



Monitor the company's sustainability **reporting process**



Monitor the **effectiveness** of **internal control, risk management system** and **internal audit** functions



Monitor the **assurance of annual and consolidated sustainability reporting** and **inform about the outcome**

## **The new reporting environment (CSRD) is expected to impact almost every part of the organisation**

The new reporting environment created by EUs implementation of the CSRD directive will have an impact both inside a company, and on how companies are evaluated and compared by stakeholders. Issues that are going to be looked at include risk and compliance activities, finance and treasury to prepare data and analytics, technology supply chain exposures, customer preferences, governance and processes, to mention a few.

“Telling the story”, no matter how standards or frameworks are used, will be an important part of showing what the company stands for. A company’s customers and investors will be interested in more details because the requirements will also affect them.

### **Questions/areas a board should reflect on**

- Does the company need to/when does the company need to report on ESG matters?
- What do the company’s stakeholders need/want to know? What is relevant for stakeholders' decision-making?
- Is the company ready to start reporting or will it need to invest in new skills, digital and data capabilities, like sustainability data platform and reporting suite, etc.?
- Does the company have internal processes and controls in place for ESG reporting?
- Is the company ready for the mandatory assurance when the time comes?
- Have the board enough knowledge within sustainability? Do we need training or some complementary skills?
- Has the board implemented activities to understand the reporting process?
- Have we as board discussed with management and agreed our roles?
- What activities should take place now / in the future to enable to ESG reporting needed for their company?

# Getting started

## 1. Clarity:

- Establish a common understanding of what ESG and sustainability mean to us.
- Clarify the factors essential to your company. Utilize double materiality analysis.
- Footprint, handprint or new business opportunities? How do they combine?
- Integrate into strategy.

## 2. Transparency:

- Share knowledge and inform the organization so everyone understands what you are already doing within sustainability.
- Set targets for improvement.
- Communicate findings internally and externally.

## 3. Culture:

- It can't be perfect from day one. The most important thing is to get started.
- The organization learns together with employees, customers and stakeholders.
- Iterate and take corrective action on the way.
- Avoid judging failures, learn from them.

#### 4. Process:

- Create roadmap and milestones and celebrate when you reach them.
- Lead with data: automate measuring and enable decision making.
- Integrate targets, measuring and remuneration.

#### 5. Future:

- Screen customer behavior, competition, industry development, trends and megatrends. Create scenarios.
- Team up with your partners and other players within your value chain. Learn together, improve business processes and performance at the same time.
- Make your company future proof.



# Useful terms

<b>CSR</b>	(Corporate Social Responsibility) A company's responsibility to operate in an ethical and sustainable manner by considering the impacts of its actions on stakeholders, including the
<b>ESG</b>	(Environmental, Social, and Governance) A set of criteria that investors use to evaluate a company's performance in terms of environmental, social, and governance factors, which can have an impact on the company's long-term sustainability and financial performance
<b>SDGs</b>	The Sustainable Development Goals (SDGs), also known as the Global Goals, is a collection of seventeen interlinked objectives adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. SDGs have been used by companies to map and communicate their responsibility efforts.
<b>Double materiality assessment</b>	Double materiality takes the concept of materiality in sustainability reporting one step further from existing materiality assessment. According to double materiality, a company must report both on the financial impact hence how business is affected by sustainability issues ("outside in") and how the business activities impact society and the environment ("inside out")
<b>NFRD</b>	(Non-Financial Reporting Directive) The European Union directive that required certain large companies to disclose information on their environmental, social, and governance policies, practices, and performance. The directive will be overruled when CSRD (see below) is implemented.
<b>CSRD</b>	(Corporate Sustainability Reporting Directive) An update to the NFRD that greatly expands the scope of reporting requirements and introduces mandatory sustainability reporting for all large companies in the EU.
<b>ESRS Standards</b>	(Environmental, Social, and Governance Reporting Standards) A set of voluntary reporting standards developed by the Global Reporting Initiative (GRI) to help companies disclose their ESG performance in a consistent and comparable manner.

<b>European Green Deal</b>	A comprehensive policy framework launched by the European Commission in 2019 to make the EU's economy more sustainable and reduce greenhouse gas emissions to net-zero by 2050.
<b>EU Taxonomy</b>	A classification system developed by the European Commission to identify economic activities that contribute to environmental sustainability, based on a set of environmental performance criteria.
<b>EU Green Bond</b>	A bond issued by an EU member state or a company to finance environmentally sustainable projects that meet the EU's green bond standards.
<b>EU Green Claims Directive</b>	A proposed EU directive that would introduce rules for companies to make environmental claims in their marketing and advertising, aimed at preventing "greenwashing" or misleading environmental claims.
<b>Sustainable Finance</b>	The integration of environmental, social, and governance criteria into investment decision making and the development of financial products that promote sustainability.
<b>Science Based Targets</b>	Targets for reducing greenhouse gas emissions that are aligned with the level of emissions reductions required to keep global warming below 2°C compared to pre-industrial levels, based on scientific research and data.
<b>SBTi</b>	(Science Based Targets initiative) A collaborative effort by environmental organizations to promote corporate sustainability by encouraging companies to set targets for reducing their greenhouse gas emissions in line with the level of emissions reductions required to keep global warming below 2°C compared to pre-industrial levels, based on scientific research and data.
<b>Scope 1. Scope 2. Scope 3</b>	<p>Scopes are a way of categorising the different kinds of emissions a company creates in its own operations and in its wider value chain, under the Greenhouse Gas Protocol.</p> <p>Scope 1 covers direct emissions from company-owned or controlled sources (such as a fleet of nonelectric vehicles)</p> <p>Scope 2 are emissions that a company causes indirectly when the energy it purchases and uses is produced.</p> <p>Scope 3 includes all other indirect emissions, such as emissions from the extraction and production of purchased materials and services, business travel, vehicles not owned or controlled by the company, outsourced activities and waste disposal.</p>
<b>B Corps (Certified B Corporations)</b>	US originated private certification associated with forerunner companies in ESG, especially among B2C brands. B corps have been certified by B Lab to meet high standards of social and environmental performance, transparency and accountability.

# About writers



## Aija Bärlund

Chair of Sustainability Forum, Boardman

Since 2011, Aija has focused on sustainability, writing books on topics such as sustainable leadership, climate change, and responsible board work. She frequently lectures on sustainability at various academic institutions, including Aalto EE/Pro, APAC, and the Chamber of Commerce.



## Karin Juslin

Director, ESG Reporting and Assurance  
PwC Finland

Karin, a director at PwC Finland, with long experience from sustainability reporting and specialized in supporting companies' sustainability journeys, particularly in ESG reporting across various sectors. She has experience in manufacturing, energy, banking, agriculture, and forest industries, working with both large and small companies.



## Tiina Puukkoniemi

Partner, ESG Reporting & Assurance Services  
Leader, PwC Finland

Tiina is the lead partner for Sustainability/ESG reporting and assurance practice at PwC Finland and PwC's representative in the Finnish association of auditors working group developing sustainability assurance practice for the future. In addition to ESG assurance she has concentrated on ESG related regulation (CSRD, EU taxonomy) and reporting development.



### **Sebi Tauciuc**

Responsibility Lead,  
Futurice Finland

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Sebi, with 13+ years at Futurice, is passionate about sustainability in various forms. He's gained experience as a service design lead, a responsibility lead, and an internal change agent. Sebi enjoys learning and sharing his knowledge with others.



### **Riku Valtasola**

Managing Director,  
Futurice Finland

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As the Managing Director for Futurice's largest business area, Finland, Riku is passionate about sustainability and using data and digital to advance organizations' sustainability and ESG efforts for clear business benefits and a better, more resilient world.



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