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ESG: the challenge we need to accept

Expert's Opinion

Create international value starting from local value

Martina Cellana

Senior Manager Grant Thornton FAS

The impact of companies on the ecosystem (E - Environment), on the collectivity, the local community of origin, and the management of their employees (S - Social), together with transparent governance (G - Governance), are under the international spotlight and are governed in our case by the European Union and, then, independently by each Member state. ESG and socially responsible investment have their roots in the 60s, even if the recent publicity they gained seems to have given them importance and a new spirit. ESG can be seen as the practical application of sustainability to businesses, expanding the concept of value creation, that is no longer just economic, but also includes an ethical, moral, environmental, and collective component.led...

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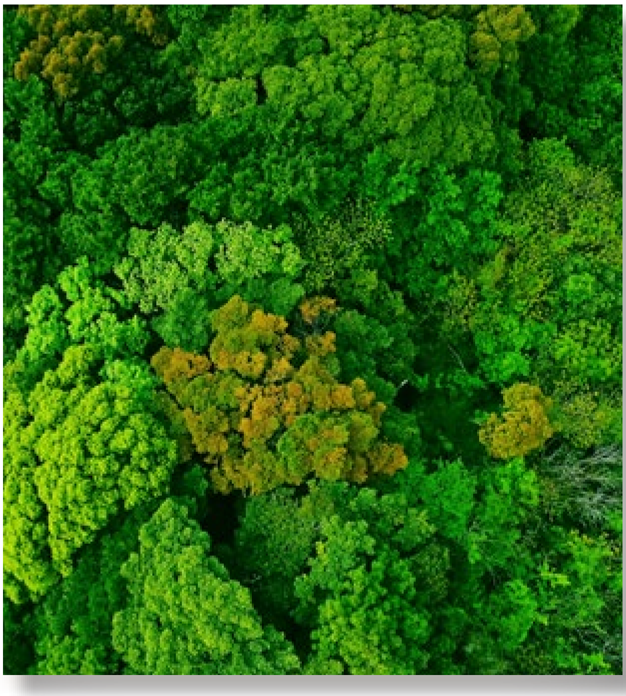

Overview

Environment, Social, Governance: integration is the priority

Gabriele Felici

Partner Bernoni Grant Thornton

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Focus on

Smart working e sostenibilità

Roberto Antoniotti

Partner & Head of Grant Thornton Technology & Innovation

In 2020, we all asked ourselves, for the first time, if remote working is good for the environment and if closed offices and people working from home could have a positive impact on the atmosphere. Lacking scientifically certain data, EcoAct, a US company that supports businesses in facing the challenges of climate change, prepared, in collaboration with Lloyds Banking Group and NatWest Group, a report entitled "Homeworking emissions whitepaper" aimed to understand how remote working impacts the environment. The answer, however, is not so clear-cut. Certainly, under current conditions, companies have reduced both Scope 1 and Scope 2 emissions, i.e., direct and indirect emissions, but it is difficult to determine the impact generated by employees who work remotely. helps...

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In 2023, the transition to an economy based on environmental, social and governance sustainability values can take a step forward thanks to the opportunity to integrate good practices into company processes, into the dynamics of industry internal relationships and of relationships between different industries.

In this context, the concept of "materiality" (i.e., significance for ESG) today constitutes the cornerstone of any non-financial reporting – or, better, sustainability - analysis; it is therefore necessary that it be understood by those companies that must fully integrate sustainability into their management structures, even though they are not currently subject to specific reporting obligations.

The European Union has configured a complex and stringent regulatory framework for the "sustainability revolution", which will require any country to proceed with defined times and precise methods, which will however be influenced by the operational and structural context in which this supranational regulatory framework will have to be implemented.

This revolution requires the adoption of irreversible change processes by all Italian companies, including SMEs, which are and will be increasingly affected by these transformations with regard to functions and bodies, starting from their strategy, behaviour and decisions of Boards of Directors and top management, with both internal effects and effects with respect to customers, suppliers, lenders and investors.

Therefore, starting from the Italian operational and structural context, it is necessary to better analyse the new ESG disclosure European regulatory framework and its profound consequences for Italian companies, especially SMEs, and for their strategies, their economic and financial equilibrium, and their "new" future.

Starting from the Paris Agreement (2015), which regulates the decarbonization strategy (with low carbon indicators), to the formalization of the United Nations 2030 Agenda and the EU Commission delegated acts of 21 April 2021, up to the EU Corporate Sustainability Reporting Directive, CSRD, published in the European Official Journal on 14 December 2022, sustainability has assumed an increasingly central role in the development projects of European institutions and in the strategies of the main companies and organizations according to the ambitions and objectives of the European Green Deal (December 2019). This is a new strategy that aims to transform the European Union into a fair, competitive, and carbon-neutral society by 2050.

In this new context, Environmental, Social, Governance (ESG) sustainable (or "non-financial", as they were called before the CSRD Directive) aspects are expected to be increasingly more integrated into corporate reporting and financial compliance.

Italy has proved ready to align with the innovations of the international framework. Non-financial information has acquired an increasingly greater importance as a result of the mandatory reporting obligations provided by Legislative Decree 254/2016, which the sustainability policy of SMEs has been oriented to, even on a voluntary basis, towards a business model that is increasingly more careful to environmental, social and governance issues, as an essential prerogative to remain on the market.

EU Directive no. 2022/2464 concerning corporate sustainability reporting (Corporate Sustainability Reporting Directive - "CSRD") was published in the European Official Journal on 16 December 2022, which integrates and amends the provisions of Directive 2013/34/EU, concerning the obligation for large companies to report non-financial information.

The CSRD directive changes the perspective (as well as the terminology) with regard to corporate sustainability reporting, providing that sustainability information (no longer defined as "non-financial" information, as ESG issues also have a direct impact on the economic and financial results) become an integral part of the annual financial report. More precisely, the ESG factors of companies, including SMEs, must be included in the Directors' report (and no longer in separate reports), thus also aligning overall corporate information disclosure processes.

The new obligations established by the CSRD will be applied progressively, expanding the number of concerned parties over time; however, unlisted SMEs are anyway allowed to report, on a voluntary basis, on their activities carried out in terms of sustainability. Furthermore, specific reporting standards will be introduced for SMEs, according to their needs and characteristics.

The banking system is considered as central in the transition towards a more economically and socially sustainable economy. In fact, banks are the entities that contribute financial resources to investments that can be more or less sustainable. The international and national supervisory authorities have issued a series of rules which require ESG factors to be considered in the management of a banking company.

Therefore, for a correct and complete preparation of 2023 financial statements, companies must take into account information on sustainability. By now, investors and lenders not only require the strictly quantitative data contained in the financial statements, but also other information which, although having a non-financial nature, is closely relevant to them. These are the ESG requirements and the "Sustainability Information Statement" represents their observance.

Therefore, companies will have to represent all information homogeneously and provide measurable and comparable data.

Expert’s Opinion

Creare valore internazionale partendo dal locale

Martina Cellana
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The impact of companies on the ecosystem (E - Environment), on the collectivity, the local community of origin, and the management of their employees (S - Social), together with transparent governance (G - Governance), are under the international spotlight and are governed in our case by the European Union and, then, independently by each Member state.

ESG and socially responsible investment have their roots in the 60s, even if the recent publicity they gained seems to have given them importance and a new spirit. ESG can be seen as the practical application of sustainability to businesses, expanding the concept of value creation, that is no longer just economic, but also includes an ethical, moral, environmental, and collective component.

In recent years, the environmental crises and the growing political will to act in this regard have led ESG issues and related reporting means to become a critical aspect in a company’s operations.

Besides playing a role in decisions relating to mergers, acquisitions, investments, and divestments, according to some research, ESG issues show a positive correlation with financial performance and the creation of corporate value. ESG issues started a transition towards a more inclusive and proactive capitalism.

Within the broad European regulation, the EU Taxonomy regulation (EU Regulation 2020/82) aims to overcome the lack of shared definitions and to favour information transparency and comparability by introducing a classification of sustainable economic activities.

Hence the operational challenge of identifying those economic activities that can be defined as environmentally friendly and respect the three criteria defined by the European Regulation. In order to be defined as sustainable, an economic activity must:

1. contribute to acting in a substantial way on at least one of the six environmental objectives set by the Taxonomy regulation;
2. not cause significant damage to any of the other targets;
3. meet certain social protection minimum guarantees.

The complexity of the topic, in addition to the relevant application difficulties, require specialized figures, capable of assisting companies and institutions in the process of change towards a higher sustainability and the related non-financial information reporting.

Within the scope of action governed by the European regulation, which is constantly evolving, each European country must adopt an adequate strategy.

Indeed, environmental progress varies from one country to another and each Member state has autonomy in determining the regulation to be implemented in order to achieve the ambitious EU objectives. The differences in application and the different "progress" between the countries lead to further complications, especially for multinational companies.

In order to mitigate the vagueness of ESG and the differences between Member states, the European Union is defining a new legal framework for a sustainable economy, including the definition of shared reporting standards. While the commitment of the European Union in this regard is evident, regulations are not so strict in other parts of the world. In the United States, for example, responses to ESG issues have been mostly voluntary and market-driven, rather than being turned into new regulations.

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During my recent secondment experience in the corporate finance team at Grant Thornton Ireland in Dublin, I could see how the growing demand for assistance, advice and information on ESG issues by companies, as well as the increasingly crucial role that these play in investment choices, have often resulted in the recruitment of a dedicated person with a consolidated background in sustainable finance and green bonds. In my everyday experience, however, I could see a more evolved concept of the Social dimension compared to the Italian situation.

After focusing on environmental aspects, the European Union is also working on a social taxonomy. When living in Nordic countries, it is easier to understand why the Social aspect of ESG may seem secondary in the European regulation, compared to the Environmental issue (E).

Although, in general, there is still a long way to go, I could see how issues such as diversity, corporate welfare, employee support, doing business that is sustainable for a company's employees and community are an integral part of the companies and established customs in Northern Europe countries.

Given the attention paid by national and international organizations to ESG issues and the increasing awareness by investors and companies that ESG criteria could become mandatory for a wider range of players, it will not be surprising if these issues and the related effects on corporate operations and information remain in the spotlight for a long time to come.

Hence, a new question arises – how can we understand the difference between "greenwashing" and "real sustainability"?

Focus on

Smart Working e sostenibilità

Roberto Antoniotti
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In 2020, we all asked ourselves, for the first time, if remote working is good for the environment and if closed offices and people working from home could have a positive impact on the atmosphere. Lacking scientifically certain data, EcoAct, a US company that supports businesses in facing the challenges of climate change, prepared, in collaboration with Lloyds Banking Group and NatWest Group, a report entitled "Homeworking emissions whitepaper" aimed to understand how remote working impacts the environment. The answer, however, is not so clear-cut.

Certainly, under current conditions, companies have reduced both Scope 1 and Scope 2 emissions, i.e., direct and indirect emissions, but it is difficult to determine the impact generated by employees who work remotely. However, the report still helps to reach an answer by identifying those indicators that can define the environmental impact of remote working.

The first indicator is the energy consumption derived from the use of electronic devices that are necessary for the performance of daily work activities by each employee. To obtain some data, we should consider that a laptop has an energy consumption that ranges from 50 to 100Wh and, therefore, if used for 8 hours a day, its annual consumption ranges from 150 to 300kWh, which generates approximately 150-300 kWh of CO2, based on the Italian energy efficiency ratio of 0.3 – 0.4.

The second indicator is the consumption for heating due to the fact that people are forced to increase their use. With this regard, we should consider that energy sources consumed are both natural gas and electricity.

The third indicator is the energy consumed for home cooling. In this case, only emissions from electricity consumption will be considered.

Lastly, we should consider the number of remote working days in a working week, for this purpose we will introduce the concept of "remote working FTE", according to which an employee who works remotely 2 days out of 5 is indicated with 0.4 remote Working FTE.

In terms of savings, remote working allows avoiding emission for about 600 kilograms of carbon dioxide per year per worker (-40% compared to 2018) with significant savings in terms of time (about 150 hours), travelled distance (3,500 km) and fuel (260 litres of petrol or 237 litres of diesel). This is what emerges from ENEA research on the environmental impact of remote working in Rome, Turin, Bologna, and Trento in the four-year period 2015-2018, published in the international magazine Applied Sciences.

"In our country, about one person out of two owns a car, i.e., 666 cars every 1,000 inhabitants, thus Italy ranks second in Europe among the countries with the highest rate of motorisation, after Luxembourg", explained Roberta Roberto, ENEA researcher in the Energy technologies and renewable sources Department and co-author of the survey, together with her colleagues from other ENEA departments Bruna Felici, Alessandro Zini and Marco Rao.

In Italy, transport is responsible for over 25% of total national greenhouse gas emissions and almost all of them (93%) come from road transport and mainly from cars (70%). "Agile working and all other forms of remote working have shown that they can be an important instrument for change, capable not only of improving professional and personal life quality, but also of reducing traffic and city pollution and to revive peripheral areas", added Roberta.

Based on the responses of a sample of 1,269 agile workers in the PA in the four cities examined, who use private internal combustion vehicles for commuting from home to work, every remote working day would make it possible to avoid 6 kg of direct emissions of CO_2 and to save 85 megajoules (MJ) of fuel per capita. But there are also other environmental benefits: the analysis also highlighted a reduction in nitrogen oxides per person per day (from 14.8 g in Trento to 7.9 g in Turin), carbon monoxide (from 38.9 g in Rome to 18.7 g in Trento) and PM10 (from 1.6 g in Rome to 0.9 g in Turin), PM2.5 (from 1.1 g in Rome and Trento to 0.6 g in Turin).

Furthermore, 24.8% of respondents declared that they opted for more sustainable transport means (public transport, bicycle, or on foot) for travel outside work during remote working days, 8.7% of them changed their choices in favour of private transport, while 66.5% did not change their means of transport.

"We chose these four cities for two reasons: firstly, for their peculiarities linked to the territory and the historical profile which could lead to diversified impacts on urban mobility and, secondly, due to the high number of responses to the questionnaire received from public sector employees in these four cities, who work from home 2 days a week on average", underlined Bruna Felici, ENEA researcher in the Studies, Analysis and Evaluations Unit.

Collected data suggest that, on average, respondents travel 35 km a day for 1 hour and 20 minutes. Rome is confirmed as the most critical city, with an average travel time equal to 2 hours, probably due to greater distances (1 out of 5 workers travel more than 100 km a day) and more intense traffic. In fact, in Rome there are around 420,000 daily trips for work and study reasons, while each person spends 82 hours a year stuck in the traffic.

About half of respondents declared that they travel exclusively with private motor vehicles (47% by car and 2% by motorcycles), while 17% travel exclusively with public transport and 16% with a mix of public and private transport. In Trento there is the greatest use of private internal combustion vehicles for home-work travel (62.9%), followed by Rome (54.4%), Bologna (44.9%) and Turin (38.2%). "Private mobility offers flexible solutions in terms of time savings and freedom of movement, especially for those having school-age children. Public transport, on the other hand, is mainly chosen with a view to saving money or in the event of a lack of parking spaces", concluded Alessandro Zini, ENEA researcher in the Studies, Analysis and Evaluations Unit.

In conclusion, there is no certain answer to whether smart working is good for the environment, but each company can apply the criteria described according to the characteristics of their employees and therefore identify the most effective application of remote working and the incentivization of certain transport means to reach the workplace.

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