



# ESG Webinar

Anticipating changes to EU regulations  
instead of  
constantly revising them

Part 2: Action opportunities for companies

# Inhalt: Environment Social Governance – Webinar, Part 2

## Action opportunities for companies

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# 1. Follow-up to ESG webinar, part 1

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## Political framework – EU enforcement options

1. Who we are, our background experience
2. What ESG is supposed to achieve
3. How EU legislation works
4. The six key pieces of ESG legislation
5. "Salami tactics" of EU legislation on ESG, taking the example of supply chain monitoring
6. What ESG also enables
7. Anticipatory approach to EU regulatory changes
8. Our two tandems: EU monitoring insider + ESG interim manager = your "ESG guides"
9. Outlook on ESG webinar, part 2: Action opportunities for companies

# 2. Repetition of ESG areas

| Environment  | Social   | Governance   |
|--|--|--|
| <ul style="list-style-type: none"><li>➤ Waste &amp; Pollution</li><li>➤ Energy Management</li><li>➤ Opportunities in environmental management</li><li>➤ Climate strategy (!)</li><li>➤ Emissions (!)</li><li>➤ Decarbonisation (!)</li><li>➤ Water management</li><li>➤ Circular economy</li></ul> | <ul style="list-style-type: none"><li>➤ Human Capital</li><li>➤ Supply chain (!)</li><li>➤ Product quality and safety</li><li>➤ Stakeholder relationships</li><li>➤ Internal co-determination and transparency</li><li>➤ Meaning and social impact of products (!)</li><li>➤ Employee safety</li><li>➤ Diversity management (!)</li><li>➤ Consumer protection and customer safety</li><li>➤ Contribution to the common good (!)</li><li>➤ Health</li></ul> | <ul style="list-style-type: none"><li>➤ Corporate governance</li><li>➤ Transparency in the remuneration of executives</li><li>➤ Business ethics (!)</li><li>➤ Compliance (!)</li><li>➤ Risk management (!)</li><li>➤ Ethical handling of funds (!)</li><li>➤ Competitive behaviour</li></ul> |

**Depending on the comp. (industry, size) different focus/KPI's** *Source: According to Steinbeiss Augsburg Business School*



# 3. Companies of what size are affected by ESG? – (a)

## German Legislation:

- Ex. for E – Environmental regulations: all companies
- Ex. for S – Occupational health & safety: all companies; LKSG\*: 2023 > 3,000 EE (employees), since 2024 > 1,000 EE
- Ex. for G – Commercial law: all companies; Stock corporation law and DCGK\*\*: listed companies

\*Lieferkettensorgfaltspflichtengesetz

\*\*German Corporate Governance Kodex

## EU legislation regulates ESG in interlinked sets of rules, not separately: *(see ESG webinar, part 1)*

- TR (taxonomy regulation): since 2022, public interest entities > 500 EE
- CSRD (sustainability reports): from 2025, companies > 250 EE, turnover > €40 mio or balance sheet total > €20 mio
- CSDDD (supply chain): from 2027, companies > 5000 EE, turnover > €1.5 billion, from 2029 > 1000 EE, turnover > €450 million

## What should affected companies do?

- Define sustainability KPIs (Key Performance Indicators): measure non-financial parameters for ESG fulfilment.
- Fill sustainability KPIs with content + appoint responsible persons in the company.
- Create comprehensive reports + send them in time to the right place, otherwise risk of horrendous penalties.

# 3. Companies of what size are affected by ESG? – (b)

## Reporting and implementation obligations from TR

- Definition of taxonomy-compliant management: contributes to at least one of six environmental goals without significantly harming any of the others + social guarantees on human rights and labour standards.
- Financial companies only report for one KPI, the Green Asset Ratio (taxonomy-compliant/total investment).
- Real economy companies for sales KPI, CapEx KPI and OpEx KPI (taxonomy-compliant/total activity).

## Reporting and implementation obligations from CSRD

- In accordance with the sustainability objectives set out in the ESRS E1 standard.
- The company's principal adverse impacts on people and the environment.
- Adoption of the climate plan for CSDDD reporting.

## Reporting and implementation obligations from CSDDD

- Not only actual but also potential impacts on the environment and human rights must be identified, prevented or mitigated.
- In-house, at subsidiaries, along the entire value chain: i.e. including suppliers and customers.
- In extension of the LKSG also civil liability.

# 3. Companies of what size are affected by ESG? – (c)

Question: Are only companies affected that exceed the above-mentioned sizes?

Answer: No!

## Reasons

- Large companies that are directly affected pass on the pressure for regulation and reporting from the top down, e.g. manufacturers to their suppliers. Small companies are therefore indirectly affected.
- Specifically, this affects the ESG and CSR ratings of large companies which depend not only on their own actions, but also on the input of small suppliers.
- Banks are subject to informal pressure to restrict financing options for small companies, too, if their business model is not ESG-compliant and this problem can have an impact on their large customers. Financing options there are dependent on ESG and CSR ratings anyway.

Metrics and financing requirements are specified by the following EU ESG regulations (*see ESG webinar, part 1*): CBR (ESG metric), SFDR (Sustainable Finance) and EU-GBR (Green Bonds).

**Conclusion:** fulfilment of ESG requirements affects virtually all companies. If not directly, then indirectly!



# 4. Each fulfilment of ESG rules works individually

Every company has an individual need for customisation, depending on

- Product or service that it manufactures.
- Manufacturing process typical for its industry which requires specific KPIs in Environment, Social, Governance.
- Company size (turnover, number of employees). Caution! Inconsistent differentiation between large companies and SME (small and medium-sized enterprises), see above under 3.-(a).

**Examples:** Energy-intensive production (chemicals, steel) must fulfil different requirements than CO<sub>2</sub>-intensive production (cement); logistics companies or wholesalers must fulfil different requirements than service providers.

**Conclusion:** there are no standardised templates for determining the ESG obligations of companies!

## Further Problems:

- The rules are relatively new and often vague. This leads to time-consuming and costly definition work.
- Authorities usually interpret differences in definition against companies: fines of thousands to millions of euros.
- Companies are held liable for actions beyond their control: especially in Scope 3 for emissions/supply chain.



# 5. ESG standards, certifications and forms of reports

"The" uniformly valid ESG certification standard "for all" does not yet exist. Select the appropriate one for each company depending on the individual case. The forms of reports result from the certification standards. A few examples:

**ESRS – European Sustainability Reporting Standard**

**GHG – Green House Gas Protocol**

**GRI – Global Reporting Initiative**

**HSE – Health Safety Environment**

**ISCC – International Sustainability and Carbon Certification**

**ISO 14001, ISO 14064, ISO 14067, ISO 14068, as well as PAS 2050, PAS 2060**

*Sustainability reports: Former CSR (Corporate Social Responsibility) and SDR (Sustainable Development Report) reports are being converted into these ESG standards*

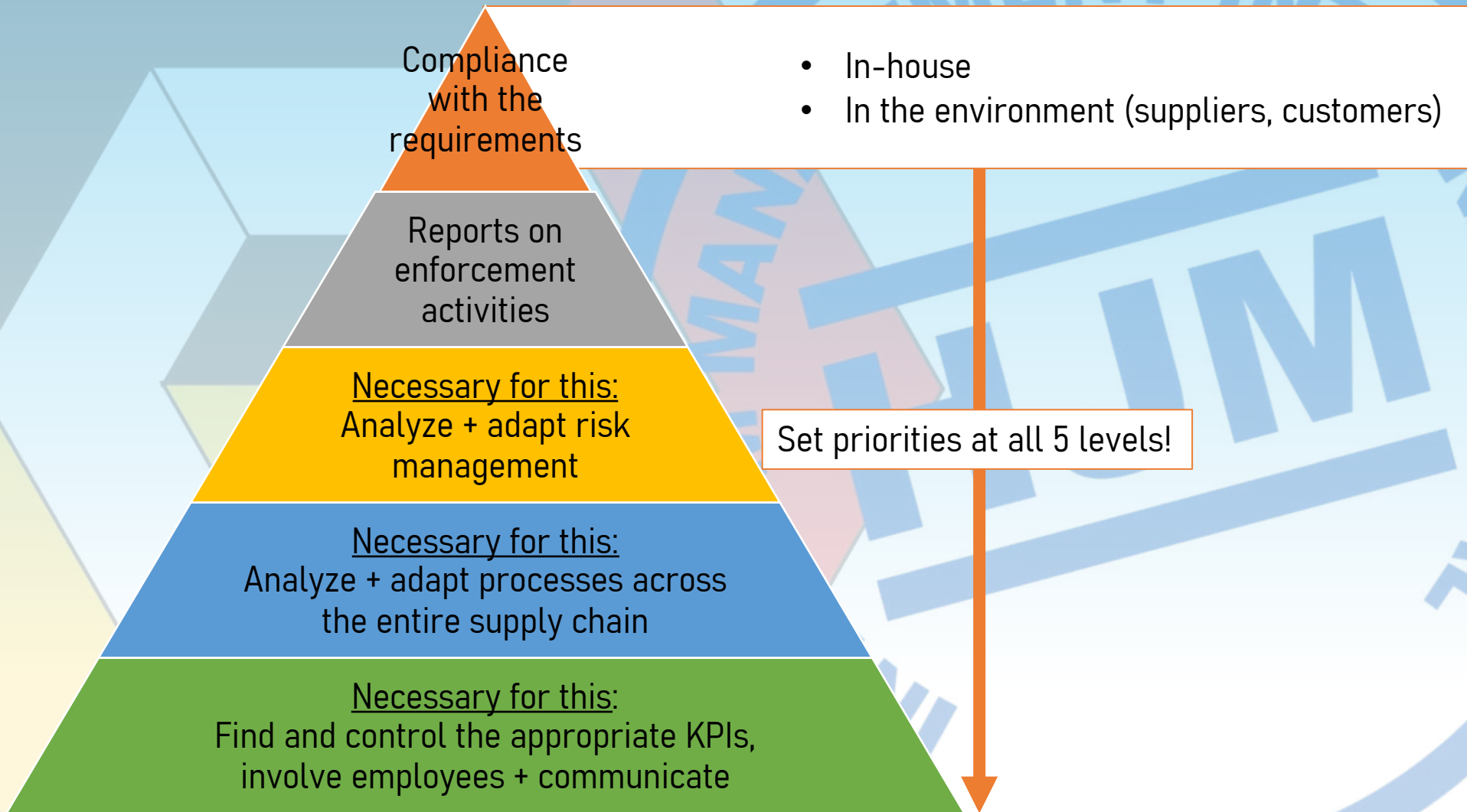
**ISSB – International Sustainability Standards Board**

**PRI – Principles for Responsible Investment**

**SBTI – Science Based Targets**

The EU monitoring insider in our tandem will inform the ESG interim manager in good time before "the" uniform ESG standard is introduced and reporting rules for companies are changed again.

# 6. Fulfilment of main ESG obligations - Methodical approach



# 7. Decision matrix for anticipatory action – (a)

ESG creates a completely new form of economic governance. Companies must adapt to this new economic system = much-discussed "game changer"

- In the past, only financial KPIs had to be defined, managed and reported.
- Today, this also applies to non-financial sustainability KPIs: equivalent on paper, but probably more important in the future, due to the political dynamics: under permanent changes of the EU regulations!

**The efficient practical solution consists of a tandem: (see ESG webinar, part 1)**

**ESG interim manager in the client company: process reorganisation incl. reports  $\triangleq$  Captain  
+ EU monitoring insider, our analyst: anticipates EU regulatory changes  $\triangleq$  Navigator**



## Course knowledge vs. practical experience

- Certification courses ("ESG Expert" e.g. via Steinbeiss Augsburg Business School, "Carbon Footprint Management" e.g. via GTEC) are useful for imparting initial knowledge.
- Courses are no substitute for practical ESG implementation by an experienced tandem!



# 7. Decision matrix for anticipatory action – (b)

## Derive recommendations for action today, with regard to future EU regulatory changes

The EU monitoring insider, our analyst, tracks emerging changes and forwards them to the ESG interim manager in the company before they come into force. In doing so, he utilises his understanding of the "EU speech" in EU documents and announcements. He knows what makes the regulatory authorities tick (*see ESG webinar, part 1*).

|                          | EU rule change<br><b>clearly visible</b> | EU rule change<br><b>well predictable</b> | EU rule change<br><b>poorly predictable</b> |
|--------------------------|--|---|---|
| Current workload: low    | Solution 1                               | Solution 1                                | Solution 2 or 3                             |
| Current workload: medium | Solution 1                               | Solution 1 or 2                           | Solution 3                                  |
| Current workload: high   | Solution 1                               | Solution 2 or 3                           | Solution 3                                  |

Solution 1: Include future changes in today's adjustments.

Solution 2: When making adjustments today, prepare the starting point for future changes.

Solution 3: Only do what is required today.

# 8. Expectations of companies towards ESG interim managers

- Comply with the law.
- Creative implementation: utilise legal room for manoeuvre to reduce costs and bureaucracy.
- Stakeholder management: hold responsible employees, financiers, authorities, suppliers and customers.
- Reduce CO2 in the supply chain and make it fit in all three ESG areas across all three Scopes: 1/value creation in the company, 2/energy procurement, 3/purchasing and sales logistics.
- A major lever of Scope 3 lies in purchasing: implementation through transparency requirements and consistent contract management ("educating suppliers").
- Select the appropriate certification standard for sustainability reports.
- Select the right software for sustainability reports, ESG and CSR ratings, CO2 footprint calculations including connection to the ERP system (e.g. SAP).
- Define suitable KPIs and manage them in risk management.
- Turn client companies into sustainability champions without forgetting about the underlying business purpose!

**Methodical approach according to the pyramid (see 6)**

**Anticipatory approach according to the decision matrix (see 7)**

# 9. Our two tandems = your "ESG guides"

[www.esg-guides.com](http://www.esg-guides.com)

|  |   |  |
|--|---|--|
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