NAVIGATING THE ESG REPORTING LANDSCAPE IN EUROPE

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KEY TAKEAWAYS

European ESG regulations continue to move at a rapid pace, escalating disclosure requirements for both investors and companies. Eighty percent (80%) of European corporate respondents report that their companies have already begun preparing for compliance with the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD).

01

Companies continue to establish strong sustainability governance, expanding the ESG roles and responsibilities of board members. About two-thirds of European corporate respondents say their companies provide ESG education sessions to the board, and among these, eighty-one percent (81%) report that ESG is a full board agenda item at least once annually.

02

Disclosing sound risk management processes around material ESG topics is increasingly required by regulations. By developing these processes, companies can build resilience to sustainability risks and future-proof their business. Eighty-eight percent (88%) of European corporate respondents note that ESG is integrated into the risk management processes of their company.

03

Companies must build robust data collection processes to meet the growing demands of regulators and wider stakeholders, as well as ensuring their disclosures are accurate and trustworthy. Sixty-five percent (65%) of European corporate respondents currently secure third-party assurance for environmental metrics.

04

INTRODUCTION

Stakeholder expectations on sustainability reporting continue to rise across Europe with the EU's introduction of regulations for mandatory ESG disclosures. Aiming to facilitate the transition to a decarbonised economy, the granularity required to comply with emerging regulations represents a significant milestone in sustainability reporting across Europe and further afield.

For many, the tight requirements may present challenges, adding to an ever-growing list of demands from wider stakeholders in what can only be described as the age of ESG data. To understand and evaluate evolving attitudes on ESG, Rivel interviewed 63 investors across North America and Europe as part of its annual study. At the same time, Rivel surveyed 49 EU and UK corporate respondents, as well as 158 North American corporate respondents representing a range of market caps and industries to uncover evolving corporate processes and best practices.

This report explores how companies navigate the increasing demands of current and emerging ESG reporting requirements, monitor and set metrics and targets, as well as develop robust processes to mitigate risks and capitalise on opportunities. We assess the attitudes from corporate and investor respondent surveys on the following topics:

Understanding Current and Emerging Regulation

Governing ESG and Providing Oversight

Developing a Resilient Business Strategy

Strengthening ESG Data and Reporting

Enhancing Engagement and Communication

01 Understanding Current & Emerging Regulation

01

Understanding Current and Emerging Regulation

In a bid to be the first carbon-neutral continent, the European Union's Green Deal policies propose to outline a roadmap to a resource-efficient and resilient economy by 2050. As part of this wider mission, ESG regulations are moving at a rapid pace, escalating disclosure requirements for both investors and companies.

Several significant European policy measures include:

STATUS: ADOPTED

Sustainable Finance Disclosure Regulation (SFDR) *[Investors]*

The SFDR aims to increase transparency surrounding sustainable investment products, with financial institutions required to disclose their ESG risks, policies and performance. The enhanced transparency makes it easier to compare financial products through a sustainability lens. Since the regulation's early 2023 implementation, 27% of European corporate respondents note they have experienced increased investor engagement.

EU Taxonomy for Sustainable Activities *[Investors and Companies]*

The EU taxonomy for sustainable activities is a classification system used to help investors make informed sustainable decisions. In doing so, the taxonomy places increased disclosure obligations on companies, with over half (59%) of European corporate respondents reporting that they calculate their revenue, capital expenditures and operational expenditures associated with the EU taxonomy.

Corporate Sustainability Reporting Directive (CSRD) *[Companies]*

Replacing the Non-Financial Reporting Directive (NFRD), the CSRD requires companies with a significant EU market presence to include granular sustainability disclosures alongside their financial reporting. Eighty percent (80%) of European corporate respondents report that their companies have begun preparing for CSRD compliance.

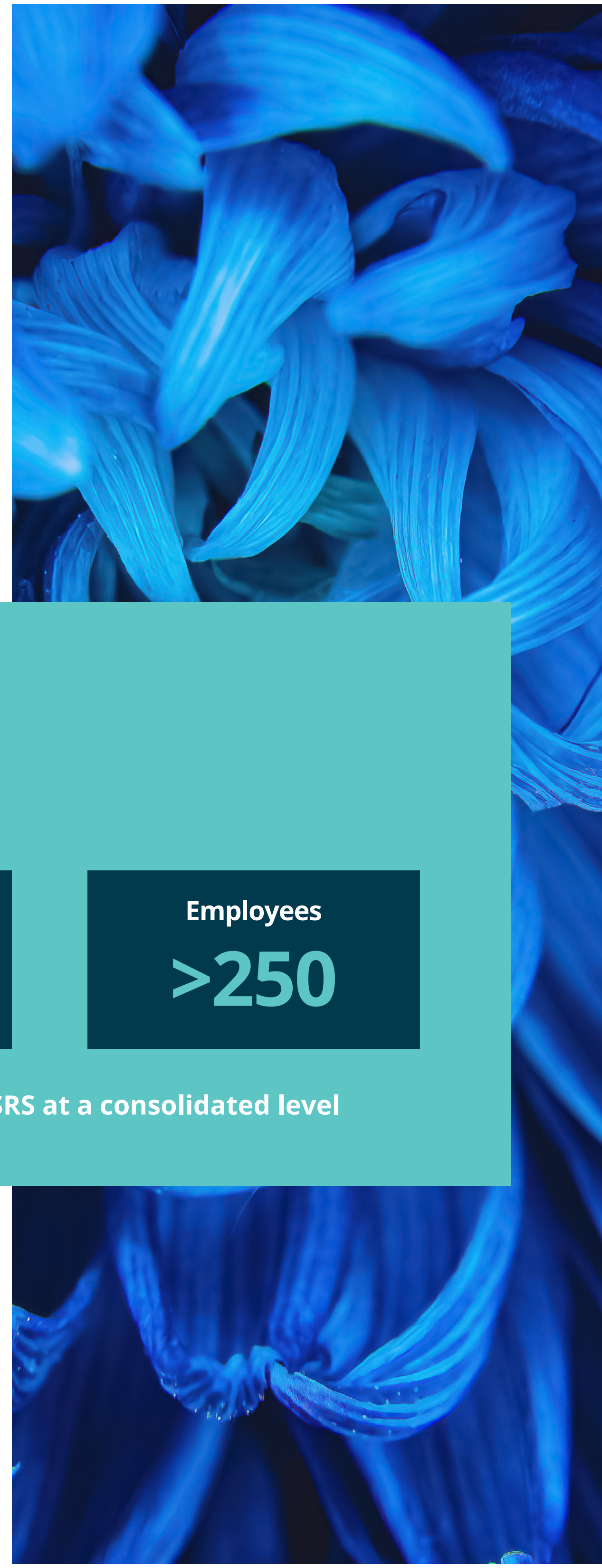
Corporate Sustainability Due Diligence Directive (CSDDD) *[Companies]*

Aiming to enhance the protection of the environment and human rights globally, the CSDDD will require companies to report on the actual and potential environmental and social impacts of both their direct and indirect operations. Companies will be required to conduct environmental and social due diligence across their operations and value chains, introducing granular data collection and engagement processes.

Strengthening and Standardisation of ESG Reporting

The EU has introduced the CSRD in an attempt to harmonise ESG reporting, requiring companies to include granular sustainability disclosures alongside their financial reporting. With the adoption of the European Sustainability Reporting Standards (ESRS)—the set of standards companies must report against to comply with CSRD—over 50,000 companies, both EU and non-EU, will disclose information on a range of environmental, social and governance topics.

The enhanced guidance aims to strengthen and standardise ESG reporting by increasing transparency and producing consistent, comparable, and decision-useful disclosures.



Scope of Coverage is Staggered

FY24 | **Large companies already subject to NFRD regulation**

FY25 | **Large companies that meet two of three thresholds:**

Net Turnover *(sales)*	Balance Sheet Total	Employees
>€50m	>€25m	>250

FY28 | **Non-EU companies will be required to report under ESRS at a consolidated level**

Given its wide scope, this regulation represents many companies' first and most comprehensive mandatory sustainability reporting effort. While the initial process may present some challenges, the changing landscape in Europe creates a positive incentive for companies to prioritise ESG. By integrating sustainability into the wider business model, companies can utilise the processes developed to enhance risk management and identify opportunities, ultimately strengthening their market position within a future decarbonised economy.

While the regulation will be phased in over time, it is important for companies to begin preparing as soon as possible, given the rigorous requirements. To develop a plan, companies are encouraged to first conduct a review of their business to identify gaps in data, processes and resources.

These preparations are already ramping up, with 80% of European corporate respondents reporting that their companies have begun preparing for CSRD compliance. This practical response demonstrates an eagerness amongst EU companies to get ahead of emerging regulations, and to integrate the requirements into their developing ESG program and company-wide processes.

> *We have successfully identified our ESRS points and developed a double materiality to ensure a solid ESG reporting structure.*
>
> –Head of Investor Relations, Mid-cap

80% of European corporate respondents report that their companies have begun preparing for CSRD compliance. Among those volunteering specific aspects of their preparations:

36%
Plan to or have conducted a gap assessment

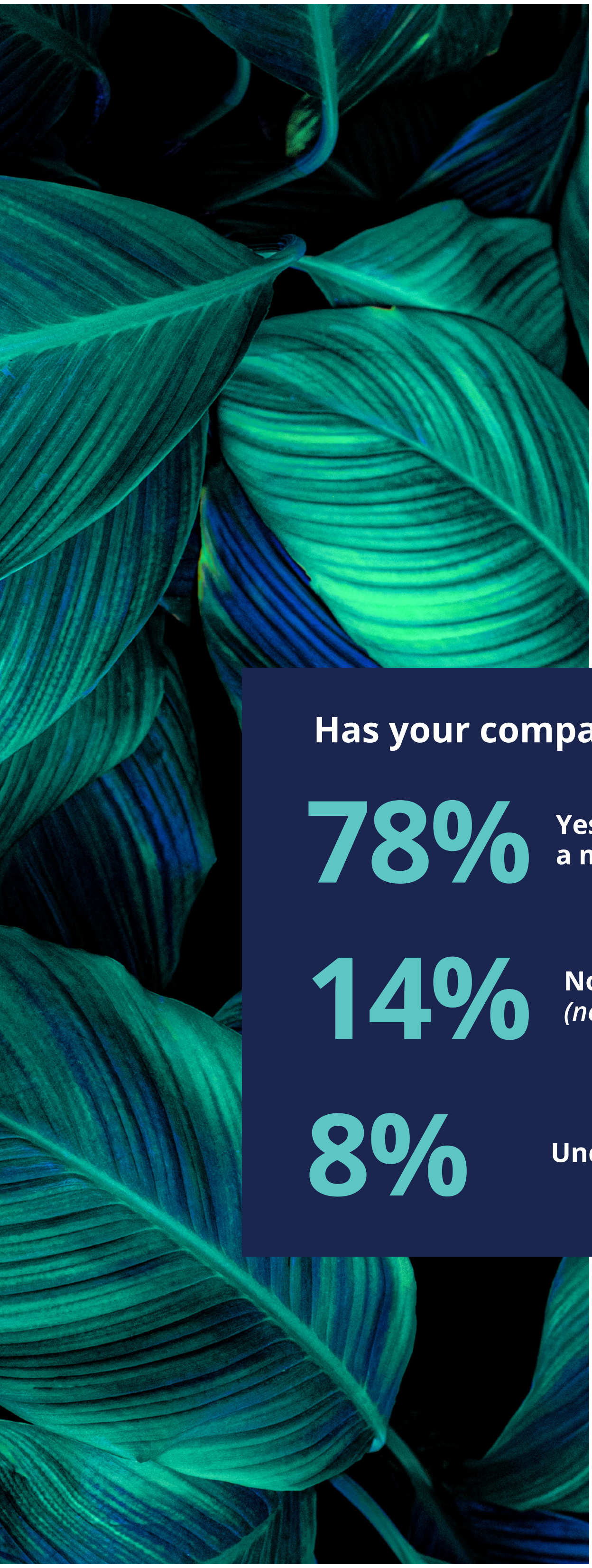
36%
Have started conducting a double materiality assessment

29%
Are allocating dedicated resources internally

21%
Are engaging with a third-party consultant

In comparison, over one-third of North American corporate respondents report that their companies have begun preparing for CSRD compliance. This slow-moving approach may suggest a reluctance to be an early actor, given the associated high costs and uncertainty. Until specific guidance is finalised, we can expect only precautionary action from non-EU companies as they seek to avoid unnecessary risk and expenditure.

While not all companies will feel the direct impact of these regulations, their effects ripple throughout markets, increasing the expectations of baseline disclosures. Companies risk falling behind market norms, peers, and stakeholder expectations if they fail to incorporate elements of emerging regulation into their external messaging and disclosures.



Materiality

Understanding of a company's most material topics from multiple stakeholder perspectives is paramount when executing an ESG strategy and developing impactful disclosures.

By conducting a materiality assessment, companies can ensure their material topics are effectively integrated into their strategies to a degree deemed appropriate by the company and wider stakeholders, and that their disclosures are suitably aligned.

Both companies and investors recognise the value of assessing ESG strategy and understanding stakeholder perception, with 78% of European corporate respondents having already conducted a materiality assessment, and over half of investor respondents agreeing that conducting a materiality assessment is important.

Has your company conducted a materiality assessment?

78% Yes, we have conducted a materiality assessment

14% No *(net)*

- **12%** No but we plan to in the next 12-18 months
- **2%** No, we do not plan on conducting one

8% Uncertain

N=49

57%

of European investor respondents say it is important for companies to conduct a materiality assessment

Double Materiality

The CSRD requires companies to conduct a double materiality approach—a process that builds upon the well-established "single materiality" process. In a departure from single materiality, companies must review sustainability topics on both impact and financial dimensions:

Impact materiality — sustainability-related impacts on the environment and wider society, associated with a company's direct and indirect operations (the "inside-out" perspective).

+

Financial materiality — the sustainability-related risks and opportunities which may affect a company's business performance over time (the "outside-in" perspective).

Double materiality assessment results, in turn, determine which topics companies must report against to comply with CSRD. This process enables companies to identify and assess the impacts of their operations as well as the risks and opportunities which may affect their business performance over time.

Of the European corporate respondents who already have or plan to conduct a materiality assessment, 77% intend to pursue double materiality. Companies who previously conducted a materiality assessment are encouraged to update and align their methodology with double materiality moving forward, to ensure compliance with current and emerging regulations.

* of European corporate respondents who already have or plan to conduct a materiality assessment

02 Governing ESG & Providing Oversight

02

Governing ESG and Providing Insight

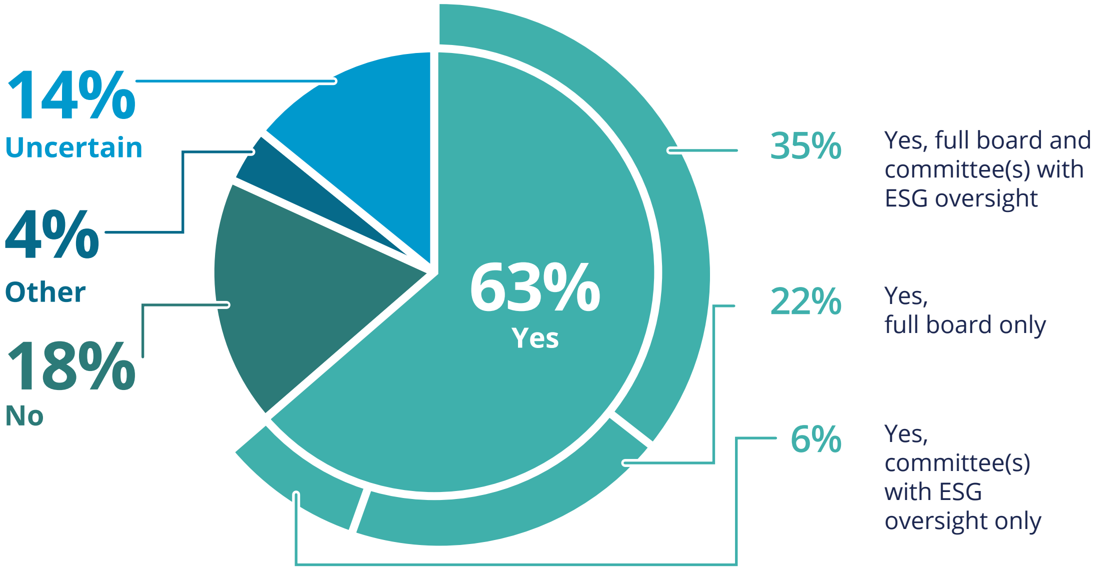
Board-level Oversight

Where faced with more stringent requirements, companies continue to establish strong sustainability governance, expanding the ESG roles and responsibilities of their board members.

To successfully fulfill their role of oversight, many boards of directors seek ways to enhance their understanding of ESG issues and their impact on the company's operations. In order to keep directors updated on the latest ESG trends and company-relevant areas of risk or opportunity, 63% of European corporate respondents report that their company provides ESG education sessions to the board. Of those, 22% provide sessions to the full board only, while 35% present to the full board and the committee(s) with ESG oversight. The most common committees to receive education sessions are Audit, Risk, Nomination and Remuneration Committees respectively.

ESG skills among directors have been a topic of focus for many investors as they look to ensure that all relevant risks and opportunities receive effective board oversight.

Does your company provide ESG education sessions to the full board or committee(s)?



N=49

As part of their duty of care to mitigate risk and maximise value creation for their company, directors are increasingly expanding their considerations to include the potential impact of their decisions on sustainability matters over time. As well as this, directors also have the responsibility of pressure testing management to ensure they are carefully considering and integrating ESG into strategic decision making and financial planning.

As these responsibilities develop, there is a potential for sustainability experience to become more influential and relevant when nominating and assessing possible new company directors. Amongst European corporate respondents, 45% indicate that their company's Nomination Committee considers ESG expertise and knowledge when identifying board candidates.

Companies are working to ensure their long-term business strategy remains robust and resilient to a changing climate by considering sustainability in the board's actions, and through management's financial planning, risk mitigation efforts, and clear disclosures. To achieve this, it is important that meaningful discussions about sustainability-related risks and opportunities take place in the boardroom.

Eighty-one percent (81%) of European corporate respondents, whose companies provide ESG education to their boards, indicate that ESG is a full board agenda item at least once annually. As board-level oversight expectations increase, members should be appropriately updated on sustainability progress to understand where it is reflected in company strategy.

HOW OFTEN IS ESG A FULL BOARD AGENDA ITEM?

10%	52%	19%	6%	13%
Once a year	Two or three times a year	Every board meeting	Other	Uncertain

N= 31

WHICH ESG TOPIC(S) ARE EXECUTIVE REMUNERATION LINKED TO?

61%	Greenhouse gas emissions
50%	Diversity
24%	Renewable energy
18%	Sustainable products and packaging
47%	Other
8%	Uncertain

N= 38*

*Among companies that link executive pay to ESG metrics

Executive Responsibility

Traditional key performance indicators (KPIs) used to evaluate executive performance now regularly extend to non-financial metrics, including sustainable products and packaging, renewable energy, diversity, and, most commonly, greenhouse gas emissions.

The decision to tie ESG metrics to executive remuneration is likely made to demonstrate that sustainability is taken seriously internally, to accelerate progress against publicly set targets or to meet expectations from investors and wider stakeholders.

While buy-in from executives is important in successfully achieving goals, companies should take time to deliberate on whether linking ESG metrics to remuneration is appropriate for their business, and where they are on their data collection journey, to avoid simply following the trend.

78% of European corporate respondents tie ESG metrics to executive remuneration

ESG Management

With mounting pressure and looming regulatory deadlines, companies continue to grapple with the allocation of ESG responsibilities internally, as management roles differ from company to company. There are many factors which influence a company's approach to ESG management—whether size, industry, and structure, or the topic's all-encompassing nature.

While departments with primary responsibility for ESG range from investor relations to risk management, many companies are responding to growing demands from stakeholders by establishing fully dedicated teams or individuals.

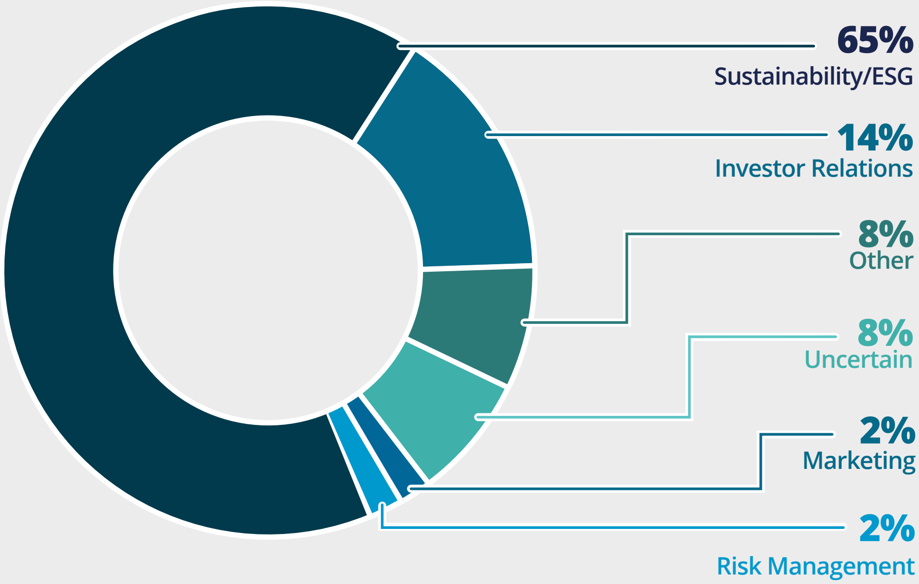
Sixty-five percent (65%) of European corporate respondents report that their company's ESG program and strategy is primarily managed by an internal sustainability or ESG team, compared to 35% of North American corporate respondents.

The need for dedicated resource is clear, however strong communication is required to reduce the risk of efforts becoming siloed. Despite having a dedicated team, cross-departmental engagement is necessary to ensure ESG is fully embedded into existing business functions.

78%
of European corporate respondents have established a dedicated internal ESG working group or committee

Which department has primary responsibility for the company's ESG program and strategy?

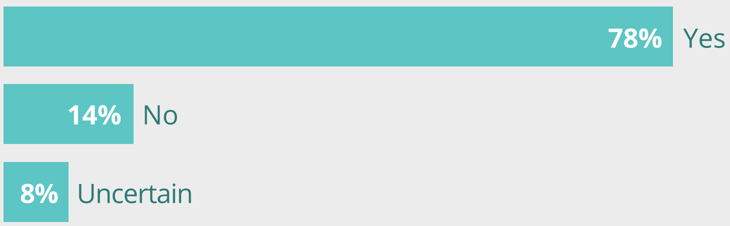
N= 49



Many companies are establishing a dedicated internal ESG working group or committee. These working groups allow businesses to implement and monitor the initiatives required to achieve long-term goals, while harnessing diverse skill sets and perspectives from across the company. Further, these groups help coordinate the data collection processes and ensure all parts of the business are appropriately represented.

Does your company have a dedicated internal ESG working group/ committee?

N= 49



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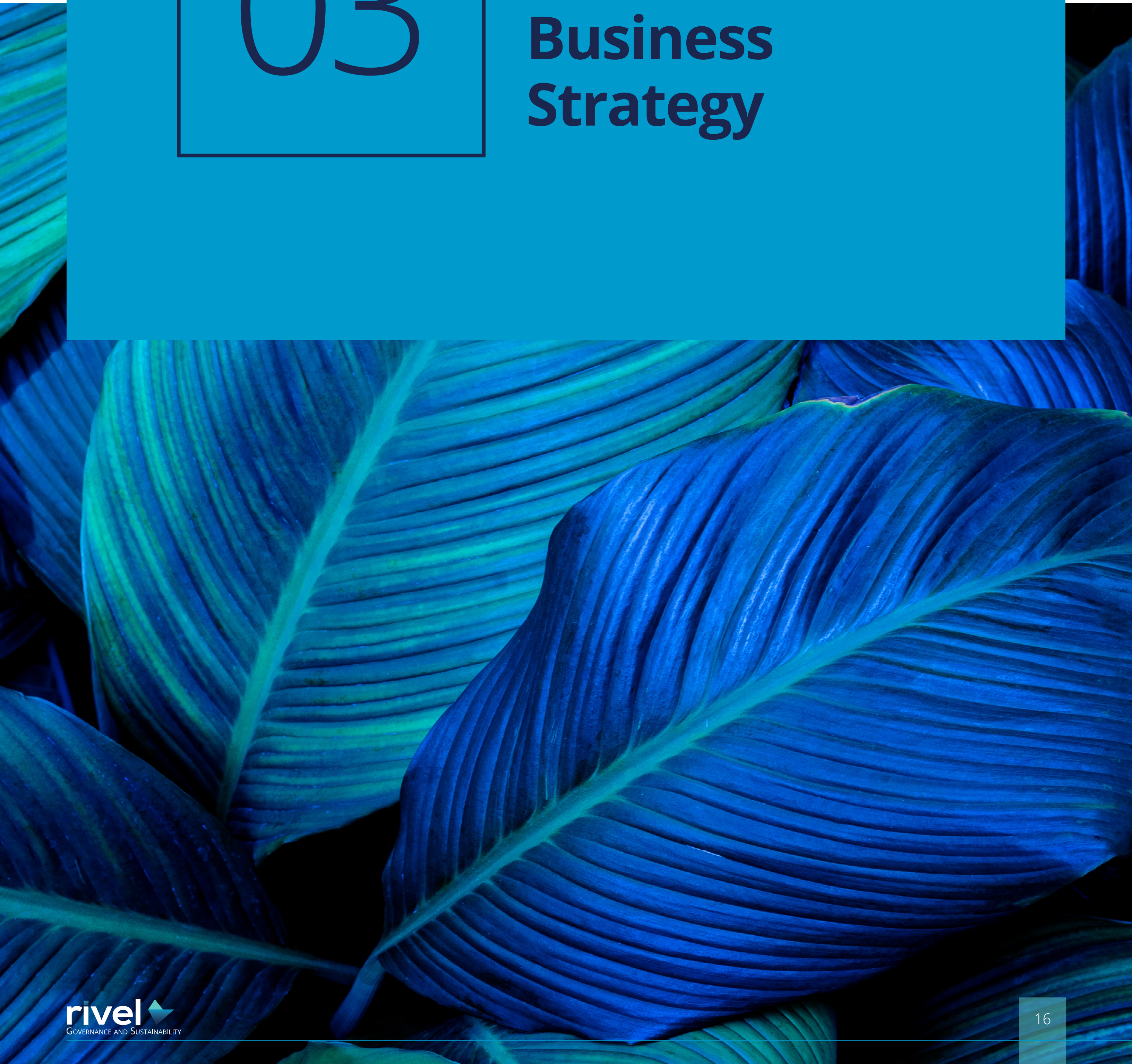
Developing a Resilient Business Strategy



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Developing a Resilient Business Strategy

Integrating ESG into Long-Term Corporate Strategy

As ESG grows in importance, it is increasingly integrated into existing processes and business strategy. For many companies, sustainability issues are naturally considered in decision making and financial planning, including through developing and engaging with employees, upholding strong ethics and governance practices, and improving efficiencies to reduce costs and boost productivity.

Where is your company increasing investment?

Environment-focused Initiatives	**84%**
Governance and compliance	**53%**
Social-focused initiatives	**42%**
Other	**0%**
Uncertain	**5%**

N=19*
*Among European corporate respondents reporting an increase in ESG initiative investments

Despite this connection to traditional business drivers, European corporate respondents present a mixed bag of responses when assessing the effectiveness of communicating the integration of ESG into their corporate strategy. Thirty-five percent (35%) of European corporate respondents believe their company is very effective at achieving this, with a mid-cap Head of Investor Relations stating, *“We have a fully integrated ESG strategy, where ESG not only defines the purpose of the company, but where all targets contribute to the achievement of the company’s strategy.”*

On the other hand, over half of European corporate respondents believe that, while they have made some progress when it comes to communication, there is still opportunity for improvement. *"I think we are quite good at this, but there is definitely potential to communicate better, and get our message out there,"* says Head of Investor Relations, mid-cap.

53%

of European corporate respondents believe that, while they have made some progress when it comes to communication, there is still opportunity for improvement

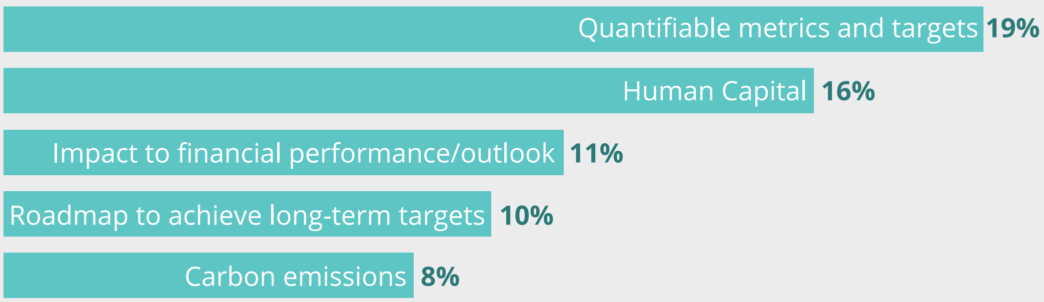
Conversely, a mere 11% of investors believe companies are effective in communicating how ESG is integrated into their long-term corporate strategy. This is up from 5% in 2022, but nonetheless, a small figure that shows the gap between companies' perceptions and those of investors.

This uncertainty between corporate and investor views is likely due to the lack of comparable and comprehensive ESG disclosures—an area that regulators and frameworks aim to address. Similar to traditional information used by capital markets, when it comes to ESG, investors want to see quantifiable metrics and targets, their impact on financial performance, and a roadmap to achieving long-term targets.

11%

of investors believe companies are effective in communicating how ESG is integrated into their long-term corporate strategy

Areas Companies Fail to Disclose When Communicating about ESG Practices



N= 63 investor respondents

> *The majority of ESG strategies that I see are generally very big, broad statements and include mission statements and all that sort of stuff. In reality, there's often very little discussion about how it works on a practical basis and how it's actually woven in the workplace.*
>
> \- Portfolio Manager, Europe

ESG Risk Management

Though a sound risk management process is increasingly required from a regulatory perspective, it is also an effective way for companies to build resilience and future-proof their business. Sustainability-related risks and opportunities have the potential to impact business performance, whether through regulatory restraints, physical climate risks, changing consumer expectations or increased supply chain challenges. For investors, the importance of understanding the impact of sustainability-related risks and opportunities has grown significantly and become an important quantifiable factor for assessing company value and allocating capital.

To ensure strategic resilience, companies must identify and assess the impact of ESG-specific risks and establish dedicated management processes. In fact, nearly nine in 10 European corporate respondents note that ESG is already integrated into their risk management process.

While almost one in 10 (9%) North American corporate respondents note that their company categorises ESG as a standalone risk, this is not the approach for any European corporate respondent. Instead, over half of European corporate respondents note that their company integrates ESG into risks that are already managed throughout the business. This approach enables companies to clearly connect ESG to business risk, translating into strategic initiatives and resiliency.

88%

of European corporate respondents note that ESG is integrated into the risk management processes of their company

As ESG is integrated in the company's strategy and operations, it is also included as a natural part of the risk management process.

–Head of Investor Relations, Mid-cap

ESG risk identification follows the same methodology as other risks, with a description of causes and consequences and an assessment at Group level.

–Head of Investor Relations, Mega-cap

HOW ESG IS INTEGRATED INTO A COMPANY'S RISK MANAGEMENT PROCESS

55%	Considered as a driver of various individual risks that are managed throughout the organisation
22%	Each component of ESG is considered as a standalone risk (e.g., a risk for E, S & G)
0%	ESG is categorized as a standalone risk
4%	We don't have a formal ERM process
10%	Other
8%	Uncertain

N= 49

Case study - Climate risk

Climate change is a complex global issue, making it an essential disclosure for companies spanning a range of industries and sizes, with many continuing to report against the Task Force on Climate-related Financial Disclosures (TCFD) framework under the encouragement of investors. The TCFD, which has now been incorporated into the IFRS S1 and S2, has also been used to develop a range of aligned reporting requirements, including within the EU CSRD, UK climate-related financial disclosures and SEC climate disclosure rule.

By utilising TCFD-aligned guidance, companies can integrate climate change into their management processes, identify and assess climate-related risks within, and in turn, develop disclosures as required.

One-third of European corporate respondents, the majority of which are large-cap companies, state that they have assessed the financial impact of climate-related risks.

This response to the more complex areas of TCFD demonstrates an unwillingness to be an early adaptor amongst smaller companies, as well as the challenges associated with additional resource and technical requirements. This is likely to change as TCFD-aligned reporting requirements are rolled out to more companies. Implementing all aspects of TCFD processes will aid companies in forecasting risks and preparing for emerging regulation globally.

WHEN ASSESSING CLIMATE-RELATED RISKS, WHICH AREAS OF THE FINANCIAL STATEMENT WHERE IMPACTED THE MOST?

33% Operational Expenses

27% Capital Expenditures

27% Revenue

7% Assets

0% Liabilities

7% Uncertain

N= 15
* Among those who have assessed financial impact associated with climate-related risk

14% of investors say that climate information currently disclosed by companies is useful to their ability to confidently analyse their climate risk and opportunities

Effective communication of climate risk resilience can also significantly impact market success—particularly through investor decision-making. Two-thirds (65%) of investor respondents say they incorporate climate change risks into all models, even non-ESG funds. Yet only 14% of investors report that climate information currently disclosed by companies is useful for confidently analysing climate risks and opportunities.

Climate risk is most often considered in qualitative analysis, but it also has implications on traditional financial modelling, such as impacts to forecasted cash flows or the growth rate. Communicating the integration of climate change into risk management processes should be viewed as a tool to link climate impacts to financial drivers.

04 Strengthening ESG Data & Reporting

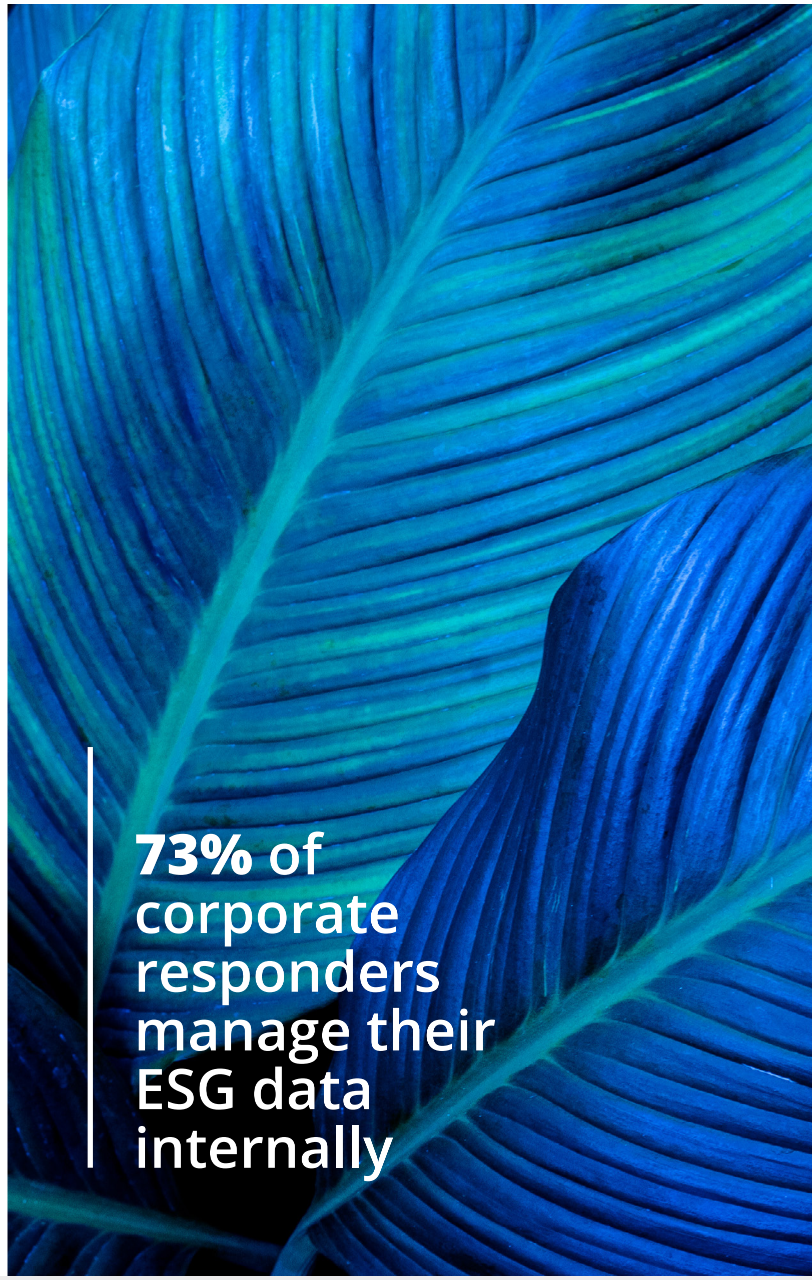
04

Strengthening ESG Data and Reporting

Measuring and managing data

With the introduction of enhanced reporting requirements, companies face the burdensome task of collecting, understanding and publishing an abundance of data. At the same time, they must ensure all data is auditable and verifiable, and provides a complete picture of relevant operations, all in a timely manner. This undoubtedly adds pressure as internal stakeholders balance already heavy workloads with even more resource requirements.

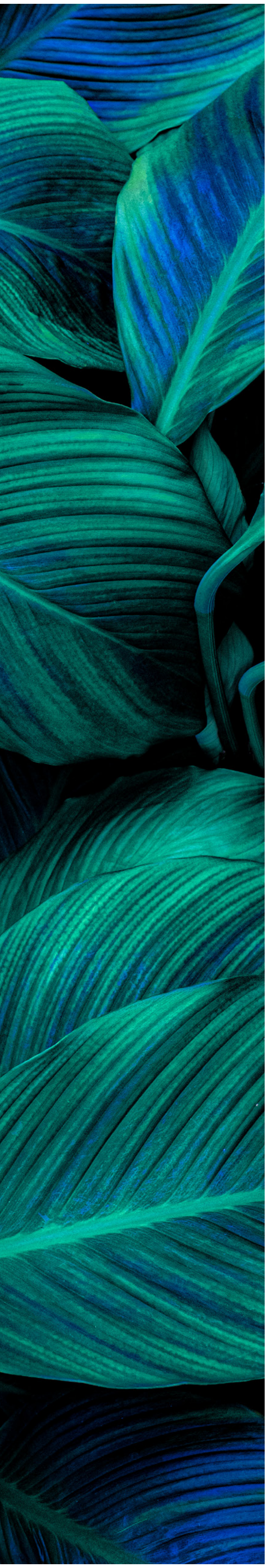
CSRD disclosures require a level of never-before-seen granularity, which will likely transform how companies collect and store sustainability data moving forward. Of European corporate respondents, 73% report that their company manages ESG data internally, both through a combination of Excel and internally built management tools.



How does your company primarily manage ESG data?

Internally ***(Net)***	**73%**
Internally manage (e.g. Excel)	47%
Internally built management tool (not Excel)	27%
Use an external platform	**10%**
Other	**12%**
Uncertain	**4%**

N=49



Interestingly, 25% of North American corporate respondents currently manage their ESG data through an external platform, compared to only one in 10 European corporate respondents. This is likely to increase as the demand for greater transparency and assurance of ESG data strengthens across the EU.

The ESG software industry is expected to experience an explosion in providers as support for companies collecting more complex data, including Scopes 1, 2 and 3 carbon emissions, is on the rise. Using a data management software can enable companies to develop processes aligning with those of traditional financial reporting. However, while companies can collect, store and manage information in a centralised manner, there is still a long way to go to advance the infancy of ESG data.

When asked how their ESG data management processes align with financial reporting, a North American Mid-Cap Small ($1B to 2.49B USD), Industrials respondent* noted, *"At this point, it aligns very minimally. We have a few ESG stats, but our current report is primarily qualitative, framing our ESG initiatives. I suspect, over the next few years, we will share several target metrics and greater alignment with our financial reporting."*

> ***We use [external provider] to gather ESG data for reporting purposes. While data is collected through many internal systems in the company, [external provider] is used to house data that ends up in our ESG report.***
>
> - Mid-Cap Small ($1B to 2.49B USD), Industrials, North America*
>
> ***We've only used the service for one reporting period. It's okay so far, but there are still some kinks to work out.***
>
> - Mega-Cap ($25B to 49.9B USD), Health Care, North America*

*Qualitative feedback is sourced by Rivel's Corporate Governance Intelligence Council as part of its Rapid Action survey series. Results of these surveys are representative of members' thinking on key governance and sustainability issues.

Value chain

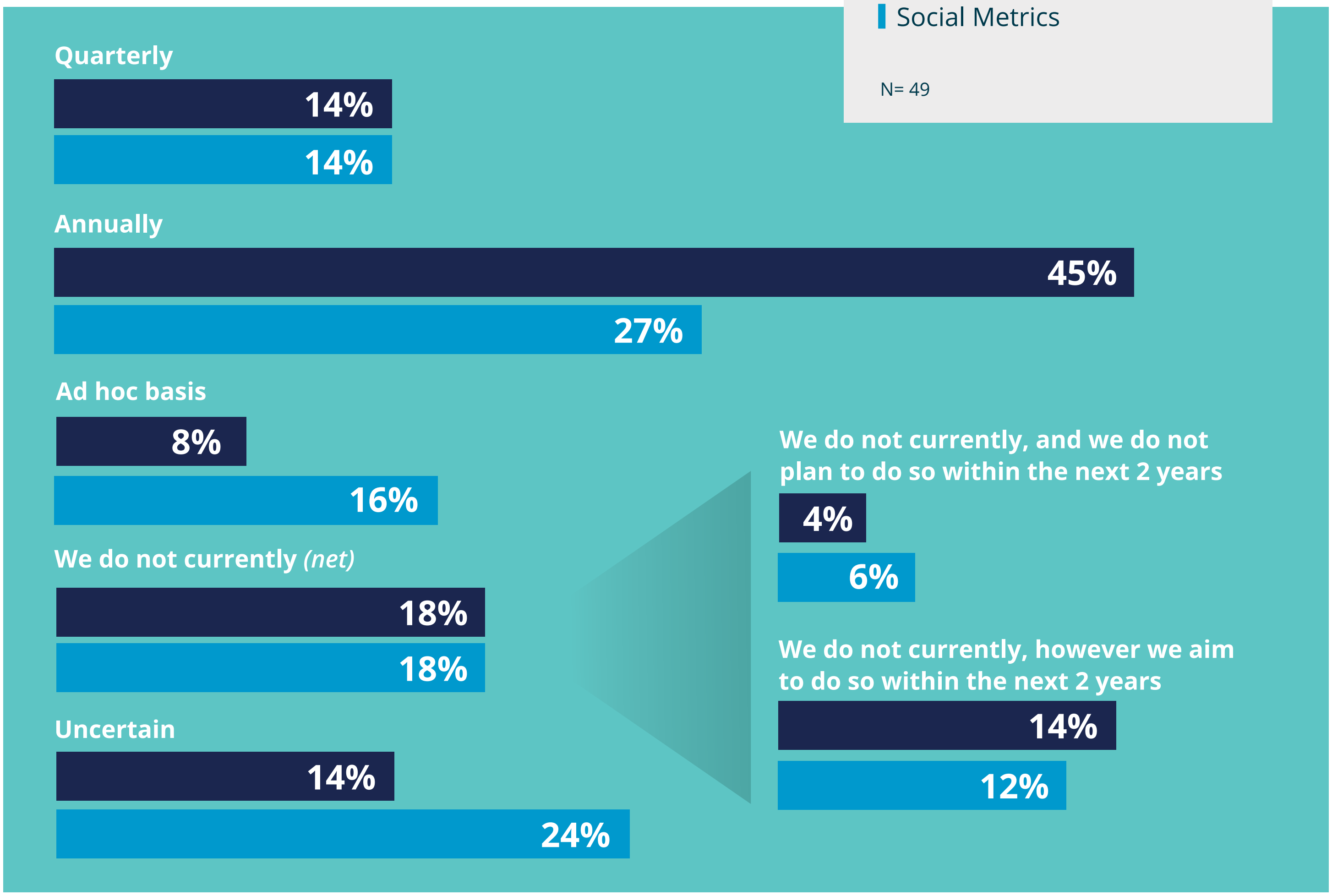
Assessing and understanding direct and indirect operational impacts is an important step for developing a strategy and prioritising efforts. As reporting expands, so too do expectations that companies monitor and manage social and environmental impacts across their entire value chain, especially under the newly adopted CSDDD.

Many companies have already started collecting value chain information on social and environmental issues, with those who do not expressing an aim to do so soon. This represents a substantial shift in the transparency and traceability of value chains, likely driven by the regulatory requirements and stakeholder expectations.

How often do you collect data across your value chain on both social and environmental issues?

Environmental Metrics
Social Metrics

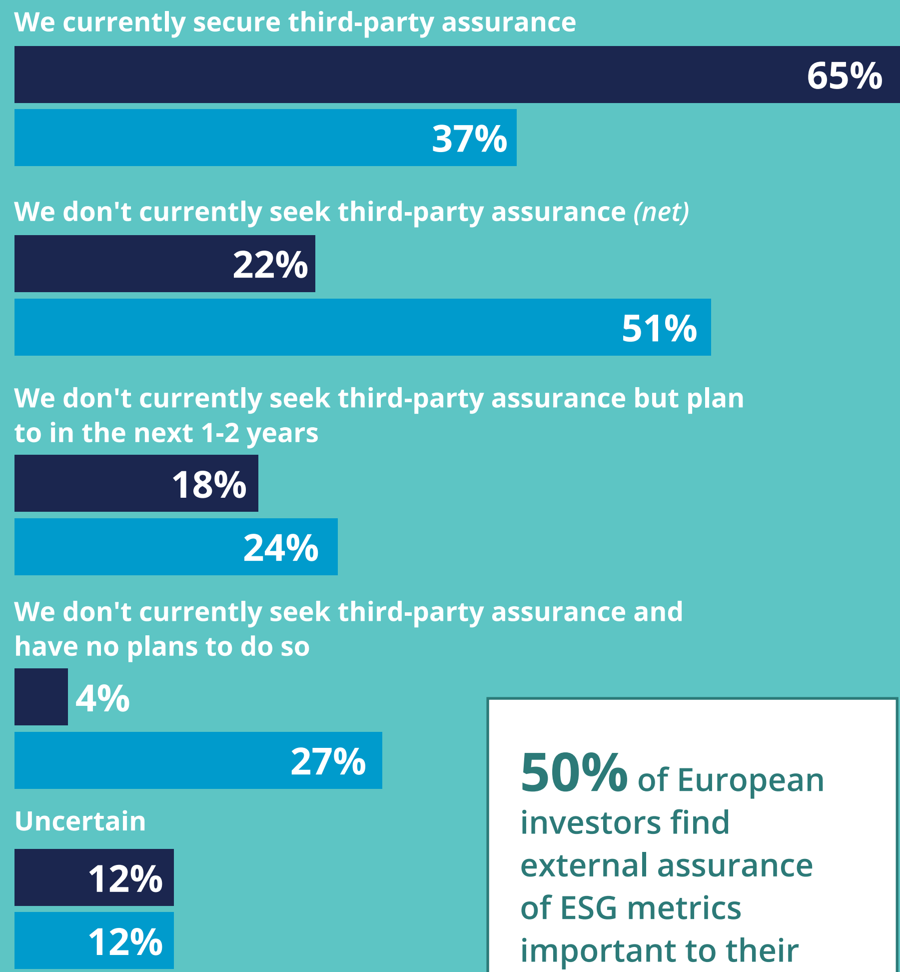
N= 49



Which of the following most accurately depicts how your company approaches gaining independent, third-party assurance for both environmental metrics and social metrics?

- Environmental Metrics
- Social Metrics

N= 49



50% of European investors find external assurance of ESG metrics important to their investment decision

Assurance of data

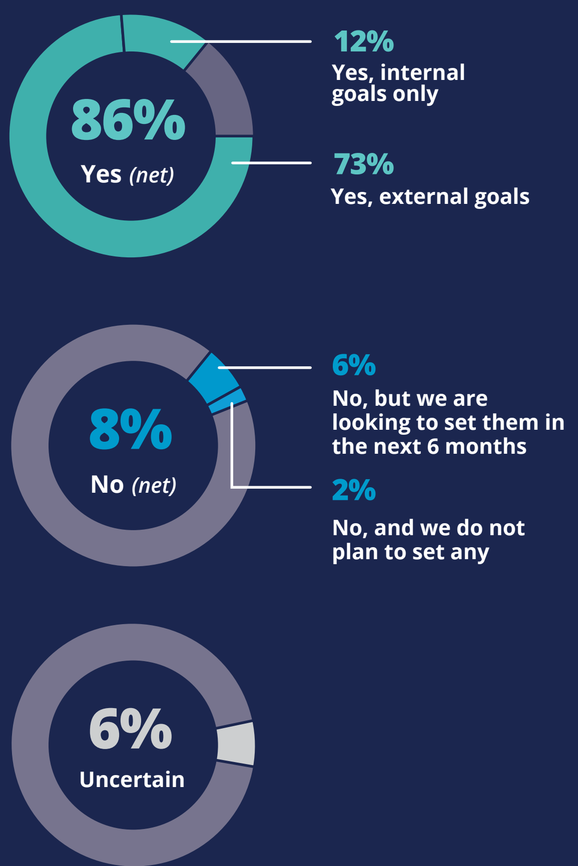
In a bid to enhance the accuracy and trust of data, the EU has introduced a requirement for third-party assurance under CSRD. This is a significant expansion of traditional ESG reporting, requiring the development of strong data collection and internal audit processes.

While assurance has historically only been undertaken by companies with a mature sustainability program, European corporate respondents commonly secure third-party assurance for both environmental (65%) and social metrics (37%). Although the data shows an enhanced focus on the collection of environmental metrics, companies should also consider and plan to secure assurance for all metrics determined to be material.

65% of European corporate respondents currently secure third-party assurance for environmental metrics

DOES YOUR COMPANY HAVE TIME-BOUND, QUANTITATIVE ESG GOALS?

N= 49



Which category best describes your company's time-bound, quantitative ESG goals?

Environment-focused	93%
Social-focused	76%
Governance-focused	38%
Uncertain	2%

N=45

*Among companies with or plan to introduce time-bound ESG goals

ESG Target setting

Measurement alone is no longer enough—companies must demonstrate strategic ability to manage increasing risks to their business and reduce their impacts, as expectations for companies to commit to clear targets continue to grow. As a result of these expectations, 86% of European corporate respondents have set time-bound, quantitative ESG goals, with the majority of those without targets aiming to set them within the next six months.

Environment-focused targets remain the most common amongst companies, with 93% of European corporate respondents who have set or plan to set time-bound quantitative ESG goals, having set an environment-focused ESG goal. Of these goals, the most common are climate targets, such as Scope 1, 2 or 3 emissions reduction, net zero, or carbon neutral targets.

While setting a target is a valuable step on one's ESG journey, it is important that companies truly understand the full implications of doing so. For targets to be useful, they must be appropriate and achievable for the company size, location, and nature of operations.

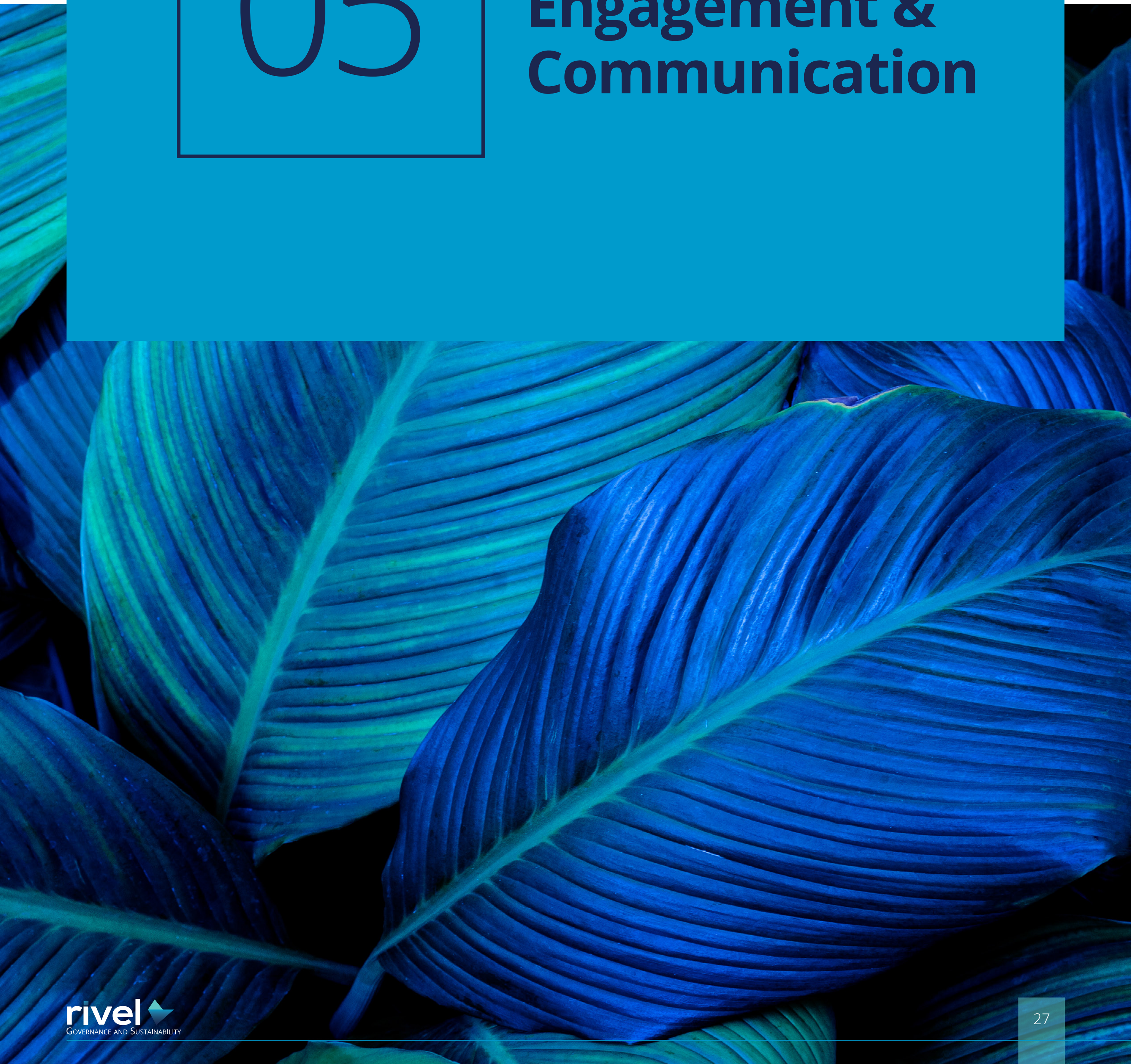
Companies should always take time when committing to targets, leaning on internal expertise as well as industry guidance and recommendations. Setting targets requires careful planning and execution and should be driven by several years of comparable data to ensure the company fully understands its direct and indirect impact.

86%

of European corporate respondents have set time-bound, quantitative ESG goals

05

Enhancing Engagement & Communication



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Enhancing Engagement & Communication

> *"On a regular basis, we ask investors which data providers and ESG indices they use. This helps us assess which providers and indices are the most important ones. We are inundated with requests but have limited time."*
>
> –Head of Investor Relations, European Mid-cap

ESG data requests

Companies have seen a recent rise in ESG data requests from third parties. Of the requests received, the majority of European corporate respondents report that they most commonly dedicate time to responding to rating agencies, investor-specific surveys and ESG indices.

With the influx of requests, many companies find it difficult to allocate and dedicate resources, and therefore must prioritise their responses.

European corporate respondents consider many factors when deciding which third-party surveys to respond to, including most commonly by evaluating the relevance of the data request, both to the company and wider stakeholders. Many also note the source of the request and time commitment also contribute to their decision to participate.

One mid-cap North American Senior Board Liaison and Subsidiary Compliance Officer acknowledged their company, *"determine[s] if there is a benefit to us, our shareholders, or our customers by participating."* While another North American mid-cap Sustainability Manager evaluates, *"It's visibility, which stakeholders are requesting, if our peers are also participating."*

For companies seeking a strategic approach, they should consider developing a hierarchy of responses or employing a classic decision tree to identify which surveys are opportunities for clarity and which are more effort than they are worth.

Does your company respond to the following third-party surveys/requests for ESG information?

Any (net)	**90%**
Rating agencies (e.g., MSCI, ISS)	82%
Investor-specific surveys (e.g., surveys from individual investors)	76%
ESG indices (e.g., Dow Jones Sustainability Index)	65%
Investor coalitions (e.g., Workforce Disclosure Initiative, etc.)	29%
Data providers (e.g., ESG Book)	22%
None of the above/ Uncertain	**10%**

N=49

> *"Service as well as the time spent answering, as many services request far too much and granular data that is very often not relevant for your industry."*
>
> –Head of Communication, European Mid-cap

Investor engagement

Companies and investors have long understood that ESG performance impacts investor decision-making.

Investors crave decision-useful, comparable information about a company's sustainability initiatives and performance, with more than two-thirds (71%) of investor respondents noting they use ESG information throughout their analytic process.

This represents a substantial increase from last year's survey, demonstrating a shift from their historic use as a secondary screen after financial fundamentals. As one North American buy-side analyst explained, *"It's part of the initial idea generation and it's throughout our holding we're looking at a company. It's not behind or separate from financial analysis."*

92%

of European corporate respondents believe that their company's ESG performance affects its valuation materiality assessment

When ESG is Integrated into Company Evaluation

	2023	2022
Throughout the analytic process	71%	57%
During the preliminary company analysis	9%	9%
During the secondary screen after reviewing financial fundamentals	9%	23%
Uncertain	5%	-

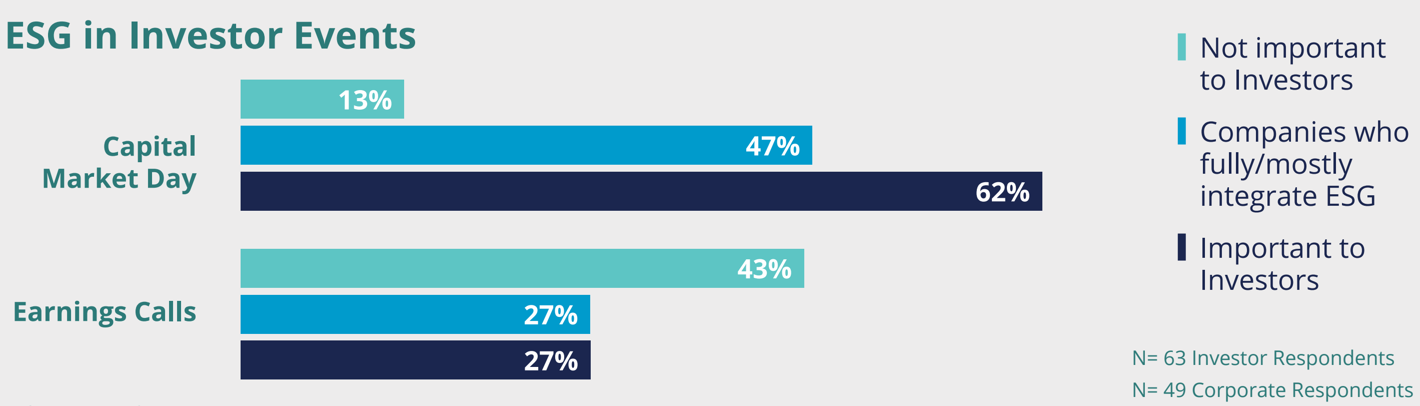
N=63 Investor Respondents, 2022 N=53 Investor Respondents

Investor respondents most often identify a company's sustainability report as the most useful source for evaluating ESG risks and opportunities (38%). Investors want to review a company's metrics, targets and goals, as well as understanding how these relate to the overall business strategy. These are all important building blocks for an effective sustainability report.

Inclusion of comparative data within sustainability reports—in particular carbon emissions—can support clear communication. This is noted by one European ESG/Corporate Governance Specialist who remarked, *"Carbon emissions is pretty useful, basically, because it's a signal number, so it's quite easy to compare one with another. It depends on the company, of course, but that's something that's relevant to all companies that you can compare across all companies and where there's good data to make the comparison."*

In addition, investors also welcome the increase in consistent and precise disclosures as TCFD-aligned frameworks gain global prominence. Companies reporting against the TCFD structure enable investors to foresee the current and future climate risks and opportunities across their portfolio.

Along with insights gathered from these reports, a majority of investor respondents (62%) recognise a company's Investor Day as an important opportunity to discuss ESG. Investors want to hear about ESG strategy, goals and metrics in the context of the long-term operational strategy. As companies prepare for upcoming Investor Days, they should consider embedding elements of their ESG story into an authentic storytelling narrative.



> *Talking with management is always important in finding out what's going on with the company. Whether that means that it's a positive thing for finding out anything about ESG is a different matter. It's critical for management. What they do is they establish someone called an ESG officer or whatever, and they're not connected in any way to the rest of the company, and it's bland. Management is vital.*
>
> –Portfolio Manager, Europe

> *Each investor wants to discuss a different topic within ESG, and it is sometimes very hard to arrange an 'ESG' meeting as there is no strict 'ESG blueprint'.*
>
> –Head of Investor Relations, Mega-cap
>
> *Lack of standardised framework creates extra discussion on critiquing adopted approach, rather than the discussion on progress.*
>
> –Head of Investor Relations, Mega-cap

If approached thoughtfully and strategically, engagement with investors presents several opportunities for companies to highlight strong governance controls and internal expertise, as well as assisting in overcoming negative stakeholder sentiment and driving operational development. Eighty-six percent (86%) of European investors believe engagement with a company's management team is useful when trying to improve their understanding of the company's ESG risks and opportunities.

However, not all companies experience smooth sailing when it comes to engagement. Many European corporate respondents report limited investor understanding and a lack of standardisation of ESG requests to be the biggest challenges when communicating with investors. This demonstrates that, even where reporting is strong, there is a need for focused ESG engagement between the company and investor.

By upskilling and educating existing members of the investor relations team, companies can level-set understanding around ESG priority topics and provide clarity on company initiatives and performance. This, along with analysing investor issues unique to their industry and peers, can help companies prepare and prioritise effective engagement and ensure alignment between investor expectations and company efforts.

CONCLUSION

With the new mandates on ESG reporting, pressure on companies to integrate sustainability into existing processes is growing. One thing is clear: whether from third-party requests, regulatory mandates or stakeholder pressure, a holistic ESG strategy is more important than ever. Companies must now mitigate emerging risks while attempting to seize the opportunity to accelerate their market position through a proactive ESG approach.

Findings from our research highlight today's sweeping ESG challenges and provide insights into how companies address them. Through the development of governance and risk management processes, companies must expand on traditional business practices, and develop a robust strategy for resilience in a 2050 carbon-neutral Europe.

ABOUT RIVEL, INC.

Since 1991, Rivel has been advising management teams and boards on how aligning attitudes and behaviors of key stakeholders can make the difference between success and failure in their business. Rivel works with two-thirds of the S&P 100 and over half of the S&P 500, and companies across six continents.

RIVEL HAS FIVE AREAS OF FOCUS

TrendLign
Investor perception research conducted within the investment community

StoryLign
Investor presentations and investor day messaging and design

GuideLign Intelligence Council
Investor communications best practices and advisory

Governance and Sustainability
ESG consulting, corporate governance advisory and Board evaluations

CXLign Banking
Research conducted among bank customers and prospects

RIVEL GOVERNANCE AND SUSTAINABILITY

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- ESG communications strategy
- Investor and stakeholder engagement strategies
- Ratings agency analysis and response
- Full suite of design and content copywriting and creation services
- Global regulatory landscape readiness assessment and guidance
- ESG investor perception studies
- TCFD and climate risk mapping

Appendix – Acronyms and Terms

Emissions targets: Measurable goals set by an organization to achieve specific emissions reduction metrics as a commitment to limiting climate change.

Net-zero commitment: When, through its operations, an entity does not add to the concentration of emissions in the atmosphere. Net-zero is achieved through a balance between GHG emissions produced and emissions taken out of the atmosphere.

GHG emissions: Greenhouse gas (GHG) emissions from human/business activities that contribute to climate change.

Scope 1: Emissions generated directly by the company on-site, such as through a boiler or vehicle fleet.

Scope 2: Emissions created indirectly through the purchase of electricity from a utility.

Scope 3: Emissions created indirectly through the company's value chain, such as business travel, logistics, and purchased goods.

TCFD (Taskforce on Climate-related Financial Disclosures): A framework designed to help companies provide decision-useful information on risks and opportunities presented by climate change.

Survey Methodology

This paper integrates survey data from three comprehensive studies completed by Rivel during the latter half of 2023. The studies were designed to provide a comparative framework of ESG attitudes and practices between issuers and institutional investors and deliver research-based insight to help guide corporate strategy in this evolving domain.

Rivel surveyed 49 EU and UK corporate respondents, as well as 158 North American corporate respondents. It is an exhaustive examination of corporate ESG policy, practice and structure. The second study is highly focused on North American and European institutional investors' ESG investment criteria and expectations. It is predicated on 63 in-depth telephone interviews among a broad, purposive sample of buy-side investment professionals of which 95% are predominantly active managers. Telephone interviewing, conducted by Rivel's elite cadre of executive interviewers, was chosen to ensure accuracy of respondent selection as well as to afford investors the opportunity to expound on their views and evaluations in open-ended discussion.

When examining meaningful differences among corporate respondents according to the size of their company, they are segmented into three groups by market capitalisation: Large-cap ($10B+), Mid-cap ($2B-$9.9B), and Small-cap (<$2B). Due to questions where multiple responses are acceptable and/or computer rounding of data, percentages may not always add to 100%.

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For more information, please contact the Governance and Sustainability team.