White Paper

DEKRA Sustainability Services: We Help You to Develop Your ESG Competencies

Sustainability have become indispensable drivers of strategic value. Developing ESG competencies and recognising the impact of business activities boost competitiveness and help reduce risks and costs. Applying globally proven standards, DEKRA supports organisations in identifying and prioritising appropriate performance indicators for sustainable development and in reporting accurately in accordance with current requirements.

We help you to develop your **ESG competencies**

Table of **contents**

We help you to develop your **ESG competencies**

New **Framework**

The rising number of ecological, social and economic crisis events is changing the concept of sustainability and raising the importance of assuming social responsibility. The implementation of many frameworks (e.g. Agenda 2030 with its 17 SDGs) was generally voluntary in the past, however a significant number of countries are now adopting a much more restrictive course.

- Europe has its Green Deal and has declared its intention to have no net greenhouse gas emissions from 2050, and thereafter be climate neutral.
- The EU is strengthening the reporting requirements for sustainability information with the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy. They are gradually being raised to the level of financial reporting for a large number of companies.
- The USA's Inflation Reduction Act is strongly promoting renewable energy technologies, as is China, which is tightening its environmental laws.
- Beyond its oil and gas sales, the United Arab Emirates is planning for a fossil-free future.

ESG system catching on

Companies and their sphere of influence in the form of their supply chains are at the centre of the sustainability transformation. The corporate social responsibility (CSR) approach – which is still widespread among many companies, and which focuses on social commitment, the carbon footprint and fair working conditions at their partners and suppliers – does not go far enough. The ESG concept with its three action areas is increasingly gaining acceptance worldwide: “Environmental (E)”, “Social (S)” and “Governance (G)”. Behind these aspects (first put forward by the UN in 2004) is the understanding that corporate activities have both positive and negative impacts on the environment, on labour and on business relations. Recognising, prioritising, continuously reassessing and reporting accurately on these impacts within an enterprise's own operations – these are what modern sustainability management now demands.

The key purpose of the standards – to keep track

Many of the standards currently being developed by various bodies are no longer principle-based (UN Agenda 2030 with 17 Sustainable Development Goals/SDGs), but specify concrete topics and aspects instead. The Corporate Sustainability Reporting Directive (CSRD), which came into force in Europe in 2023, the EU Taxonomy and the Supply Chain Sourcing Act are current examples of the increasingly mandatory reporting of non-financial factors and sustainability information. The CSRD will directly affect around 50,000 companies in Europe in how they present their ESG activities in the management report of their annual accounts. However, this direct reporting obligation is accompanied by a further indirect obligation which extends to the business partners of the supply chains. This in turn will increase the scope of the topics covered.

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Challenges and Risks **in Practice**

Stricter regulations, transparency requirements in financing, and tighter emission targets in the supply chain are just some of the considerable challenges involved in planning and managing sustainable business activities.

Sustainable corporate governance must focus not only on short-term performance but also on long-term resilience. Business partners and regulators are demanding greater transparency from organisations about the contribution they are making, or plan to make in the future, to improve their sustainability levels in the environmental, social and governance (ESG) fields.

Global supply chains are under pressure due to the scarcity of resources, geopolitical crises and the consequences of climate change. Transparent measures to strengthen sustainability increase resilience in a complex risk environment.

Sustainable business promotes good risk management – through a deeper understanding of environmental, social and economic risks in supply chains:

- **Transition risks** arise from the social and economic changes made as we move towards a climate-neutral society. These include political/regulatory risks, costs, extra charges, technology and market risks. If they are to manage transition risks, companies need to address their sustainability, reduce vulnerabilities in the supply chain and develop new capabilities for transitioning to a low-carbon economy.
- **Physical risks** relate to the actual events caused by climate change such as heat waves, fires and floods. The effects of longer-term trends (e.g. rising sea levels, rising temperatures) must also be taken into account. The aim is to identify and minimise disruptions and potential disruptions to the supply chains which could jeopardise the business model.
- **Transparency risks:** Manufacturers are increasingly looking for suppliers that incorporate environmental, social and governance (ESG) aspects into their operations. Reporting will gradually be expanded and accorded the same status as mandatory financial reporting for most companies in the EU by 2028. Companies that do not provide transparent reporting will be at a competitive disadvantage.
- **Misadaptations:** These risks arise from ignorance or misjudgement of the business context in relation to sustainability. An inappropriate target will increase the company's susceptibility to crises rather than decrease it. It is therefore important to ensure that activities are properly prioritised and can be performed using existing capabilities and appropriate processes in the value chain.

The key question is: How can enterprises – regardless of their size and sector – professionalise their sustainability management without overextending themselves?

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Standards and Norms **for Sustainable Development**

Reporting is a key lever of effective sustainability management. As a consequence, new regulations increasingly focus on disclosure requirements. The frameworks that have been established over many years and enjoy a global consensus provide valuable support in selecting the relevant topics and preparing the organisational processes for them.

Two key questions regarding reporting: WHAT to report – and – HOW to report?

The starting point for all sustainability standards are the 17 Sustainable Development Goals (SDGs) published by the United Nations (UN) in its 2030 Agenda in 2015. The SDGs replaced the UN Millennium Development Goals for the period from 2000 to 2015 and now form the framework for global activities for a fairer, healthier and greener world.

The broad range of topics covered by the SDGs – such as poverty, health, climate change and environmental degradation – were initially aimed at governments, politicians and NGOs. However, it became clear that the goals can only be achieved in conjunction with companies. This gave rise to the UN Global Compact. It is based on the 17 SDGs. Around 23,400 companies and organisations have already aligned their sustainability activities with the UN Global Compact.

WHAT to report?

The following frameworks represent a global consensus. They meet the professional interests of many stakeholders and reflect the aspirations set out in the global regulations.

- **UN Global Compact**
  10 universal principles covering the areas of Human rights, Labour, Environment & Climate and Anti-corruption. Building on the principles, companies are able to promote the UN's 17 Sustainable Development Goals (SDGs) by making concrete adjustments to their operational processes.

The 17 SDGs include: No poverty (No 1.), Clean water and Sanitation (No .3), Sustainable cities and communities (No 11), Responsible consumption and production (No 12), Life below water (No 14) … These main goals are specified in detail in 169 targets and 232 indicators.

- **ISO 26000**
  Published back in 2010, the standard is the only reference framework that has been developed and recognised at the international level, and that all organisations can use as the basis for aligning their sustainable business activities. There are 7 key principles and 7 core subjects. ISO 26000 is not a certifiable standard, but is intended to be incorporated in a wide range of mandatory regulations.

7 key principles: Accountability, Transparency, Ethical behaviour, Respect for stakeholder interests, Respect for the rule of law, and Respect for international norms of behaviour and Respect for human rights.

7 core subjects: Organisational governance, Human rights, Labour practices, Environment, Fair operating practices, Consumer issues, and Community involvement and development.

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- **Corporate Sustainability Reporting Directive (CSRD)**
  The Corporate Sustainability Reporting Directive (CSRD), which came into force in 2023, brought about a paradigm shift from voluntary to mandatory sustainability reporting within the EU.

  The CSRD replaces the NFRD (Non-Financial Reporting Directive) and focuses on the standardisation and comparability of sustainability information for investors and stakeholders in the value chain. Previously, public-interest entities with more than 500 employees (listed companies, banks, insurance companies and certain organisations) were required to report under the NFRD. The CSRD is gradually extending the reporting obligation to many companies with 250 or more employees and listed small and medium-sized enterprises (SMEs).

The principle of double materiality is a new aspect: Companies must provide information on the impact of their activities regarding sustainability (environmental, social, human rights, governance issues) but also explain which aspects (potentially) have a negative or positive impact on the company's business performance and situation.

Minimum requirements:

- Descriptions of business model and corporate policy in terms of sustainability
- Material (actual and potential) negative impacts of the company with regard to sustainability
- All measures to identify, monitor, prevent, mitigate or remedy the negative impacts
- Material risks to which the company is exposed in connection with sustainability aspects and the management of these risks.
- Key indicators required for the aforementioned disclosures

HOW to report?

The notion of sustainability is subject to political and economic change. As a consequence, the reporting requirements and expectations change depending on the country, industry, type of company and the stakeholders. For many years now, the Global Reporting Initiative (GRI) has provided a globally established framework for non-financial reporting and the preparation of sustainability reports. The GRI has been developing comprehensive standards for companies, governments and NGOs since 1997. To date, over 15,000 organisations have published their ESG information in accordance with the GRI standards.

- **Global Reporting Initiative (GRI)**
  According to the GRI standards, the aim of sustainability reporting is to create transparency on how an organisation contributes, or intends to contribute, to sustainable development. Any organisation, regardless of its size, type, geographical location or reporting experience, can apply the GRI standards to report on its impact on the economy, the environment and people, including its impact on human rights.

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Updated in early 2023, the GRI Standards are a system consisting of three GRI Universal Standards, the 40 GRI Sector Standards applicable to specific sectors, and the GRI Topic Standards. The three Universal Standards apply to reporting, whereas appropriate industry standards specify the individual topics to be used. The Topic Standards thus cover a wide range of material topics and contain information on how to report on the impact of specific topics.

- **GR 1** sets out the reporting requirements and principles for reporting on the organisation's most significant impacts on the economy, the environment and people. The focus is on the "key concepts": These are impacts, material topics, due diligence and stakeholders, which help to determine the most significant impacts.
- **GR 2** provides information on the organisation, reporting practices, activities/value chain, employees, governance, policies/strategy and stakeholder engagement. The aim is to enable the organisations to assess the profile, scale and impacts of their organisation.
- **GR 3** provides step-by-step guidance on how to determine material topics. These include details of how to report on the determination of material topics and how the topics have been managed. Material topics are the topics that represent an organisation's greatest impacts on the economy, environment and people, including on their human rights.

- **European Sustainability Reporting Standards (ESRS)**
  The CSRD came into force in January 2023. At the same time, the EU launched the ESRS as a new standard for sustainability reporting. With the CSRD, the EU sets EFRAG's European Sustainability Reporting Standards (ESRS) as a binding reporting standard. On June 30, 2023, the standard was adopted by the European Commission and became a legal requirement for the CSDR reports from January 1, 2024.

The GRI and ESRS cover comprehensive environmental, social and governance aspects, including climate change, biodiversity and human rights. However, the ESRS additionally obliges companies to publish key performance indicators, such as the disclosure of greenhouse gas emissions under Scope 3. Scope 3 includes all (not only material) indirect emissions that arise within the company's value chain.

Because the ESRS standard initially only applies to the EU, it does not replace the globally applicable GRI standards. In addition, the Global Reporting Initiative and the standard setters of the ESRS (European Financial Reporting Advisory Group) collaborate, which means that elements from the GRI standards are likely to be adopted in the mandatory EU standard.

The EU Commission emphasises that there are large areas of topical overlap between the EU's standards and their global equivalents, such as the GRI standards. If an organisation has already published a stand-alone sustainability report, it does not need to provide the same information under GRI. Thus, for any required disclosure, reference can be made to the existing disclosure published elsewhere (website, management report, etc.).

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Added Value Through **DEKRA Sustainability Services**

DEKRA supports companies on the basis of proven standards and, where applicable, of existing management systems to identify and prioritise their own performance indicators for sustainable development and also to communicate these KPIs correctly in line with the future requirements. Using the modular audit approach, DEKRA experts analyse the sustainability maturity level (in accordance with ISO 26000), carry out the independent review of reporting (in accordance with GRI) and offer an individual ESG Insight Assessment to unlock sustainability potential for the client and reduce risks.

Anyone who concerns themselves with the principles, topics and requirements needed to ensure the sustainable orientation of an organisation’s business activities will see the numerous overlaps between the standards and the management systems in the areas of quality, energy and environmental management, occupational health and safety and business continuity.

Third-party verification helps companies ensure that their focus is on meeting their essential and achievable sustainability goals. In addition, potential risks associated with sustainability reporting must be identified and mitigated.

DEKRA experts bridge the gap between established standards and the latest requirements using three modules: 1. ISO 26000 Maturity Assessment, 2. GRI Reporting Verification, 3. ESG Insight AssessmentWHAT to report – and – HOW to report?

- Independent verification increases the trustworthiness of the sustainability assessment among stakeholders, including investors, customers and regulators.
- Companies identify which sustainability topic they have the most leverage over in terms of products, employees, production processes, suppliers, etc.
- The modules help companies align their sustainability activities with international benchmarks.
- The reporting processes are made robust and reliable, and it is ensured that they meet the relevant standards.
- Verified reporting sets a company apart from its competitors and positions it among the sectors that already demand compliance with extensive sustainability performance targets in their supply chains.
- Risk management is strengthened by the focus on key sustainability aspects.

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1. ISO 26000 Maturity Assessment

A comprehensive ISO 26000 assessment of corporate social responsibility activities helps to evaluate and review the impact on society, the environment and stakeholders. Their global experience with management systems qualifies the DEKRA auditors to verify accurately whether the selected objectives and measures are effectively integrated into the organisation's processes and fulfil the reporting requirements.

The assessment consists of 4 stages. Step by step, it is established whether the company recognises its social responsibility, incorporates it into its operational processes, communicates it effectively, and subjects it to continuous improvement in line with the principles of the standard.

1 **Pre-Assessment:** Based on an expert questionnaire, the company can assess whether it is ready to undergo the assessment aimed at determining its level of maturity or whether consultation is required beforehand. A company is deemed ready when 75 per cent of the requirements are met.

2 **Maturity Assessment:** The assessment measures the organisation's performance and its potential for improvement in terms of responsible behaviour. The rating is based on a maximum total score of 1,000 points distributed over 5 maturity levels.

3 **Follow-up Assessment:** An assessment is conducted every 12 to 18 months to resolve any shortcomings and improve the rating.

4 **Next Level:** The combined results of the GRI verification, the ISO 26000 Assessment and/or ESG Insight Assessments yield a permanently high level of maturity and resilience in the sustainability activities.

The maturity level is determined based e.g. on the following aspects:

- Is the selection of topics to improve the perception of social responsibility appropriate and is it accorded a high priority?
- Were the specific characteristics of the company, its structure, sites and employment structure taken into account in the sustainability activities?
- Has the impact of the operational activities on stakeholders already been assessed?
- Are the goals integrated into the organisational management and operational processes?
- Are the core topics and action areas discussed and shared with stakeholders and interest groups.

Each core subject of the standard – organisational governance, human rights, labour practices, environment, fair operating practices, consumer issues, community involvement and development – includes concrete descriptions of how it is put into practice. A total of 37 action areas are considered in the assessment.

The assessment also enables companies to use a PDCA (Plan, Do, Check and Act) cycle to ensure that their operational processes are appropriate for increasing their social responsibility and sustainability.

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2. Reporting verification based on GRI

DEKRA verifies that the company's reporting on its most significant impacts on the environment and people is accurate. The main focus is on the reporting of verifiable information such as KPIs, strategy, targets, measures, and whether the formal requirements of the GRI Standards are met.

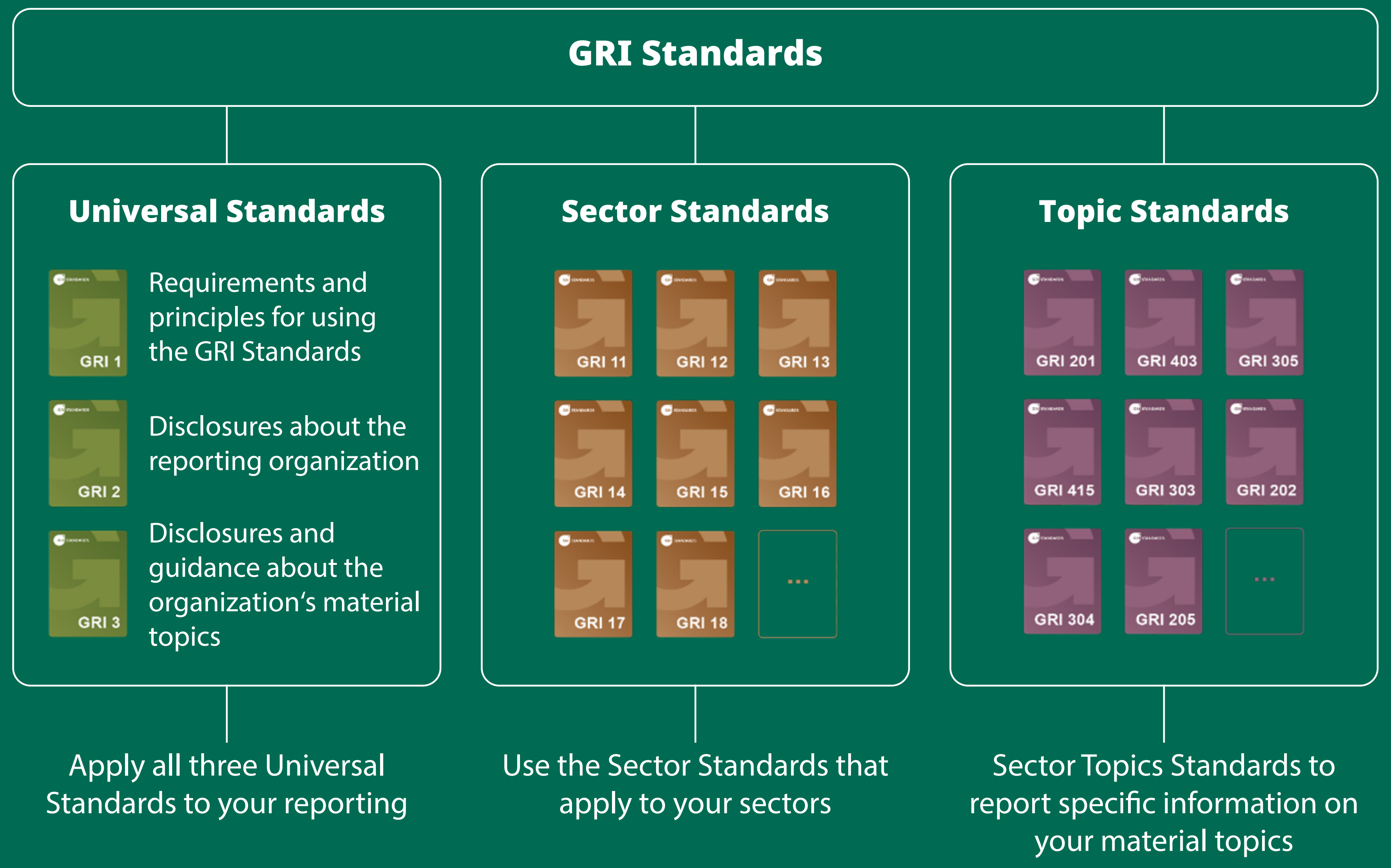
Examples of material ESG topics

Organisational profile
Strategy, ethics, leadership, stakeholder engagement, reporting approach
Business model, business success, market presence, purchasing process, direct and indirect impacts, anti-corruption, anti-competitive behaviour

Environment
Responsibilities, activities, control of energy, resources, emissions, waste, water, biodiversity, compliance with environmental regulations, environmental performance of suppliers

Social standards
Employee issues, health and safety at work, education and training, diversity, non-discrimination

The GRI Standards are based on the Universal Standards and the relevant processes for identifying material topics and their main impacts. The detailed requirements of the respective topic standard previously defined as material under GRI 3 (e.g. water and waste, energy consumption inside/outside the organisation) are to be used for reporting.



Optional	Limited assurance	Reasonable assurance
Depth of controls	Small sample size	Systematic audit of the risk assessment
Degree of certainty	Audit based exclu-sively on documents.	More exacting criteria for evidence, site visits, own analyses
Degree of credibility	Accepted	Greater credibility

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3. ESG Insight Assessment

With ESG becoming a vital factor in decision-making for stakeholders, the DEKRA assessment empowers companies to navigate this intricate terrain, enhance credibility, and foster positive societal impact while achieving their business objectives. Organisations can use ISO 26000 or the GRI standards to fulfil their information obligations towards business partners, thus preparing them for further regulatory reporting obligations.

As a holistic approach, the ESG assessment provides valuable information for effective integration into operational processes. The assessment addresses the environmental, social and governance performance of the company and combines the requirements with other established management systems. The experienced professionals will analyze the operations, policies, and performance metrics to provide insights for improvement.

Synergies with management systems:
The new findings and sustainability goals can be integrated into quality management or, if applicable, other existing management systems such as ISO 50001 (energy management), ISO 14001 (environmental management), ISO 14064 (greenhouse gases /GHG protocol), ISO 45001/45003 (occupational health and safety/mental health).

Synergies with risk management systems:
The assessment not only improve the organisation’s maturity and resilience to supply chain risks. In addition, the overall analysis provides the company with sound validations to mitigate supplier risks. These are not limited to sustainability risks but can also be derived from the operational processes.

Benefits

Companies are developing a more comprehensive understanding of their overall ESG performance. On the other hand, many investors and financial institutions consider ESG performance as a key component when making decisions.

- Strengthen workforce and consumer loyalty
- Implement fair operating practices
- Access capital with a positive ESG image and proven results
- Ensure compliance with existing and emerging environmental and social regulation
- Proactively manage risks and align operations with regulatory requirements
- Avoiding legal challenges and regulatory non-compliance penalties
- Develop sustainable products, services and processes for competitive edge

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4. Supply Chain Risk Management Services

DEKRA Supply Chain Risk Management (SCRM) services integrate an AI-based early warning system that screens weaknesses in different supply stages and facilitates the assessment of risky suppliers. The combined AI and auditor expertise-based solution is founded on globally proven standards and management systems.

Companies are facing an entirely new magnitude of difficulties in their supply chains. The simultaneous occurrence of geopolitical conflicts, cyberattacks and raw material shortages together with increasing environmental and social sustainability requirements pose considerable challenges. Reversing globalization is not the solution. Instead, it is important to adopt a more resilient risk management system based on forward-looking approaches for the process and supply sectors.

The end-to-end DEKRA Supply Chain Risk Management solution, consisting of an AI-based early warning system and auditor audits, sets in motion a cycle of continuous improvement that is central to quality and risk management: The assessments provide additional indicators and input data for the AI system which further refine the discriminatory power of the screening and thereby further improve the resilience of the supply chain.

Step 1: Identification of Strengths and Weaknesses

- Strengths and weaknesses of the supply chain management are identified for each main risk group.
- Risk focuses and their indicators are defined and prioritized.
- Risk maturity matrix is created.

Step 3: Supplier Risk Assessment

- The AI solution identifies risky providers.
- DEKRA experts assess the supplier's operational resilience based on identified criteria.
- Various assessment options are used: on-site, remote, hybrid, or self-assessments.

Step 5: Recommendations for Risk Mitigation

- The overall analysis provides the organization with robust recommendations on how to mitigate supplier risks. DEKRA experts support the implementation so that the client is prepared for critical threats in the supply chain with its most important suppliers and so that reliable risk communication is established.

Step 2: AI-Based Risk Screening

- Artificial Intelligence screens defined supplier routes worldwide in terms of risk indicators and their probability of occurrence.

Step 4: Determining Compliance Level

- Evaluation criteria are applied to determine the supplier's compliance level.

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DEKRA Sustainability Services - **The Benefits for You**

Organisation
Align your structures with the ESG levels. Our analysis helps you to set the right priorities in your management and control systems – priorities that are in line with proven principles and current guidelines.

Action areas
Focus on high-leverage topics. We assess the identified issues, risks and processes to determine whether they have a material impact on the sustainability of your individual business activities.

Supply chain
Align your ESG strengths with industry/client requirements. We assess whether your objectives are systematically integrated into organisational governance, risk management and supply chain operations (inbound/outbound). For example, DEKRA's Supply Chain Risk Management (SCRM) services integrate an early warning system that screens also ESG risks in different supply stages and facilitates the assessment of risky suppliers.

Reporting:
Ensure that the information you publish is authoritative and valid. We verify and validate your reporting based on globally recognised standards. Measurability and verifiability are essential criteria.

Reputation:
Our independence strengthens your transparency. We use objectified verification and assessment to help you raise the visibility of your ESG performance among your customers, employees and business partners.

DEKRA
Audit Services

DEKRA Audit is your partner for audits and certifications according to recognized international, national and house standards. We are holding over 200 accreditations for the certification of quality management systems, health safety and environment (HSE) and information security management systems (ISMS). Our offer includes independent audits and assessments as well as personnel certifications for various industries. DEKRA Audit operates with around 560 in-house experts and 1,200 external industry-experienced auditors and partners in 18 countries.

www.dekra.com

Would you like more information?

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