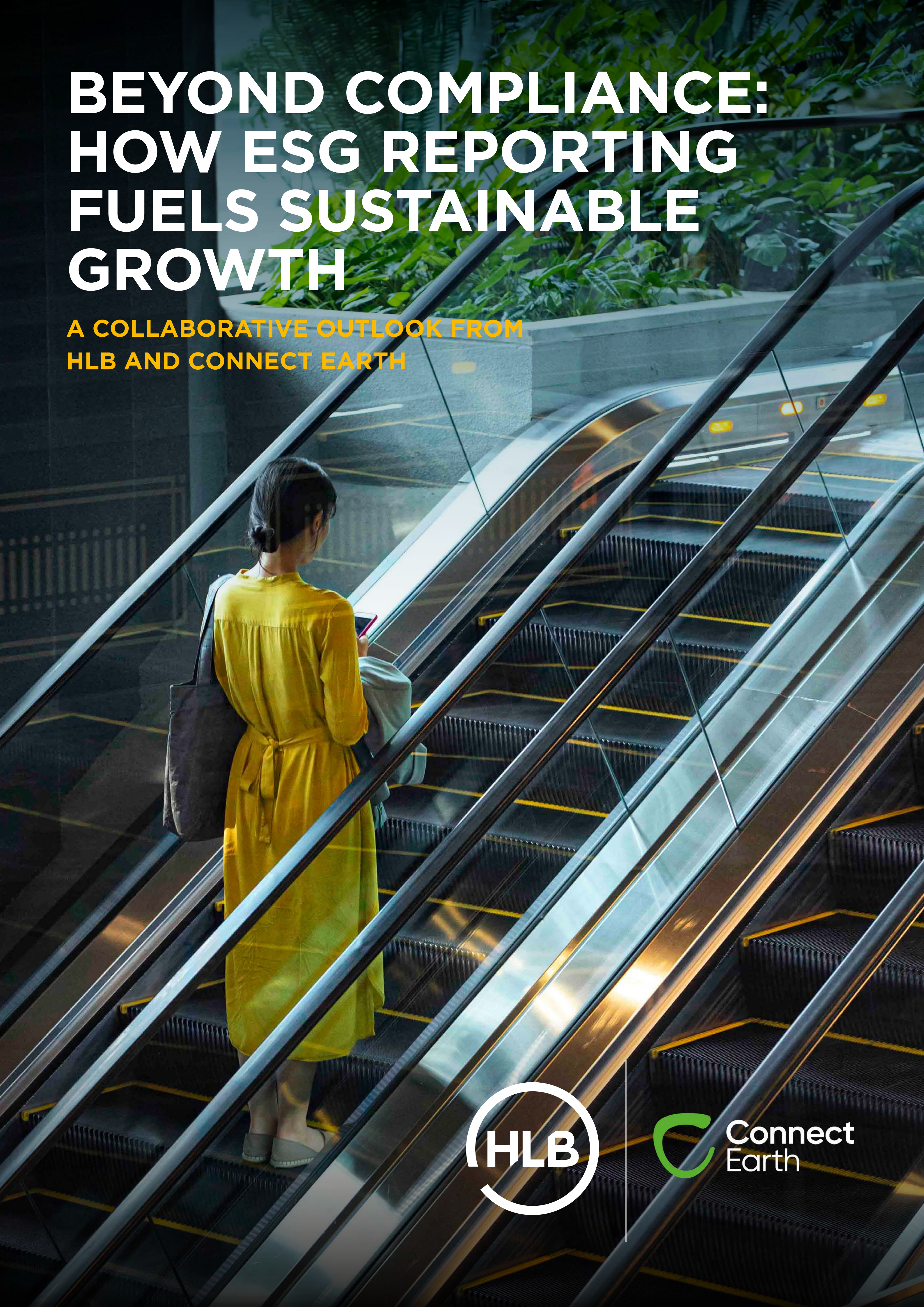
BEYOND COMPLIANCE: HOW ESG REPORTING FUELS SUSTAINABLE GROWTH

A COLLABORATIVE OUTLOOK FROM HLB AND CONNECT EARTH



HLB | Connect Earth

"But why has ESG become so important? The business landscape has changed."

FOREWORD

Over the years, we have watched how Environmental, Social, and Governance (ESG) reporting has shifted from a regulatory box-ticking exercise to a driver of sustainable growth. At HLB, we have witnessed how companies that embed ESG into their core strategies are not only better prepared for future challenges but also unlock new opportunities for success. Those that align ESG practices with their business strategies are better positioned to innovate, attract top talent, and strengthen stakeholder relationships.

But why has ESG become so important? The business landscape has changed. Consumers, employees. and stakeholders demand more than an exclusive focus on profit. They expect transparency, accountability, governance and a demonstrable commitment to the broader good. As pressures mount from all sides, the ability to report on ESG metrics has become essential for businesses that want to stay competitive. In some jurisdictions, reporting is even a matter of law.

At the heart of this shift is a recognition that businesses no longer operate in a vacuum. Every decision – from how products are sourced, to how employees are treated, or resources are created by ripple effects beyond the confines of a company and its financial statements. For forward-thinking businesses, ESG reporting is a tool for navigating these complexities that can help them transform potential risks into opportunities for growth.

At HLB, we understand that businesses need more than a token nod to ESG – they need a strategy that's fully embedded in their operations, driving sustainable growth from within. Our clients have discovered that embedding ESG principles into their operations can drive innovation and foster resilience in ways that benefit both the bottom line and their broader community of stakeholders. In doing so, they have not only met growing regulatory demands but have exceeded market expectations, attracting both investors and talent who are increasingly focused on responsible, compliant and future-oriented companies.

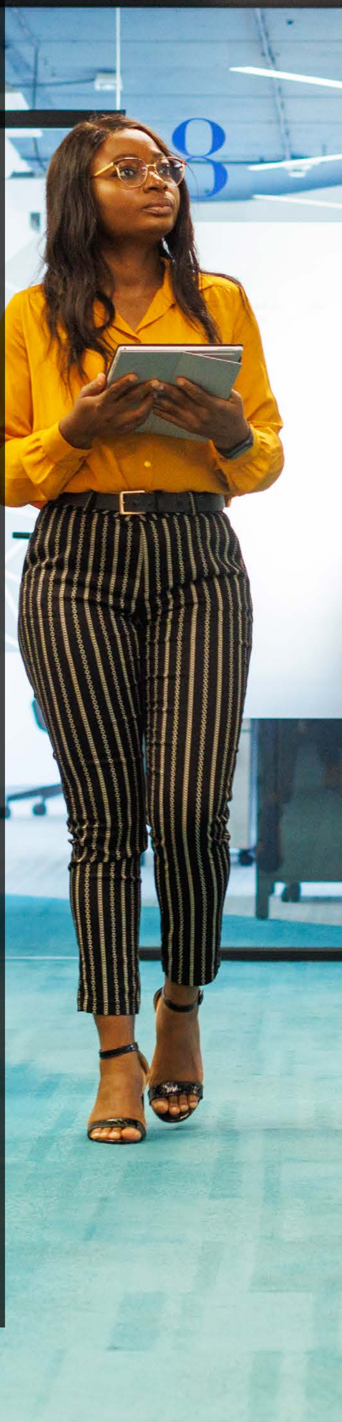
While ESG has moved from the fringes to the mainstream, good intentions alone no longer suffice. Effective ESG reporting requires translating these intentions into measurable, actionable outcomes, which is where many businesses struggle. Without a clear framework or the right tools, ESG initiatives can feel abstract, disconnected from day-to-day operations, and difficult to communicate.

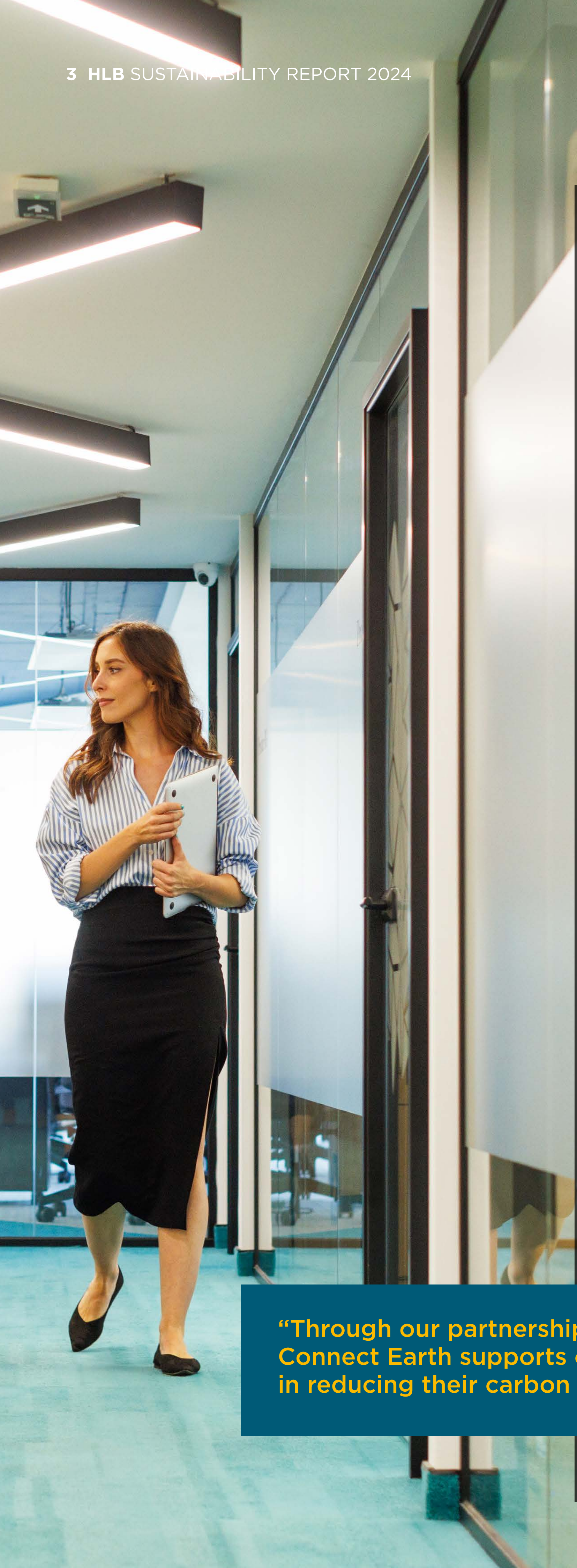
Now is the time for businesses to take ESG seriously. As businesses around the world face increasing scrutiny over their environmental, social, and governance practices, those leading the charge in ESG will thrive.

At HLB, we are committed to helping our clients succeed in this journey. Through our work, we've helped companies reduce their carbon footprints, create more inclusive workplaces, and ensure ethical supply chains. Across industries, our clients have used ESG reporting to transform their operations, making sustainability a central part of their growth strategy.

This whitepaper takes the breadth of our experience and distils it into practical insights. Rather than offering just a compliance checklist, it provides a strategic framework for leveraging ESG as a powerful engine for growth.

Clensy Appavoo | HLB Global ESG Advisory Leader





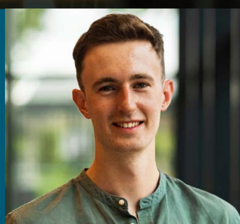
Connect Earth is pleased to have been involved in co-authoring HLB's annual sustainability report. This year's report addresses the challenges and opportunities of ESG adoption, emphasising the need for businesses to integrate these initiatives into their core strategies to remain competitive.

As regulators, business partners, and other stakeholders increasingly demand compliance with sustainability standards, investors and customers are also valuing sustainability credentials more than ever. By leveraging the right tools and analysis, businesses can use the momentum of ESG to streamline operations and seize a multitude of emerging opportunities – from accessing green financing to strengthening key partnerships. As the global landscape shifts, bringing both risks and opportunities, it is increasingly important for businesses to embed sustainability into their core strategy.

Through our partnership with HLB, Connect Earth supports our clients in reducing their carbon footprint and implementing sustainable growth strategies. This year's report not only showcases the tangible benefits of effective ESG reporting but also provides businesses with the strategic guidance needed to turn sustainability into a competitive advantage.

Josh Couchman | Head of Data, Connect Earth

"Through our partnership with HLB, Connect Earth supports our clients in reducing their carbon footprint."



HOW EFFECTIVE ESG REPORTING CAN DRIVE GROWTH

In today's business landscape, Environmental, Social, and Governance (ESG) reporting has become more than another compliance exercise. For growth-oriented businesses, it is a strategic imperative as companies that embrace ESG practices and report them transparently are increasingly rewarded by investors, consumers, and regulators alike.

The business environment has shifted significantly in recent years. What was once a niche focus for socially responsible investors has now become a mainstream driver of corporate value. A report from Bloomberg Intelligence estimates that global ESG assets surpassed $30 trillion in 2022 and are projected to exceed $40 trillion by 2030, representing more than a quarter of the expected $140 trillion Assets Under Management (AUM).

The Global Sustainable Investment Review 2023 revealed that sustainable Assets Under Management (AUM) have increased by 20% in non-US markets, including developed economies such as Europe, Canada, Australia, New Zealand, and Japan, since 2020.

Drawing on HLB's expertise and insights from industry sources and specialised conferences within our network like the recent HLB Advisory, Tax and Audit Conference 2024, held in Prague, Czechia, this whitepaper explores how adopting best practices in ESG reporting can position companies for sustained growth. It also highlights how businesses of all sizes can harness ESG to gain a competitive advantage, achieve financial success, and navigate the challenges that come with it.

BENEFITS OF ESG FOR BUSINESS SUCCESS:

THE CHALLENGE: COMPLEXITY AND UNCERTAINTY IN ESG ADOPTION

As the case for ESG grows stronger, corporate leaders are confronted with an array of challenges in adopting and reporting on these standards. On the one hand, pressure from investors, regulators, and consumers to showcase robust ESG credentials is mounting. On the other, many businesses remain unsure of the direct benefits or are wary of the costs associated with meeting increasingly stringent requirements.

Navigating an evolving regulatory landscape, integrating climate-related financial risks into corporate disclosures, managing compliance costs, and communicating ESG performance to an increasingly discerning audience have become formidable tasks.

Another key challenge for businesses today is aligning ESG initiatives with financial performance. The initial costs of transitioning to more sustainable operations– whether through reducing carbon emissions, improving labour practices, or enhancing governance structures – can be daunting. Compounding this is the uncertainty around how regulators will continue to develop ESG requirements.

The European Securities and Markets Authority (ESMA) recently signalled growing regulatory scrutiny, amplifying uncertainty for businesses still navigating the complexities of ESG reporting. As jurisdictions like the European Union introduce more stringent guidelines through regulations like the Corporate Sustainability Reporting Directive (CSRD), businesses without a clear strategy may lag behind. Across the Atlantic, the US Securities and Exchange Commission (SEC) has proposed new rules requiring more detailed climate-related disclosures, tightening the screws on ESG compliance. Meanwhile, other developed economies are also advancing their ESG mandates, as part of the global shift toward more comprehensive ESG requirements.

While large corporations are the first to face the heightened regulatory demands, Small and Medium-sized Enterprises (SMEs) are not immune. Many SMEs are hampered by limited resources, knowledge gaps, and a reluctance to venture beyond basic compliance. Yet, as regulatory pressures intensify and consumer expectations evolve, the cost of inertia is rising even for them.

The complexity of ESG reporting, particularly the need for extensive data collection and analysis, may seem overwhelming – especially for smaller businesses. Yet, this challenge brings significant opportunities. As ESG reporting becomes more integrated into business operations, it is fueling the growth of new markets–for example, in data analytics, software development, and compliance management. Companies with a proactive approach to ESG reporting can position themselves as early adopters, capitalising on competitive advantages and financial gains from a well-executed ESG strategy.

KEY CONCEPTS AND TERMINOLOGY IN ESG REPORTING

ESG ENCOMPASSES THREE KEY DIMENSIONS OF CORPORATE PERFORMANCE:

Environmental covers a company's impact on the planet, including carbon emissions, energy efficiency, waste management, and natural resource conservation.

Social refers to how businesses manage relationships with employees, customers, suppliers, and broader communities. Issues such as labour standards, diversity, and social justice fall within this domain.

Governance relates to a company's leadership, internal controls, executive pay, board diversity, and business ethics.

SEVERAL FRAMEWORKS GUIDE ESG REPORTING, INCLUDING:

GRI (Global Reporting Initiative) is the globally used sustainability reporting standard.

The Task Force on Climate-related Financial Disclosures (TCFD) was created by the Financial Stability Board (FSB) to help standardise climate risk reporting. After completing its work and releasing its 2023 report, the TCFD disbanded. The FSB has now tasked the IFRS Foundation with overseeing the progress of companies' climate-related disclosures.

IFRS (International Financial Reporting Standards) offers guidance on how climate risks should be reflected in financial statements.

SASB (Sustainability Accounting Standards Board) provides industry-specific standards to help companies disclose financially material sustainability information.

The Corporate Social Responsibility Directive (CSRD), which came into effect in 2024, replaces the Non-Financial Reporting Directive (NFRD). Unlike its predecessor, the CSRD is mandatory and imposes stricter reporting requirements. While it begins with larger companies, its ripple effect will reach smaller businesses over time. One of the unique features of CSRD is its forward-looking nature. Companies must provide tangible evidence not only of past performance but also of current actions and future plans. This forward-looking approach is especially critical for industries such as financial services, as regulators will scrutinise these projections closely.

The Corporate Sustainability Due Diligence Directive (CSDDD) adds another layer of responsibility. Businesses are now legally accountable for their own ESG impact as well as the ESG practices of their entire value chain, regardless of where that chain operates globally.

THE CASE FOR ESG: HOW REPORTING DRIVES GROWTH

Despite undeniable challenges, effective ESG reporting should be seen as more than a compliance task – it can serve as a powerful driver of innovation and growth. Companies that actively embed ESG into their strategies can leverage considerable benefits, including a competitive advantage in the market and in tendering processes, access to green financing, and enhanced resilience against market risks.

ESG REPORTING AS A GROWTH DRIVER

ATTRACTING INVESTMENT AND CAPITAL

Sustainable investments now represent over one-third of global assets under management, reflecting the increasing demand for businesses committed to long-term environmental and social goals. According to a recent MSCI study, ESG-rated companies outperformed their lower-rated peers, generating abnormal returns, higher profitability, and more frequent dividend payments.

ESG transparency opens doors to new growth opportunities. Businesses that disclose their sustainability initiatives can access broader capital markets and secure more favourable financing terms, such as ESG-linked loans as banks and investors increasingly seek assurance that their portfolios are sustainable.

POSITIONING WITHIN THE SUPPLY CHAIN

Adopting ESG best practices unlocks a host of benefits that extend beyond regulatory compliance. For example, companies can gain access to new markets by becoming preferred suppliers for large, ESG-compliant organisations. SMEs, particularly, stand to benefit from this as many large companies are becoming increasingly reluctant to work with non-compliant suppliers.

Across the European Union, subsidiaries and supply chains already feel the impact of tighter regulations, particularly under the Corporate Sustainability Reporting Directive (CSRD). In the UK, the NHS and large grocery chains have set ambitious net-zero targets, and these goals have started to trickle down even to the smallest companies in the supply chain.

The pressure to comply often comes from larger supply chain players, pushing SMEs to follow suit or risk losing business. Small and medium-sized enterprises are now required to provide ESG data, including specific metrics like electrification plans and greenhouse gas emissions.

While many view these new requirements as an additional burden, failure to incorporate ESG into their strategies can result in losing key contracts, financing, or supply chain partnerships.

MITIGATING RISKS AND STRENGTHENING RESILIENCE

One of the most compelling reasons for companies to adopt ESG reporting is the ability to better manage risks—particularly those related to climate change and regulatory shifts.

The TCFD divides these risks into two categories:

1. Transitions risks	2. Physical risks
Risks related to the transition to a lower-carbon economy.	Risks related to the physical impacts of climate change.

While a physical risk might include the loss of infrastructure caused by rising waters or extreme events, transition risks refer to business risks that crop up when businesses transition. For example, the possible impact of commodity prices on the Carbon Border Adjustment Mechanism. This could expose businesses to penalties if their reporting isn't accurate or robust enough.

Firms that fail to disclose climate-related risks could face significant financial losses through direct exposure to climate events or regulatory penalties.

Operational efficiencies can also be gained. Businesses that implement sustainable practices are less likely to face supply chain disruptions due to environmental factors, which are an increasing concern in industries such as agriculture, manufacturing, and energy.

BUILDING CONSUMER TRUST AND BRAND LOYALTY

Investors are not the only ones paying attention to ESG. Consumers increasingly demand that companies take responsibility for their environmental and social impacts.

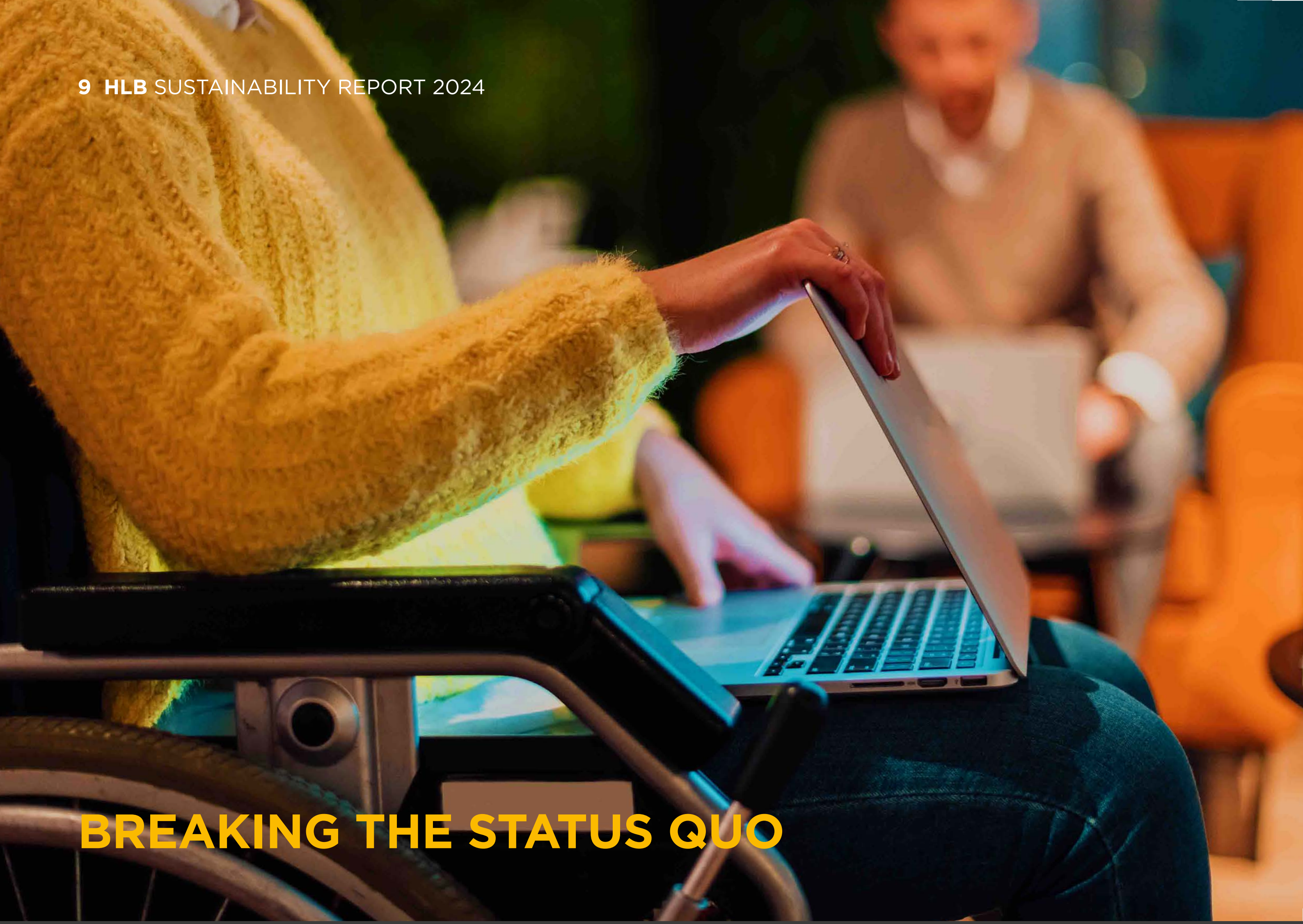
The rise of the conscious consumer means that ESG is not just a compliance issue—it is a brand differentiator. Companies that incorporate sustainability into their core business model are better positioned to cultivate brand loyalty, particularly among younger generations. Gen Z and Millennials are 27% more likely than older generations to buy from brands that demonstrate social and environmental responsibility. By 2030, their purchasing power will eclipse that of the Boomer generation, with up to $68 trillion in wealth expected to transfer to these younger generations.

Transparency is critical to building trust. Companies that openly disclose their ESG performance can better engage with consumers who prioritise sustainability, strengthening customer loyalty while driving sales and expanding market share.

STAYING AHEAD OF REGULATORY DEMANDS

The regulatory landscape for ESG reporting is evolving at breakneck speed. Policymakers in the European Union and beyond are increasingly mandating disclosure of sustainability-related risks and opportunities. The EU Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD) are two frameworks that require companies to integrate ESG into their financial reporting.

By adopting best practices in ESG reporting early, companies can stay ahead of regulatory demands and avoid potential penalties. Companies leading in ESG are better positioned to adapt to new regulations, leverage sustainability trends, and stand out from less prepared competitors.



BREAKING THE STATUS QUO

CSRD is beginning as a requirement for larger companies, but its impact will extend beyond this initial scope to also include SMEs. With over 99% of European businesses classified as SMEs, the influence of CSRD will be felt across the board. Even companies not directly covered by the directive will soon find themselves needing to adopt ESG reporting practices to stay competitive and compliant.

For most SMEs, ESG can feel like a daunting mountain to climb. With limited resources and expertise, many businesses stick to what they know, often meeting only the bare minimum compliance requirements. While this “tick-the-box” approach may have been sufficient in the past, it is becoming increasingly difficult as regulatory pressures and societal expectations evolve. Companies that fail to engage meaningfully with ESG are at risk of being left behind.

A major obstacle is the fear of risk—whether from accusations of greenwashing, negative profiling, or potential missteps. This apprehension often leads businesses to avoid ESG initiatives, but this avoidance only exacerbates the risks.

Rather than perceiving ESG as a burden, businesses should recognise it as a strategic asset. While the risks of failing to properly implement ESG are tangible, the benefits of doing so are considerable. When effectively integrated, ESG can bolster a company’s market position, attracting consumers, investors, and partners who are progressively prioritising sustainability.

HOW BUSINESSES CAN LEVERAGE ESG TO CREATE VALUE: A CASE FOR A HOLISTIC APPROACH TO ESG

"What value can we get from all this? There's no point in paying all this money, engaging all these people– experts and consultants – if we're not getting anything in return other than we've ticked the box. ESG must be a strategic tool."

Dr. Jonathan Spiteri | Senior Lecturer at University of Malta

FROM COMPLIANCE TO STRATEGIC ADVANTAGE

ESG reporting can be complex and costly, and many companies may initially approach it as a compliance exercise. However, the real value of ESG lies in using it as a strategic tool rather than simply fulfilling regulatory requirements. This shift from compliance to strategy is where businesses can unlock significant benefits.

Consultants bring immense value by encouraging clients to think deeply and strategically about their businesses rather than operating on autopilot. ESG reporting forces companies to ask fundamental questions about what they do, how they operate, and where they create value. This level of introspection is critical to building a meaningful and effective ESG strategy.

The broader context in which a business operates – demographics, regulatory trends, technological advancements, economic conditions, and shifts in the supply chain – must be taken into account when designing an ESG strategy. Understanding the landscape in which companies operate is essential, and this requires input from across the business, including departments like finance, HR, and marketing. These different perspectives provide a comprehensive view of the company's value proposition, which is essential when aligning ESG initiatives with the broader business strategy.

ALIGNING ESG WITH BUSINESS VALUE

At its core, a business must understand its purpose, its differentiators, and how it creates value. While these concepts may seem straightforward, many businesses struggle to clearly define them. Once these fundamental aspects are clarified, ESG should seamlessly integrate into the business strategy, enhancing and contributing to the value that the company is already creating. An ESG strategy that conflicts with a company's core operations will only create friction, ultimately eroding value.

ESG also drives efficiencies. One clear example is the way energy efficiency measures help reduce carbon emissions but also make for long-term cost savings on energy. Other ESG measures can help reduce transport costs or highlight redundancies in a business's operations.

Once the alignment between ESG and business value is clear, companies need to establish specific Key Performance Indicators (KPIs) to measure progress. These KPIs should be linked to employee bonuses and performance reviews to ensure company-wide buy-in.

The end goal is to develop an ESG strategy that supports what makes the business unique, ensuring that sustainability efforts not only meet regulatory requirements but also drive long-term growth and success. By treating ESG as a strategic tool rather than a compliance requirement, companies can leverage sustainability reporting to unlock new opportunities and strengthen their competitive advantage.

COMMON PITFALLS AND HOW TO AVOID THEM

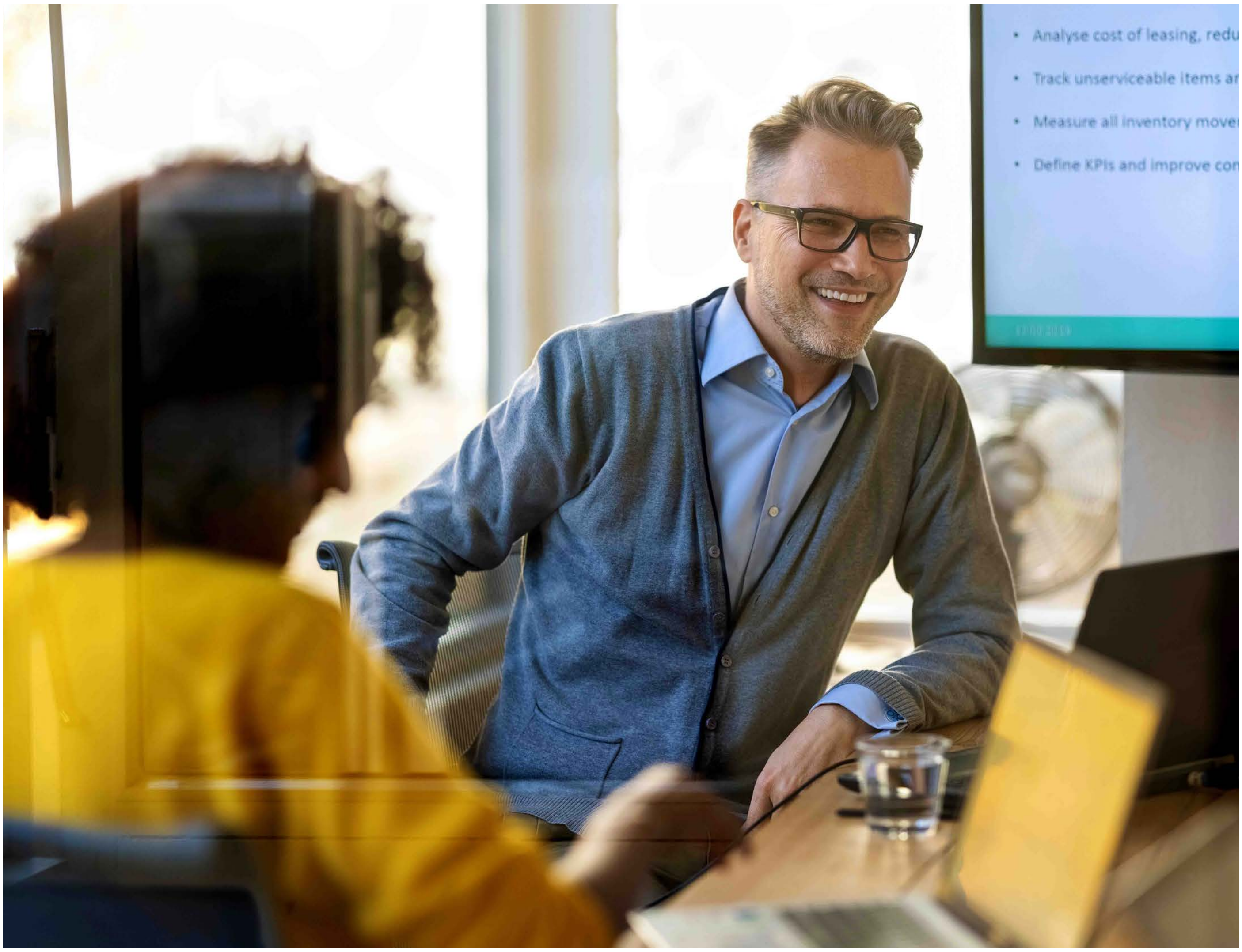
One potential pitfall of ESG reporting is that companies may focus too much on environmental (E) and governance (G) aspects while neglecting the social (S) component.

It is also essential to understand that businesses are not expected to report on every ESG factor, but only those that are material to their operations.

This is where conducting a materiality assessment becomes vital. Through engagement with internal and external stakeholders, companies can identify which ESG aspects are most relevant to their business. While climate change is likely to affect most industries, other ESG impacts may vary depending on the sector.

A key concept within the CSRD is the principle of double materiality. This principle requires companies to report on how their operations impact the environment and society and on how ESG issues, such as climate change, affect their business.

The reporting process also requires justification for their ESG choices, as companies must provide assurance for the information they present. Therefore, the selected priorities must be well-reasoned and linked to their specific business context.



THE EXPERTISE MYTH: COLLABORATION IS KEY

ESG is a broad and evolving field, far too complex for any single business to master entirely. While some companies may develop in-house expertise in areas like carbon footprint measurement, others, such as biodiversity and water management, often require specialised external support. No single organisation can be an expert in every aspect of sustainability.

This situation allows firms to position themselves as central ESG hubs, serving as trusted advisors while collaborating with external specialists as needed. By building internal capabilities in key areas and partnering with experts on more specialised topics, advisors can provide clients with comprehensive ESG support. This collaborative approach ensures that all aspects of ESG are addressed, enabling clients to navigate this complex landscape confidently.

Comprehensive ESG Support = In-house Expertise + Strategic Partnerships

HLB: STRATEGIC ESG GUIDANCE FOR GROWTH AND COMPLIANCE

For advisors, the evolving field of ESG presents a vital opportunity to guide clients through its complexities. By developing effective ESG strategies, managing risks, and identifying new market opportunities, advisors can enhance client relationships and solidify their role as trusted partners.

HLB's ESG Advisory Services can deliver full-spectrum ESG support across all key areas.

HLB is uniquely positioned to help clients embed ESG into their core strategies, providing expert guidance on reporting, compliance, risk management, and sustainability initiatives. By blending internal capabilities with specialised partnerships, HLB's ESG Advisory Services can deliver full-spectrum ESG support across all key areas. This integrated, collaborative approach allows clients to navigate the ESG landscape confidently, driving long-term growth while meeting evolving regulatory and market demands.

Get in touch with HLB for ESG Advisory Services.

www.hlb.global

TOGETHER WE MAKE IT HAPPEN