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The art of ESG

How to gain advantages in your company!

How to address the challenges of companies in the area of sustainability reporting towards 2030.

This book covers theoretical and practical challenges.

Never loose a leaf

And life will breathe

Peter Nordgaard

The art of ESG

For everyone that has an intention, there is a tool. The tool for sustainability management is the ESG framework. It is applicable in any country and any company and easily adapts to the situation. This book is designed to give you an understanding of how to unfold the concept and create advantages both for your company and its surroundings.

The intention of this book is to;

- **Understand ESG**
- **Innovate Supply Chain**
- **Plan Sustainability**
- **Marketing of ESG**

Understand ESG	Innovate Supply Chain
Plan Sustainability	Marketing of ESG

Figur 1: The intentions of the "The Art of ESG"

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The Art of ESG

This book is divided into three different parts. As a student of the German Business School of Tunisia, you are given an extract of the full book. So, you will have selected chapters available for your studies.

Figur 2: The Art of ESG in parts

Part 1 will give you essential understanding of ESG, whereas Part 2 gives you examples on how to work with ESG in the supply chain of the organization. The last part gives you insight into how reporting of ESG works.

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Opportunities! Introduction to ESG

Congratulations! You have now gained access to the future! This book is not about climate changes, the rise of deserts nor the expropriation of forests. This book is about how to manage the development of your company. This book is about giving opportunities to your company.

The rising concerns in the areas of sustainability is not only a threat to companies. Of course, companies will be faced with customer demands that will evolve. The more consequences the environmental changes will have, the more severe demands will be imposed upon companies.

It is an opportunity. By designing supply chains differently there are new opportunities.

This book is not only about the areas of environment in a narrow context. It is about the environment of the company. A company is also employing people and asking them to engage in the company´s activities. The better the company is at employing and engaging people, the better we expect the results to be. This is an opportunity. How does a company develop better relationships with employees? This is an opportunity.

Controlling a company is not only about making visions, strategies and plans. It is about governance. How do you control, throughout every action of the company, that the intentions are communicated, understood and followed? This is an opportunity for companies. They create a setup which allows the activities to be governed within a set of boundaries. They can create values and rules for the organization to adhere to.

You may have noticed that we have now progress through the E, the S and the G. The combination of the three areas is now a platform for communication and marketing for the company. By marketing the efforts and the intentions, there are new opportunities.

This is what I call the “Art of ESG” and why this book is important for you. Because, not only will you learn about ESG, but you will constantly be focusing on how to create advantages and opportunities for the company, through using ESG.

Would you prefer to use ESG as a way of creating a company with a strong focus on sustainability? You are very welcome. Also to read this book. You will experience though, that the book is about creating a company with better opportunities. Increased profitability, life expectancy and customer loyalty. This is the Art of ESG. And that, could potentially also lead to a better world.

Welcome to the Art of ESG!

Peter Nordgaard

Part 1 – Understanding ESG

Chapter 1: What is ESG?

ESG is a tool for a organization to report, not only on financial figures, but on the company and its effect on the environment, its relations with society and the governance of the organization.

I am using the term “organization” instead of company. ESG is a reporting concept for all types of organizations. They can be public organizations, small private organizations or large companies.

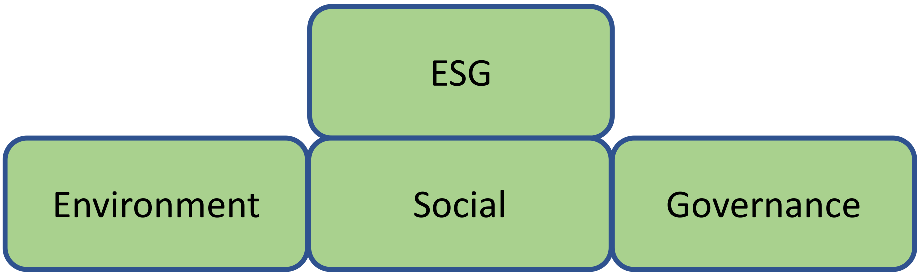


Figure 1: ESG (Peter Nordgaard, 2025)

ESG is a reporting concept. In each of the three boxes there could be different measures. We often call these KPI, which means Key Performance Indicators. In the financial reporting we have KPI´s such as Gross Margin. It is derived from the gross profit and calculates the gross profit[1] as a percentage of the total revenues. KPI´s makes it easier to

[1] Costs of sales deducted from revenues

understand a company´s financial position without reading through every line of financial accounting.

ESG is therefore an addition to reporting that an organization already has. Most companies already have financial reporting. But, the financial reporting is only concerned with financial effects. The ESG thus adds three additional dimensions to the financial reporting. Environment, Social and Governance. This will provide more relevant information to anyone who is interested in the organization.

KPI´s in environmental reporting serves the same purpose. To give insight without having to go through the entire environmental status of the company.

The ESG does not have a standard set of measures or KPI´s. The ESG for different companies can be different. It is often a result of a combination of standard measures that are used by most companies, country related measures, industry related measures and legally defined measures.

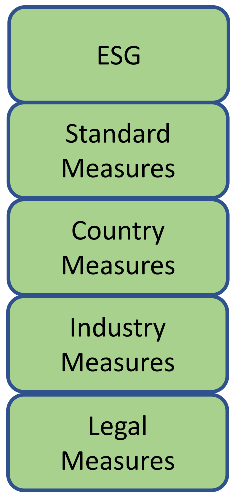


Figure 2: ESG Measures, Peter Nordgaard, 2025

The ESG concept does not have one single definition. Every organization can define their key performance indicators withing every part of the ESG.

If the organization is using ESG as part of a legal reporting there can be legal requirements. The legal requirements could demand a report on the attendance of the board meeting. This would then be a “G” reporting item.

ESG is an add on to the existing financial reporting. It brings three important dimensions to the reporting of the company.

The first dimension of ESG is the Environment. It includes all the impacts that the company has on either human health, the ecosystem or the natural resources. Now, this can be a very difficult interpretation. What is the effect on human health, the ecosystem or the natural resources if a company is heating up an office? Therefore, working with the different parameters in the ESG reporting is essential. The ecosystem is essentially the world around us. A way to impact the world around is by creating climate changes. These are potentially impacted by CO_2 emissions. The company can thus see a relationship between the heating of the office, which produces CO_2 emissions, and the ecosystem. Now, this would be only one example of how a company is impacting on the environment, so CO_2 emission is just one example of environmental impact. We will later study the relation between the companys actions and the consequences of the ecosystem.

Chapter 2: The history of ESG

We see ESG everywhere. But ESG is also a rather new concept. It is difficult to find companies reporting on ESG in a year before 2000.

Since the beginning of the 2020´s, the concept has attracted attention. Regulation has been widely discussed, companies have sought to prepare themselves for ESG and customers have been eager to understand the actions of companies.

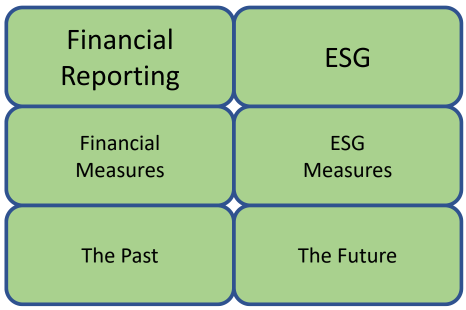


Figure 3: ESG and the future

ESG is the intention of balancing the financial figures, which can be seen as occupied with the past, to non-financial figures that are concerned with the future.

The difference between a financial KPI and a non-financial KPI is that financial KPI´s have typically been used in the financial accounting. The number of debtor days is a financial KPI. The number of accidents in the company can be seen as a non-financial KPI.

With the addition of ESG, the reporting not only shows the current status of the financial success of the company but also how the company is interacting with the world around it. It will give investors additional information that they can use to evaluate the position of the company, strategically and its readiness for future markets.

Is it really true that companies have only been interested in financial figures, before the arise of ESG? Probably not, companies have had visions, missions and values. Voluntary organisations have had ideas on how to give help to the society. Foundations have provided ressources to activities outside of the foundation. It is probably more accurate to say that the ESG has now provided a platform for these actions to be made visible to the investor.

In 1987, the The UN's Bruntland Commission's gave rise to a wider approach to sustainability. Economy was now related to environment and society. Then in 2006, the UN Global Compact mentioned the term ESG as part of the report "Who cares wins". The report was the result of gathering major investors from all around the world. These investors should then define how to measure the probability of a succesfuld future of an organization. The ESG concept was the answer to this question. Not only would the financial results matter, so would the organisations impact on the environment and society through its governance.

In 2015, the 2030 agenda for sustainable development was adopted by all United Nations Member States. It introduced the concept of SDG´s as a way to measure and align objectives for organizations, that would lead to a sustainable future.

Figure 4: UN Sustainable Goals

"At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests."

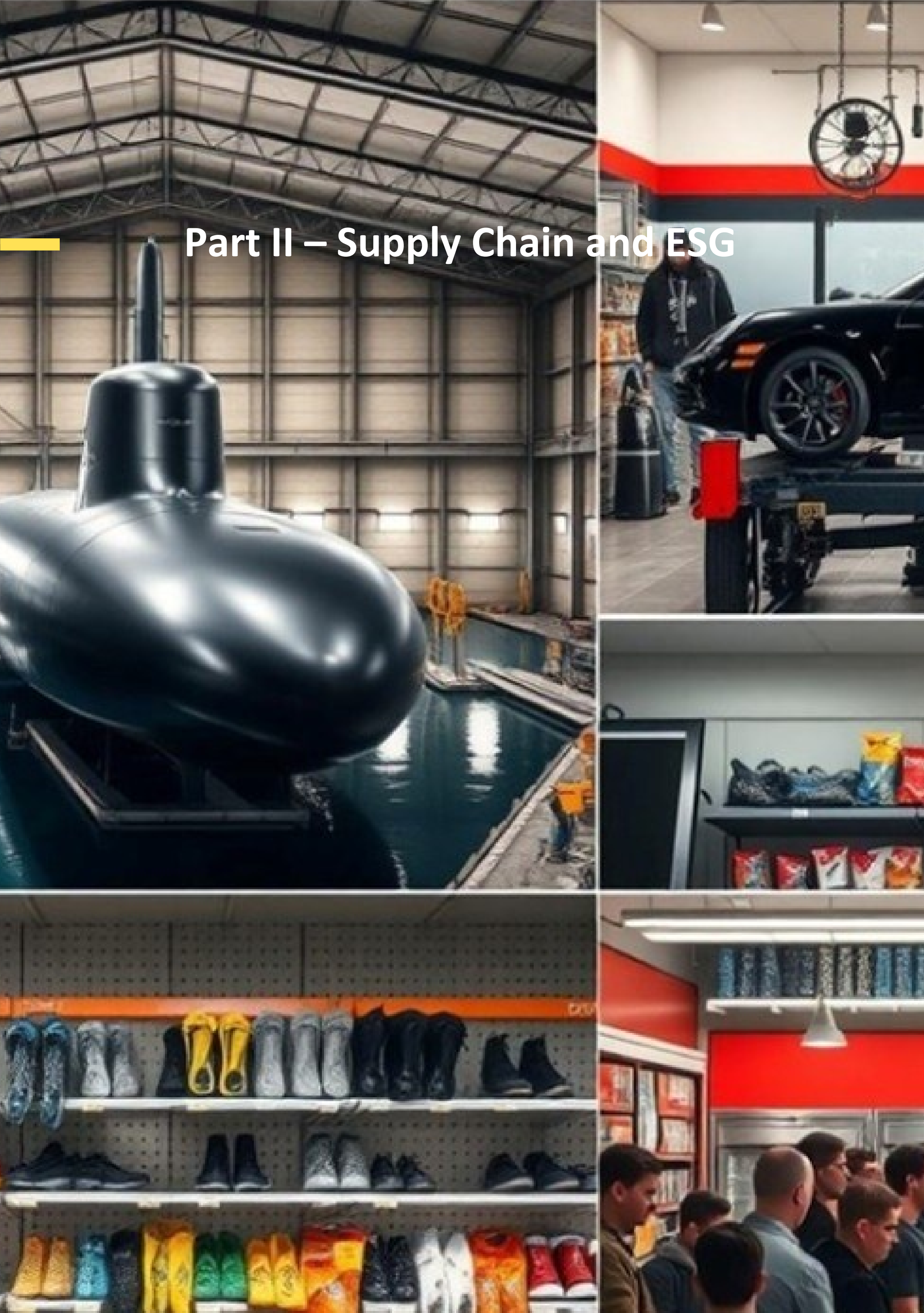
Today, the ESG is also part of a number of widely accepted reporting standard or even certification processes.

- Global Reporting Initiative (GRI): Provides a comprehensive framework for organisations to disclose their impacts.
- Sustainability Accounting Standards Board (SASB): Develops industry-specific accounting standards.
- Corporate Sustainability Reporting Directive (CSRD): Requires companies to disclose ESG data in their reporting, increasing transparency and accountability.
- Task Force on Climate-related Financial Disclosures (TCFD): Offers reporting guidelines for climate-related disclosures.

Figure 5: ESG Related Concepts

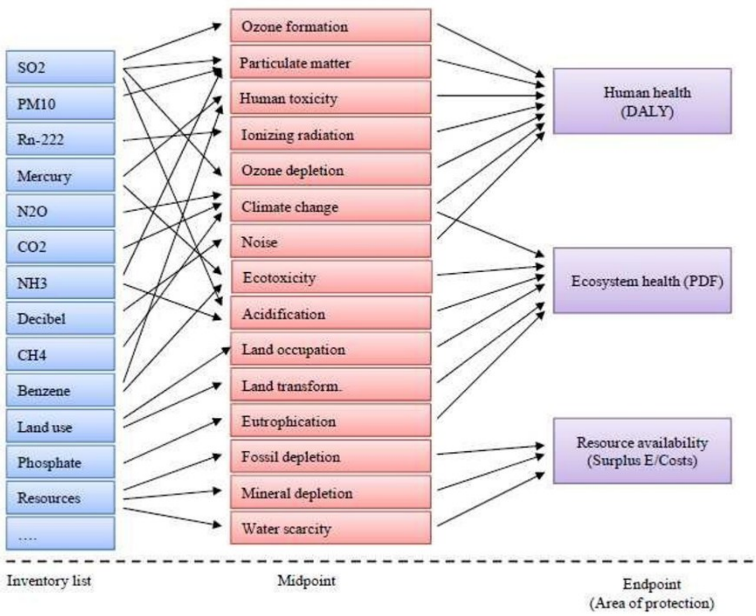
Very important is the SASB, sustainability Accounting Standards Board. The purpose is here to create standards for the reporting of sustainability. This is what the financial reporting has in the form of IFRS. These standards ensure that investors can understand the financial accounting across the world, regardless of which organization that has produced the accounting.

Part II – Supply Chain and ESG



Chapter 3 Supply Chain Management

We now understand the concept of ESG. Now comes the real problem. How can companies integrate ESG in the management of the company. The ESG is highlighting the impact the organization has on the endpoint, the Human Health, The ecosystem or the natural ressources. This is also a very difficult relation to manage. We need to understand the endpoint in midpoints, which are the immediate consequences leading to the endpoint. We have already given examples of such. CO2 emissions are leading to climate change, which are impacting on the ecosystem of the world. In the figure beneath we see the relation between midpoint actions and endpoint consequences. In the inventory list we can then also see ways of measuring.



This could help the organization to understand the relation between the supply chain and consequences.

Now that we understand the relation between areas of sustainability and measures we also need to understand the concept of a value chain. Every company has a valuechain. It is the way in which an organization transforms ressources into outputs, through a production.

If you are producing toys for children, the ressources to the production could be energy, wood, plastic and other inputs to the production. The production processes could be constructing the different toys, painting them and packaging them. The output would then be the different packages of toys.

Figure 6: Value Chain Peter Nordgaard, 2025

To be able to understand the ESG measures, every work would start with an understanding of the Value chain of the company. This would also be the way to impact the ESG measures. A company that would like to have lower CO_2 emissions could study the inputs of the company. To which extent is the company using fossil fuels and to which extent is it using green energy?

The value chain also needs to be decomposed into organizational functions within the company. Many companies are discussing which functions should be made responsible for sustainable improvements. The answer is probably that every part of the organization should be part of this mission, but some parts of the organization will obviously have a higher impact than others. A way of a next level discussion could be to study the Value Chain as done by Porter, which defines the organization in further part activities.

Figure 7: Porters Value Chain Simpel

We can now study the inputs in the inbound logistics and the operations, aswell as in the outbound logistics. We can also see the activites in the marketing and sales and post sales service can affect the sustainability status of the organization.

We need to introduce the next concept in sustainability, which is the lifetime approach. Any products consequences will be the result of the consequences in all parts of the life cycle of the product. Imagine that you are constructing a gas station. The construction is the first impact. Then the use of the gas station as the next impact. The last impact is the deconstruction of the gas station. To understand sustainability we will need to understand actions throughout the valuechain and throughout the life cycle.

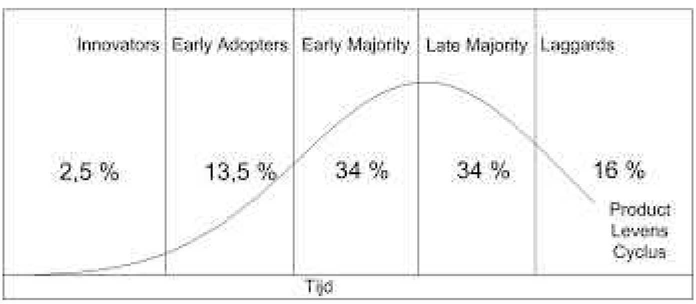


Figure 8: PLC Product Life Cyclus

So far, our examples in this chapter is about production of products. Production is also production of services. Some products that we buy is also a combination of both products and services. The services could be support or even updates to the physical product. This would then also be a component in the sustainable understanding of the sale. From a life cycle perspective the value chain also has focus on the lifetime of the products or the service. Everything that is consumed rapidly has a higher consumption as opposed to a product, produced with the same ressources, that lasts longer. This is just one example of the amazing aspects of working with sustainability in the value chain. Creating products that can be repaired, updated, serviced are just simple ways of creating a product with a longer lifecycle. By increasing the lifecycle, consumption and thus production can be diminished. Have you ever tried to repair a machine from your kitchen? Like a blender? They are more or less produced so that they are impossible to repair. This could be changed. Easily. This could change the lifetime of the machine and our consumption patterns. It also increased the need for the company to work strategically with their business models. It might sell less blenders, but better blenders. Or maybe blenders with a subscription. A combinationen of a product and a service.

We have now introduced very basic concepts of the supply chain management. We will explore these further during the classes that you are to attend. In the next part and also the last part of this abstract, we will give insight into the reporting process of the ESG.

Part III: ESG Reporting

Chapter 4: ESG Reporting Components

We started this book by describing ESG as a reporting concept. We have also experienced, in the previous chapter, that ESG could ignite strategic changes to the company. Changes to product portfolios. Changes to the balance between products and services sold. So we might have made the first error already. It might be true that ESG is the title for the reporting, but the reporting changes everything. Organizations are now focusing on the measures included in the ESG. This creates changes. If you have ever heard the famous quote; “what you measure is what you get”, then you will understand. An organization will focus on the targets being set and that is exactly the idea of ESG. To give organisations targets that live alongside with the financial targets.

ESG includes the E, the S and the G. In a very short resumé, we would say that the E has, so far, had a focus on climate change as the midpoint and CO_2 emissions as the measurement. There is probably a reason for the climate change to being the most important one so far. Climate change consequences have been quite visible for most countries. Biodiversity, which could mean the loss of types of plants, have been less visible and thus gained less interest.

What we see, alongside with CO_2 is water consumption. There is another easy to understand explanation, probably. Biodiversity is difficult to understand and even more difficult to measure. So we understand that ESG, in its first many years, will be based on areas that are easier to report on. It will, at the same time, create a strong urgency for finding ways of reporting other areas, that are deemed important. If this is the case for the reporting on the environment part of ESG, this is certainly also the case on the Social and the Governance Reporting.

Social reporting is reporting on the organisations relationsships with the societ around it. This would obviously include the employees of the company as a very important measuring factor. Treating people in the best way and assuring a risk free working environment with inclusion and diversity would seem like easy and understandable targets. Reporting on Governance would be occupied with the governance of the organization. How is the organization ensuring that its ideas, missions, visions and values are being implemented in actions. Typical measures here could then be boardmeeting attendance, management structure, corruption measures, diversity and equality.

Lets have a look at how the advices are from the Stock Exchange in Tunisia;

The environmental Criteria take into account waste management, initiatives to reduce greenhouse gas emissions, the prevention of environmental risks (groundwater contamination, etc.), and the preservation of natural resources.

The social criteria take into account the prevention of accidents and occupational diseases, staff training and employability, respect for employee rights, employment of minorities and people with special needs, the quality of social dialogue, work-life balance - discrimination at work, and more generally the promotion of human rights, both internally within the company and in its external environment, etc...

The governance criteria verify the independence of the board of directors (BOD), the management structure and the presence of committees within the board, transparency on executive compensation, the feminization of boards and management bodies, the fight against corruption, the principle of legality, the quality of dialogue with the various stakeholders as well as the consideration of their expectations.

Figure 9: ESG Measure explanation Tunis Stock Exchange

Do you now recognize the measures that are proposed by the Tunisian stock exchange? We have thus created an understanding for which areas would most likely be reported. At the same time we understand that each organization can choose their own reporting metrics. In fact, each organization should have an ESG reporting metrics that is relevant for their organization. You may remember how we started. We started by signalling that ESG will include measures that are the result of standard measures, then country relevant measures, then industry measures and finally legal measures. This will, most likely, be the components of how companies construct their ESG measures.

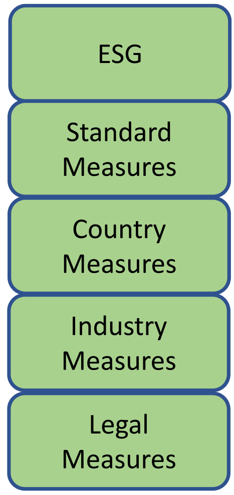


Figure 10: ESG Measures, Peter Nordgaard, 2025

This is the end of this abstract. When we meet, we will develop our understanding of ESG to a much higher level. We will work with the implementation and the various sides of ESG, including greenwashing. So prepare for an exciting learning journey.

See you soon!

Peter Nordgaard

Referencer

https://www.bvmt.com.tn/en-gb/content/esg-reporting-guide

Your notes

The management of companies and other types of organisations, is about visions and strategies. Today, most companies will also communicate strategies and intentions to their suppliers, employees and customers. Sustainability is becoming an essential and integral part of this communication.

ESG is the most wellknown concepts for sustainability reporting. Therefore, every company has an interest in knowing what the opportunities and challenges of ESG are.

In this book, you will learn to understand the concept of ESG and you will train techniques that can help your organization in the adaptation of the ESG. This version of the book is an abstract for MBA students of German Business School in Tunisia.

Peter Nordgaard has worked as CFO and COO in his professional career and have, at the same time, had an academic career. He has taught in many parts of the world on MBA studies and universities. He is the author of a number of books within supply chain management and sustainability.