ESG – The sword of Damocles or a chance for strategic change?

Results of an opinion survey conducted among investors, listed companies, and supervisory boards

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Key

Data on investors and stock analysts

Data on supervisory board members

Data on listed companies

Introduction

The Polish capital market, and even more broadly Polish economy, are now facing the challenge of embarking on the path of sustainability. This multifaceted challenge entails numerous systemic, legal, strategic, and operational changes.

Market expectations and necessary compliance with regulatory requirements in the field of ESG (environmental, social & governance) as well as the opportunities brought by these new trends appear to hold the key to broader transformation and change in corporate strategies.

How prepared are Polish companies and investors for these upcoming changes? How can they best ready themselves to navigate ESG-related risks and apply the principles of sustainability? How should they start their transformation?

These questions are here addressed in depth.

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Sustainable world and businesses

Non-financial aspects included in the survey

Environmental

- Climate and environmental policy
- Amount of greenhouse gas emissions
- Amount of energy consumed
- Amount of water consumed
- Amount of waste produced

Social

- Anti-human trafficking policy
- Remuneration policy
- Diversity policy
- Code of ethics
- Accident ratios

Governance

- Risk management
- Anti-corruption policy
- Anti-corruption incidents
- Whistleblower protection policy
- Cybersecurity
- Suppliers' code of conduct and management policy
- Suppliers' audits

Executive summary

When surveying the opinions of Polish capital market participants on ESG issues, we identified three areas of analysis: **new conditions for raising capital**, **sustainability strategy**, and **non-financial reporting**. In each of these areas, we present an overview of the current situation and recommendations from a range of experts – representatives of the survey partners, investors, supervisory board members, and PwC specialists. Each section of the report begins with an introduction outlining the economic and regulatory background, particularly the challenges currently facing the Polish market.

- In the opinion of 62% of the **investors** we surveyed, Polish companies are moderately or poorly prepared to provide investors with the required information about ESG (SFDR). This is presumably linked to the fact that the quality of the non-financial reports compiled by companies is seen as low, which is why investors currently rely on such reports to some extent.
- **Half of the companies surveyed** see non-financial reporting as a matter of compliance. Only 43% declare that they have an integrated business and sustainability strategy. Almost half of the supervisory board members surveyed indicate that non-financial aspects are not included in the remuneration policy for management board members, and ESG issues only sporadically appear on their agenda.
- Compiling **non-financial information** is most commonly the responsibility of the PR/communication department (36%), being handled by the controlling and finance department in only 23% of the companies surveyed. Only 36% of respondents have their non-financial reports examined by external auditors. Among supervisory board members, 41% see no correlation between non-financial reporting and business strategy.

These and many other statistics presented in the report allow us not only to show a picture of the current situation, but above all to **define the needs of investors, supervisory boards, listed companies, and other market participants in Poland in terms of pursuing sustainability and meeting regulatory requirements.**

Companies must adapt to meet non-financial reporting requirements by 2023.

The next two years should be marked by intensive efforts and changes, not only in terms of compliance but above all in terms of strategy and transformation, in order to harness the ESG potential and create long term value.

New conditions for raising capital

Organizations around the world must prepare for the upcoming changes by investing in sustainability and long-term value creation. The risks and opportunities associated with ESG issues have a real and measurable impact on businesses, which cannot miss the attention of investors, private equity funds, and financial institutions. Regulatory and market pressure as well as pressure from capital owners are meant to gradually lead to the transformation of global economies and business organizations.

The impulse for actual economic change is expected to come from the financial sector, as one of the areas on which the European Union (EU) focuses its activities. Their purpose is to redirect funding towards sustainable business activity and create new conditions for raising capital. Financial institutions will have to incorporate non-financial opportunities and risks into their investment and financing process. The EU's Sustainable Finance Disclosure Regulation (SFDR), which began to apply on 10 March 2021, requires financial investors to take into account ESG risks and integrate ESG issues into their investment strategies.

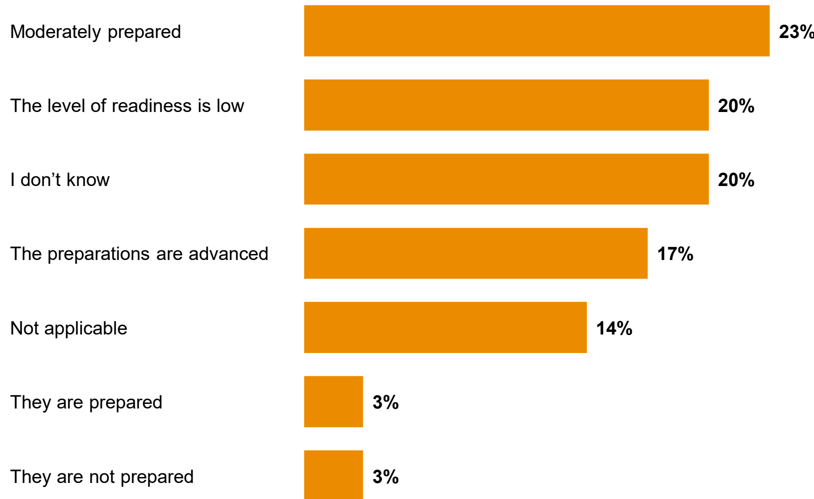
In our survey, we asked investors a range of questions, including if they felt they were prepared for the upcoming changes, how they have prepared, to what extent these changes are already factored into investment policies, how investors rate their competencies and the tools used to assess companies from the perspective of ESG, and how the situation looks in terms of access to non-financial information disclosed by companies and the quality of that information.

Key findings

- 43% of investors rate their level of preparation for the implementation of the SFDR as moderate or low.
- 62% of the investors we surveyed believe that the companies in the Polish market are moderately or poorly prepared to provide investors with the ESG-related information required by the SFDR.
- **Currently, only 31% of investors formulate an engagement policy on monitoring companies from the perspective of ESG risks, and only 11% publish such a policy.**
- Most of the investment funds have yet to make decisions about evaluating investments from the perspective of sustainability.
- **Currently, 20% of investors do not factor non-financial aspects into their portfolio criteria. Within two years, this share is expected to fall to 3%, with 86% of the respondents planning that non-financial aspects will account for 25–50% of portfolio criteria.**
- The Polish market lacks a standard approach to sources of information and criteria for assessing portfolio companies and investments from the ESG perspective. Currently, investors make use of a variety of different sources, relying only to a small extent on the non-financial reports published by companies.
- Investors have a low opinion of the quality of the non-financial statements/reports currently being disclosed by companies.
- **ESG issues already impact on the valuation of companies in the Polish market. Half of investors take into account such issues, yet do not consider them as critically important. However, nearly 30% of those surveyed are inclined to lower their valuation or withdraw from investments if the ESG risks are too high.** Brokerage-house analysts do not include ESG issues in their recommendations, 18% of them focus solely on the governance aspects.
- **Investors see human rights as well as social and environmental issues as the most difficult to translate into non-financial indicators.**
- **However, the investors we surveyed do intend to incorporate these criteria into their assessment of companies.** Each of them will include:
  - indicators related to the carbon footprint, in particular the amount of greenhouse gas emissions;
  - whether the company has a climate and environmental policy with measurable impact-reduction goals;
  - indicators related to the amount of energy consumed.
- **Nearly 60% of the investors we surveyed name anti-corruption policy as the most important factor in terms of anti-corruption activities. Anti-corruption incidents are yet another factor that investors find important.**

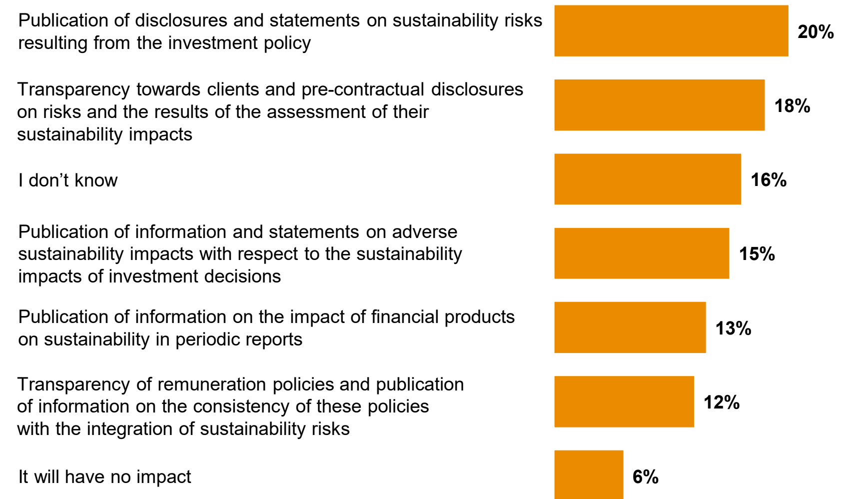
43% of the investors we surveyed rate their institutions' level of readiness for SFDR implementation as moderate or low. They expect, that the main areas of activity to be affected by the Regulation are as follows: the publication of ESG risks resulting from investment policies, transparency towards clients, and the disclosure on the impacts of investment decisions on sustainability.

The level of readiness for the implementation of the SFDR at the institutions represented by the investors:



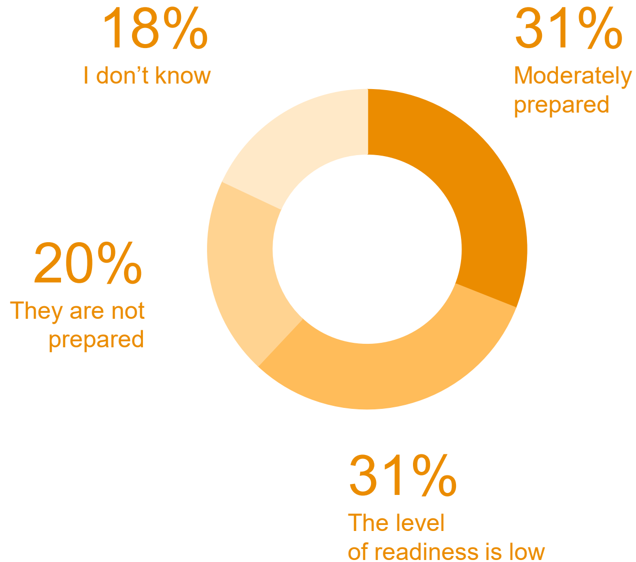
Question: How prepared are the institutions you represent to implement the Sustainable Finance Disclosure Regulation?

The SFDR will impact on the activity of investors in the areas of:



Question: To what extent will Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector apply to your institution?

Readiness of companies for reporting in compliance with the SFDR from the investors' perspective



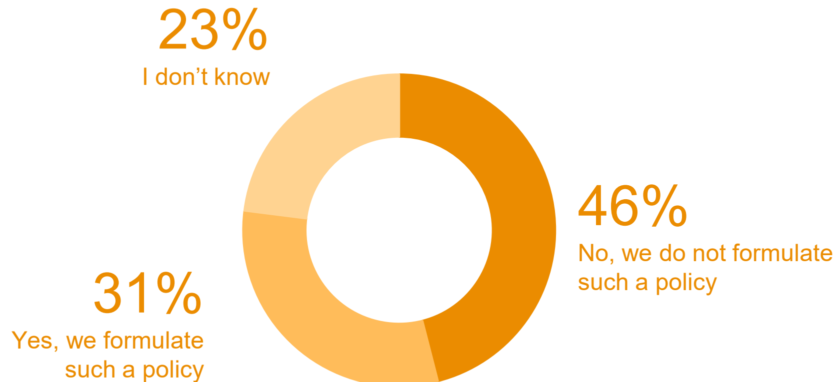
Question: In your opinion, how prepared are Polish listed companies to provide investors with the information required by the Sustainable Finance Disclosure Regulation?

62%

of the investors surveyed believe that companies in the Polish market are moderately or poorly prepared to provide investors with the information required by the Sustainable Finance Disclosure Regulation.

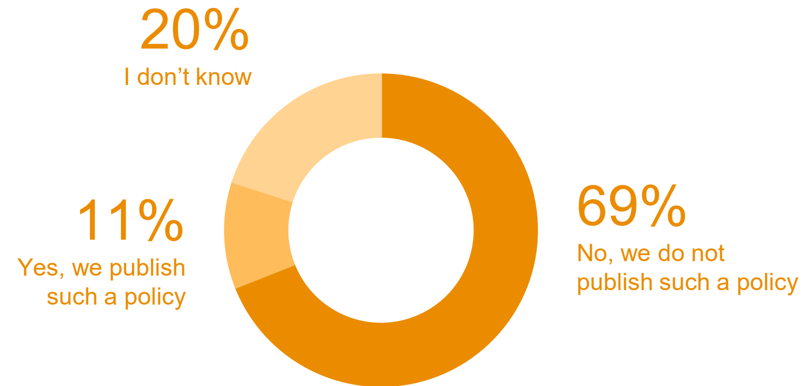
Currently, only 31% of investors formulate an engagement policy on monitoring companies from the perspective of ESG risks, and only 11% make such a policy public.

Formulating an engagement policy on monitoring companies from the perspective of ESG risks



Question: Do you formulate an engagement policy that covers such issues as monitoring investee companies from the perspective of material issues, including strategies, financial and non-financial risks and performance, capital structure, social and environmental impacts, and corporate governance?

Publishing an engagement policy on monitoring companies from the perspective of ESG risks



Question: Do you publish an engagement policy that covers such issues as monitoring investee companies from the perspective of material issues, including strategies, financial and non-financial risks and performance, capital structure, social and environmental impacts, and corporate governance?

A majority of investment funds have yet to make decisions on the assessment of investments from the perspective of sustainability.

83%

of the respondents admitted that **they had not yet decided** on the due diligence and reporting guidelines and good practices they intend to apply in assessing adverse impacts on sustainability, investment decisions, and investment advice.

17%

of those surveyed reported that they intended to apply **the UN Guiding Principles on Business and Human Rights**.

Question: What internationally recognized due diligence and reporting guidelines and good practices do you intend to apply in assessing adverse impacts on sustainability, investment decisions, and investment advice?

Currently, 20% of investors do not factor non-financial aspects into their portfolio criteria. Within two years, the share of such skeptics is expected to fall to 3%, with 86% of respondents expecting non-financial aspects to account for a 25–50% share of portfolio criteria.

Changes in investment portfolio criteria in the next two years

Financial aspects	Non-financial aspects	2021	2023
100%	0%	20% of respondents	3% of respondents
90%	10%	40% of respondents	11% of respondents
75%	25%	31% of respondents	66% of respondents
50%	50%	9% of respondents	20% of respondents

Question: To what extent do you factor non-financial aspects into the structure of your investment portfolio?

Question: What are your predictions regarding the investment portfolio in the next two years?

The Polish market lacks a standard approach to the sources of information and criteria for assessing investments from the ESG perspective. Currently, investors make use of a variety of different sources, relying only to some extent on the non-financial reports published by companies.

Bloomberg

Websites

Rating from the trading system provider

Sector criteria, SASB Materiality Map

External reports

Communications

Press releases

Internal score-based ranking

Sustainalytics

Custom-made templates, surveys, and programs

ESG ratings (e.g. MSCI)

Talking with management boards

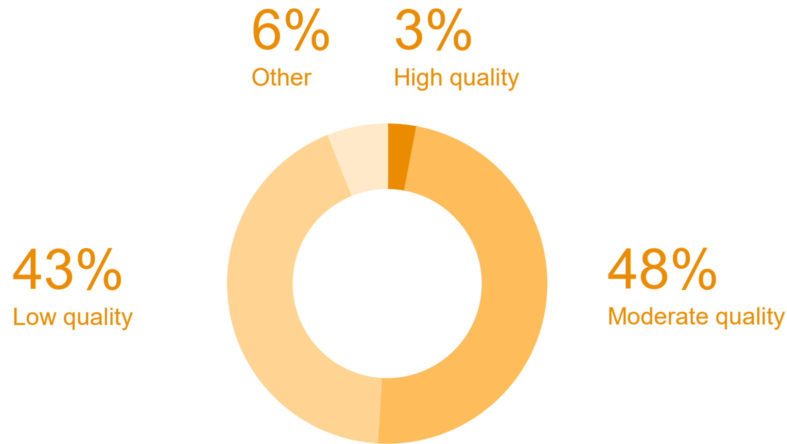
Non-financial statements and reports of companies

Research done by brokers

Presence in indices

Question: What tools do you use to assess/monitor investee companies from the ESG perspective?

Investors' opinion on the quality of non-financial statements/reports



The responses listed as "other" included:

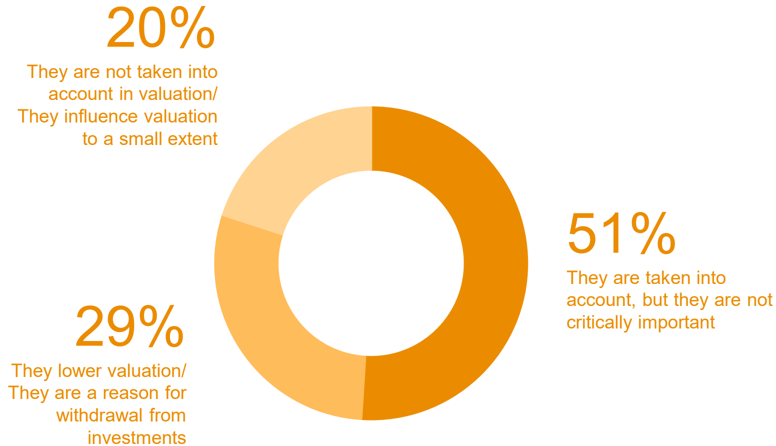
- I do not have such knowledge;
- I do not read any.

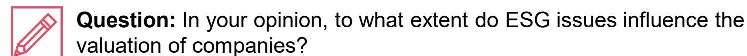
Question: How would you rate the quality of the non-financial statements/reports published by listed companies?

Investors have a low opinion of the quality of the non-financial statements/reports currently being disclosed by companies.

ESG issues have already impact on the valuation of companies in the Polish market. Half of investors take them into account, yet do not consider them as critically important. However, nearly 30% of those surveyed are inclined to lower their valuation or withdraw from investments if the ESG risks are too high. Brokerage-house analysts generally do not factor ESG issues into their recommendations, 18% of them focus solely on corporate governance.

The impact of ESG issues on the valuation of companies

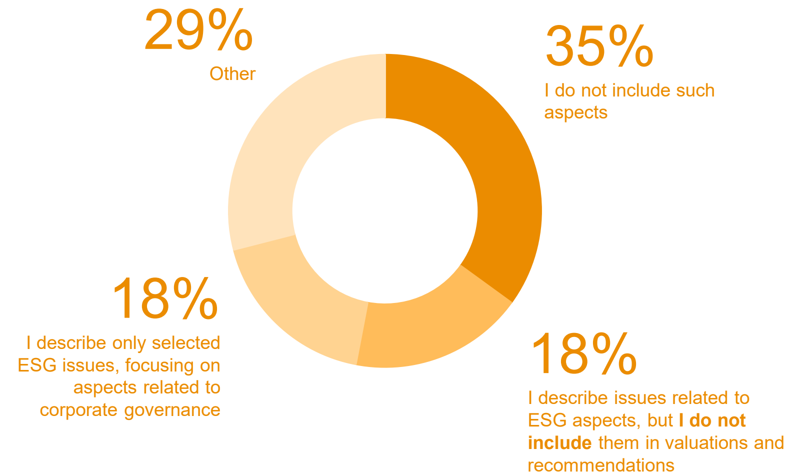


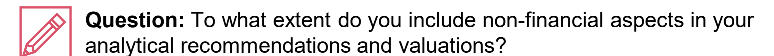


Question: In your opinion, to what extent do ESG issues influence the valuation of companies?

The question was addressed to investors

Non-financial aspects in analytical recommendations and valuations



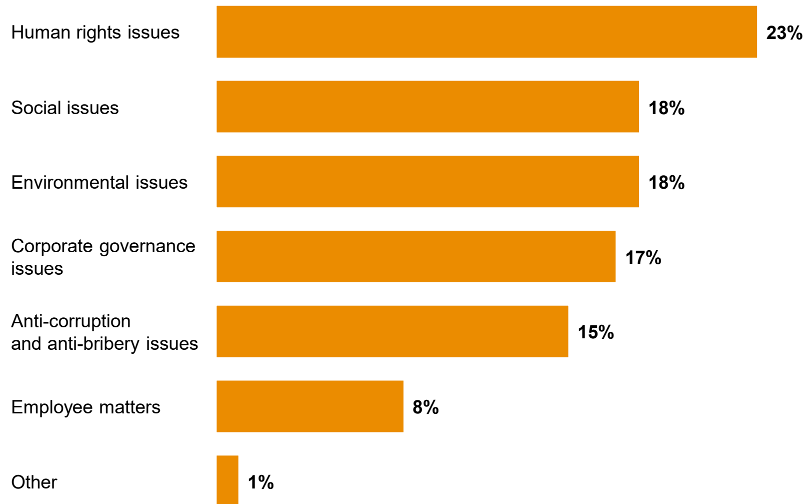


Question: To what extent do you include non-financial aspects in your analytical recommendations and valuations?

The question was addressed to analysts at brokerage offices

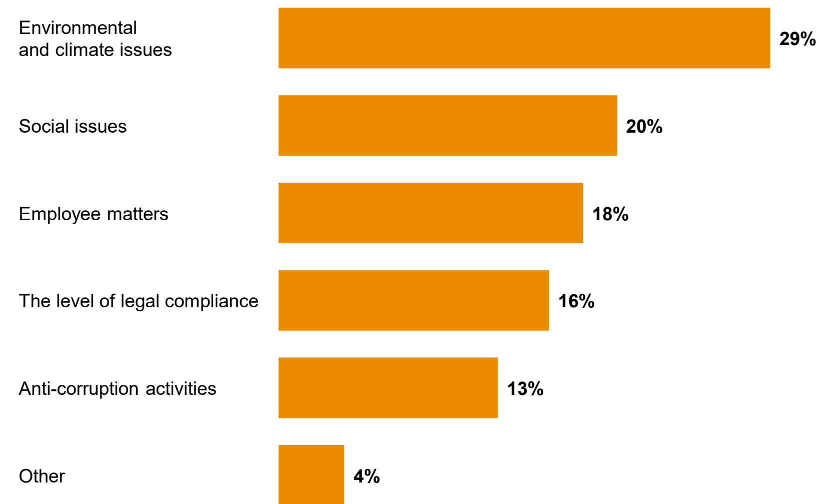
Investors perceive human rights issues as the most difficult to translate into non-financial indicators. The criteria they pay most attention to primarily include aspects related to the environment and climate.

The issues that investors see as the most difficult to translate into non-financial indicators are



Question: What ESG aspects (environmental, social, and governance issues) do you see as the most difficult to translate into non-financial indicators?

Non-financial criteria taken into account by investors



Question: What aspects do you intend to account for among non-financial criteria?

The environmental issues that investors see as the most important in assessing companies.

01. Indicators related to the carbon footprint, in particular the amount of greenhouse gas emissions

02. Having a climate and environmental policy with measurable impact-reduction goals

03. Indicators related to the amount of energy consumed

04. Indicators related to the amount of water used

05. Indicators related to waste produced

06. Having a climate and environmental policy

Question: Which of the indicators related to the environment and climate do you see as crucially important for your assessment of companies?

The social issues related to human rights that investors see as the most important.

01. The company has an anti-human trafficking policy

02. The company has a code of conduct or policy for suppliers

03. Percentage of suppliers complying with the suppliers' code of conduct

04. Number of suppliers' audits performed by the group

Question: Which of the indicators related to human rights do you see as crucially important?

Employee matters that are crucially important for investors.

01. The company has a whistleblower policy

02. Indicators related to the gender pay gap | The company has a remuneration policy (not only for management and supervisory board members but for all or most employees)

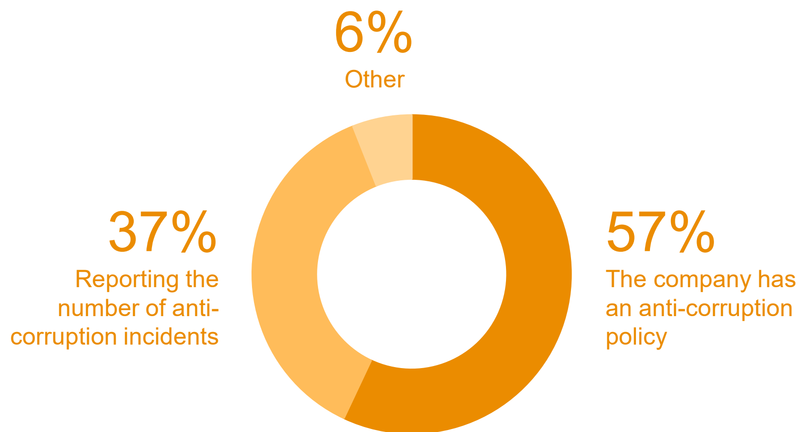
03. Indicators related to accident ratios | The company has a code of ethics

04. Indicators related to the number of discrimination cases and methods of resolving them

05. The company has a diversity policy | Indicators related to workforce diversity

Question: Which indicators illustrating employee relations in a company do you see as crucially important?

The anti-corruption issues that investors see as the most important



The answers listed as "other" included:

- Difficulty in capturing anti-corruption efforts with quantitative indicators.

Question: Which of the indicators related to anti-corruption policy do you see as the most important?

It should be noted that nearly 60% of the investors surveyed indicate having an anti-corruption policy as the most important factor in anti-corruption activities. Anti-corruption incidents are another factor that investors find important.

New conditions for raising capital

Recommendations from experts

New capital for corporate sustainability

Climate change is happening. Merely asserting this over and over will not change much. What we need is a green transition, which means reducing greenhouse gas emissions so as to achieve climate neutrality by 2050. Finance must play a key role in providing the economy with the capital needed to effect such a green transition. Low-emission technologies are highly capital-intensive and therefore require significant investments – hence the enormous role of the banking sector and capital markets. In addition, the dramatic impact of the COVID-19 pandemic on the global economy has made us even more acutely aware of the need for a different approach to investments and resource management.

Both investors and customers will be watching how businesses are integrating climate issues, environmental protection, social responsibility, and good practices of corporate governance into their strategic and operational objectives. Businesses that do not take such steps and prove unable to present their efforts in the ESG area will be less likely to raise capital in the long term and will risk low valuation, in addition to having difficulties in retaining supply-chain partners.

Moreover, the EU's progressive regulatory agenda leaves no illusion. The focus on environmental, social, and corporate governance issues is driven by the expectations of investors and regulators. However, this does not mean that investors are no longer interested in superior operational and financial performance. New capital will flow more quickly and at lower costs to businesses that have ESG as part of their DNA – in other words, to businesses that have incorporated ESG into their strategies, policies, and processes, therefore allowing them to aim for robust financial performance in the long term.

Expert commentary

Agnieszka Słomka-Gołębiowska, PhD, DSc

Associate Professor at the Warsaw School of Economics (SGH), Chairwoman of the Supervisory Board of mBank, Member of the Supervisory Boards of Budimex and Ghelamco, and Member of the UN World Food Programme Audit Committee

Environmental issues provide strong signals in the credit quality assessment of both businesses and countries

At NN Investment Partners, we take ESG factors into account when managing a great majority of the funds that are entrusted to us. Several years ago, ESG integration pertained to a small share of global assets. Today, however, we can see that this topic has become an indispensable element of the investment process alongside fundamental analysis. This situation results both from the changing preferences of customers, who are increasingly likely to pay attention to the impact of their actions on the natural environment and society, and from new regulatory requirements intended to foster sustainability by impacting on the financial institutions.

The impact of the results of ESG analysis on stock valuation has been studied for many years. Recently, however, it has become evident that climate change also affects the prices of other asset classes. We can notice this for example when we compare yields of bonds issued by countries that are oil exporters or importers. For the past two years or so, investors have required a higher risk premium from oil exporters because they believe that a time of lower government revenue, potential growth in debt, and worsened social and political stability is approaching.

All of these factors are linked to a decline in the credit rating of these countries. Rating agencies continue to stress that corporate governance is the most important factor behind credit risk. Nevertheless, climate change is growing in importance, and analyses show that environmental issues, including carbon dioxide emissions, also provide strong input into the credit quality assessment of both businesses and countries.

Expert commentary

Joanna Ałasa

CFA, ACCA, Investment Advisor,
Senior Analyst
at NN Investment Partners TFI

ESG is a long-term trend, not a passing fad

The survey results show that issues related to ESG criteria are not a passing fad, but a long-term trend. The answers provided by investors reveal a change in the approach to the integration of ESG criteria into decision-making and should serve as important pointers to both listed and private companies. Institutional investors have a fiduciary duty towards their clients, which means acting in their best interest. In order to fulfill this duty, they need quality data that are comparable across companies in terms of the environment, climate change mitigation, social issues and employee matters, respect for human rights, as well as anti-corruption and anti-bribery measures.

In order to integrate these aspects into decision-making, institutional investors must select those indicators that are financially relevant, which means that changes in such indicators must affect the level of revenues/costs, assets/liabilities, and the cost of capital. For this reason, companies should take a closer look at the non-financial data that they publish to see if they include aspects that are relevant for capital owners.

For businesses that have not published such data yet, now is the high time to start. Also, as ESG criteria become more strongly integrated into the decisions made by institutional investors, such issues will come to be included in the reports and recommendations made by stock analysts from brokerage offices and houses.

Expert commentary

Milena Olszewska-Miszuris
CFA, ACCA
CFA Society Poland,
The Association of Independent Non-Executive Directors

Expert commentary

ESG is only seemingly just another regulatory requirement. Although this is just the beginning of a long journey, the institutional clients of banks are beginning to realize that qualitative factors will be significant from the perspective of access to financing and its cost.

From the perspective of the capital market in Poland, only 40% of investors now take qualitative factors into account to a significant extent* in the process of assessing investments. Their declarations indicate that this share will rise to as much as 86% within two years. The scale of the expected changes at the general European level will be even more evident, because over 70% of asset management professionals do not plan to invest in ESG non-rated assets after 2023.

In turn, the banking sector, which is a key source of financing for businesses in Poland, has already started to indirectly include ESG aspects in its credit policy. As part of mandatory disclosures, banks will make declarations regarding for example the scale of their engagement in high-emission sectors or the method of incorporating qualitative factors in their credit policy. Although hard regulatory limits have yet to be set, banks have taken matters into their own hands. Some are voluntarily limiting the amount of financing for some sectors of the economy and shifting towards support for the green transition. The scale of banks' engagement in projects with sustainable ESG ratings will impact on demand among investors holding bank shares and, consequently, on the stock market valuation of banking sector assets.

*the weight of qualitative factors >= 25%

Przemysław Paprotny

Partner at PwC,
Financial Services Leader

“Best Practice 2021” as a signpost guiding businesses in the area of corporate governance

Expert commentary

In the context of ESG, there is a lot of talk about green businesses and the transition of economies towards climate neutrality and more environmentally friendly solutions. In light of the climate challenges facing us, it is understandable that so much emphasis is being placed on environmental issues, but we must not forget that ESG and related initiatives also involve social and governance issues. In particular, I would like to highlight the latter aspect, namely corporate governance. It is yet another area that stands a chance of becoming part of the green transition in light of heightened interest in ESG issues on the part of the markets and regulators.

Investors are interested in companies with top-notch corporate governance because it makes them feel significantly more comfortable when it comes to the implementation of strategic priorities by companies and their management of key risks, assuring them that their interests as shareholders will be adequately protected. Although the Polish market has made considerable progress in corporate governance in recent years, we still have a long way to go, as we are reminded from time to time by various financial scandals and aggrieved shareholders. Such situations are typically caused by such factors as inadequate supervision on the part of the supervisory board and its lack of relevant competencies, the absence of internal audit, and a generally poor system of internal control. The coming years will be marked by growing demand for investments not only in green businesses, but also in companies that can boast mature corporate governance. It will be necessary to look at corporate governance more broadly, not only from the perspective of a company’s own operations, but also those of the capital group and, in many respects, the entities that comprise the whole value chain. This has been discussed by investments funds, and it also stems from the regulations that are coming into force.

The recently approved “Best Practice for GPW Listed Companies 2021” (“Best Practice 2021”), which comes into force on 1 July 2021, may prove helpful. The revised “Best Practice” is shorter and clearer in form, and it will certainly serve as a good signpost guiding listed companies in the implementation of corporate governance principles. In addition, we will witness regulatory changes in this respect, as pledged by the European Parliament, which published the draft Directive on Corporate Due Diligence and Corporate Accountability on 10 March 2021.

Krzysztof Szułdrzyński

Partner at PwC,
Co-creator
of the Supervisory Boards Forum,
Member of the GPW Corporate
Governance Consultation Committee

Corporate responsibility in the value chain

Managing adverse impacts in the value chain entails identifying, assessing, preventing, and mitigating adverse impacts in terms of human rights, the environment, and governance. This, in turn, requires coordinated preparation and implementation efforts at the level of both listed companies and at least the providers of policies ensuring an adequate level of protection. The survey results show that a majority of investors see having an anti-human trafficking policy and a suppliers' code of conduct or policy as the most important aspects for responsible and sustainable operations.

When implementing policies in the value chain, it is necessary to set priorities and maintain proportionality in terms of both ESG issues and the methods of preventing adverse impacts on human rights, the environment and good governance – which does not mean that due diligence requirements can be completely shifted elsewhere, for example to suppliers. Fundamental human rights, which are universal in their nature and include freedom, the protection of children's rights, the provision of safe working conditions, and non-discrimination, must not be a matter of choice, and the same holds true for example for violations of ecosystems that deprive local communities of water resources or soil cultivation opportunities. When such impacts are present, provisions should be made for adequate and feasible measures at the company level.

On 10 March 2021, the European Parliament published the aforementioned draft Directive on Corporate Due Diligence and Corporate Accountability, proposing the establishment of an EU-wide standard of care and the alignment of the strategies in this area with the EU's sustainability goals. The Parliament expects the European Commission to develop a set of due diligence guidelines, including consistent methodologies and clear metrics to measure impacts and progress in the areas of human rights, the natural environment, and corporate governance along with appropriate audits in this field. Nevertheless, the Parliament can see that small and medium-sized listed companies may need less extensive and less formalized due diligence processes. In addition, the Parliament notes that the degree and likelihood of ESG compliance threats may be greater in certain sectors (for example the garment industry) and geographic locations.

Expert commentary

Ilona Pieczyńska-Czerny

Regulation Director at PwC

Failing to address ESG issues in an organization could mean giving an advantage to competitors

ESG issues have been part of the activities undertaken by regulators for years. Recently, we have seen on multiple occasions the introduction of specific guidelines in previously unregulated areas related to sustainability. Examples include the Directive (EU) of the European Parliament and of the Council on the protection of whistleblowers. It requires member states to implement relevant regulations not only to introduce specific procedures, establish reporting channels, and protect whistleblowers, but also to introduce changes in organizational culture. Large-scale training and communication activities are needed to eliminate the stigmatization of whistleblowers as “snitches” and simultaneously to encourage stakeholders to make use of the new solutions.

The regulation of areas related to sustainable development at many levels means that only decisive action on the part of companies will allow them to remain competitive, which translates into the possibility of raising capital. For example, as many as 92% of the respondents declare that they have an anti-corruption and anti-bribery policy in place. For this reason, failing to address this issue in an organization may mean giving an advantage to competitors.

In recent months, we have observed a significant rise in our clients’ awareness that the solutions implemented to ensure compliance bring them benefits that go beyond competitiveness. For example, in the area of reporting irregularities, the motives behind the establishment of whistleblower protection systems include not only avoidance of sanctions, but also the possibility of identifying and preventing fraud and therefore also preventing financial losses and reputational damage.

Expert commentary

Angelika Ciastek-Zyska

Director at PwC,
Forensic Services Team

Sustainability strategy – a regulatory requirement or a long-term ambition?

Significant regulatory changes and the transition towards sustainable long-term operating models currently pose a major challenge for business organizations. The pace and direction set by the European Commission as well as international organizations and global initiatives, including the United Nations and the World Economic Forum, leave no doubt: businesses around the globe must pursue responsible development, taking into account not only growth in revenues but also the impact of their activities on the environment in which they function. In addition, there is pressure from business stakeholders, including customers and employees, who are increasingly sensitive to corporate social responsibility issues. In 2015 the United Nations set up 17 Sustainable Development Goals (SDGs). Businesses are free to choose which of these goals they want to integrate into their corporate strategies. Simultaneously, we can observe advancing regulatory changes aimed at helping companies to achieve these goals. European funds and private capital will support changes in this area. Sustainability may act as a catalyst for long-term growth, and ESG challenges may turn into real and significant benefits.

Companies should now consider the following questions:

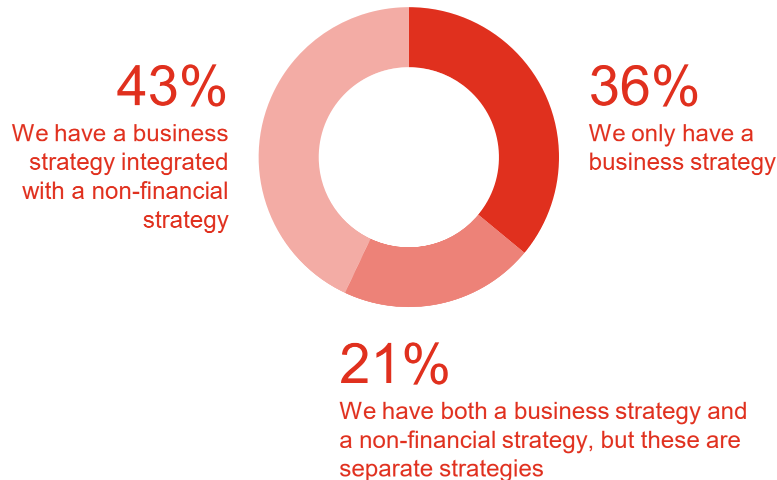
- What are the most significant risks and green transformation areas facing the company?
- What investments and resources will be needed in this field in the coming years?
- How to integrate the ESG goals into the business strategy?
- How to identify ESG benchmarks and sector trends?
- How to develop solutions to create long-term value in harmony with sustainable development?
- How to effectively use the resources that are available to boost the value of the company in the eyes of customers and investors?
- What expectations do the company’s stakeholders have in the area of ESG, and how should they be met?

Key findings

- Only 43% of companies have an integrated business and sustainability strategy, while 36% of the respondents have no non-financial strategy in place. Supervisory boards rate the degree to which the business goals of companies are linked to ESG goals as very low.
- **For half of the companies surveyed, non-financial reporting is a matter of compliance.** Only 43% see this as an opportunity to present their sustainability strategy and its impact on value creation in the long term. Among the respondents, 20% have a plan for implementing the strategy, and 15% have a designated management board member responsible for the implementation of this plan.
- **According to 25% of the supervisory board members surveyed, the management boards of their companies do not address ESG issues.**
- **In light of the above, the most common situations currently include making sure that the company meets the regulatory requirements for non-financial reporting (75%) and examining ESG issues when monitoring risks (42%).**
- **Among the non-financial issues included in the risk management process in companies, supervisory board members and listed companies indicated: climate and the environment, employee matters, corporate governance and the related area of anti-corruption activities,** followed by social issues and human rights. Respondents also expanded this list by mentioning cybersecurity.
- Almost half (46%) of the supervisory board members surveyed report that non-financial aspects are not reflected in the remuneration policy for management boards. If such factors are present, they chiefly pertain to employee matters and corporate governance.
- Currently, only a small percentage of listed companies declare that they take a systematic approach to climate and environmental issues – 9% say they already have an environmental policy (with 13% working on one), while 4% report that they have a climate policy (again with 13% working on one).
- Companies are a lot better prepared to address social, employee, and human rights issues. They declare that they have codes of ethics (31%), remuneration policies for all employees (28%), whistleblower protection policies (22%), supplier policies (39%), and supplier audit policies (28%)
- In addition to audits, the respondents indicated other methods they use to evaluate suppliers, including assessment based on publicly available information as well as certificates and documents provided by suppliers.
- 92% of the respondents declare that they have an anti-corruption and anti-bribery policy.
- Just over 10% of listed companies declare that they have a diversity policy. Listed companies see gender diversity and competencies diversity as the biggest challenges in this area.

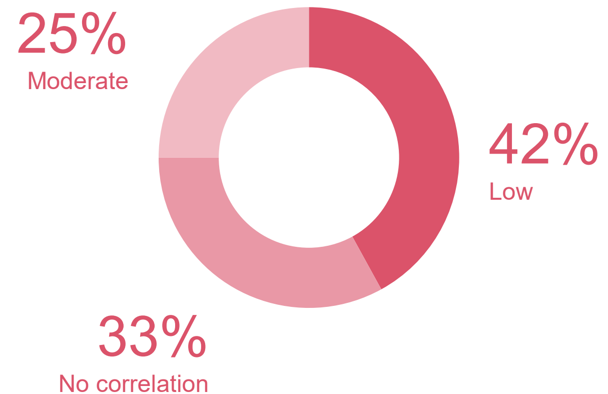
Only 43% of companies have an integrated business and sustainability strategy, while 36% of respondents have no non-financial strategy in place. Supervisory boards rate the degree to which the business goals of companies are linked to ESG goals as very low.

The relationship between the business strategy and the sustainability strategy



Question: Which statement best describes the relationship between your company's business strategy and sustainability/social responsibility strategy (called a non-financial strategy)?

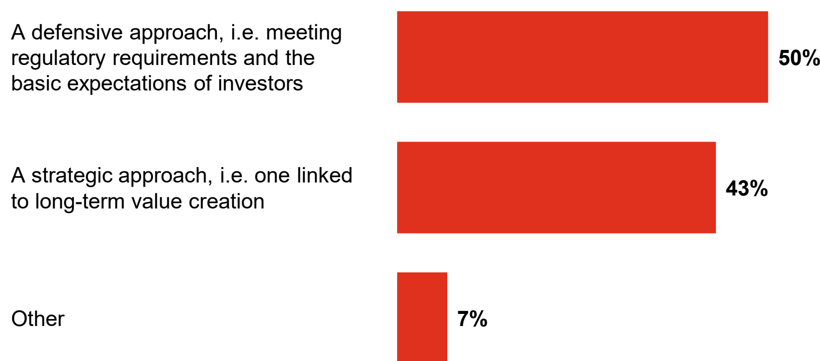
The degree of correlation between business goals and ESG goals (from the perspective of supervisory boards)



Question: What is the degree of correlation between business goals and ESG goals in the companies you supervise?

For half of the companies surveyed, non-financial reporting is a matter of compliance. Only 43% see this as an opportunity to present their sustainability strategy and its impact on value creation in the long term. Among the respondents, 20% have a plan for implementing the strategy, and 15% have a designated management board member responsible for the implementation of this plan.

The approach to non-financial reporting in listed companies

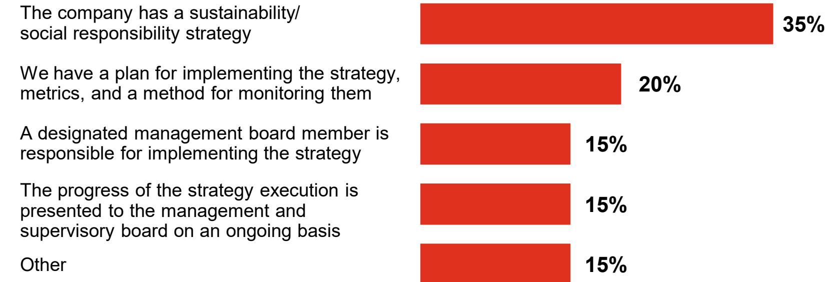


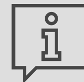
The answers listed as "other" included:

- linking non-financial reporting to information culture.

Question: What is your company's approach to non-financial reporting?

The approach to sustainability in listed companies



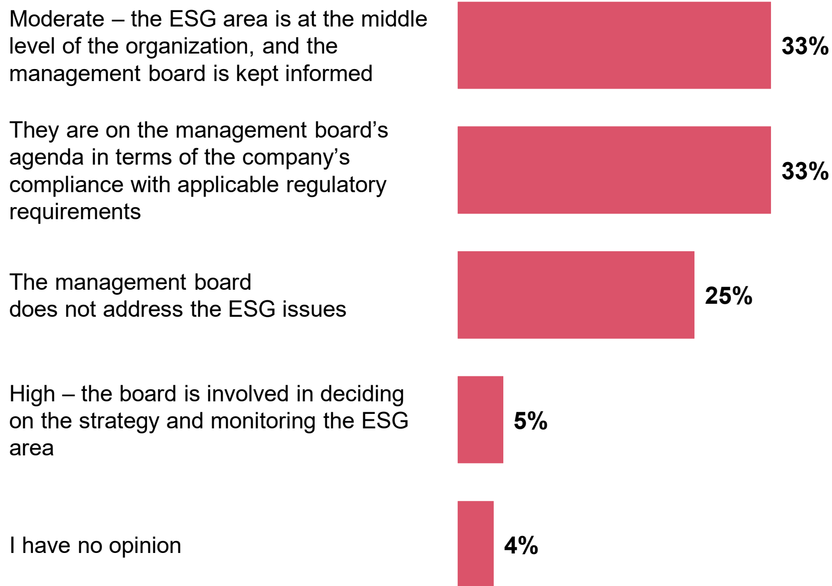


The answers listed as "other" included:

- we do not take this into account,
- we conduct many initiatives that meet the ESG criteria, but we do not create additional documentation,
- the company has no sustainability strategy.

Question: What is your company's approach to sustainability/social responsibility?

The place of the ESG issues on the management board's agenda



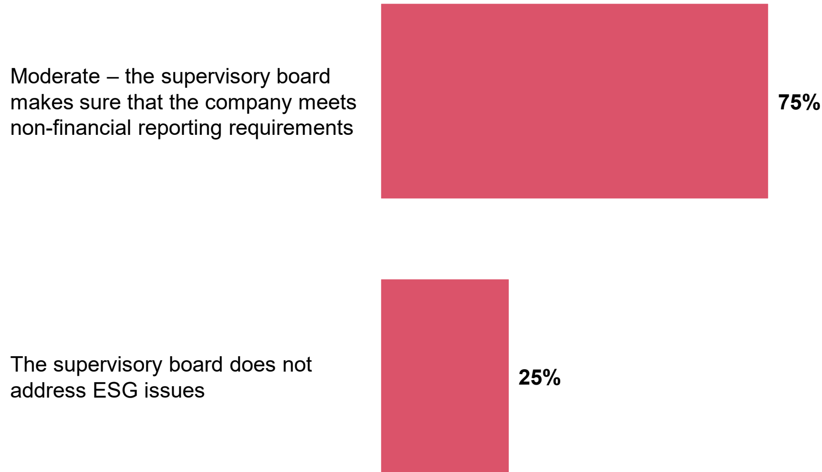
Question: In your opinion, how high are ESG issues on the management board's agenda?

25%

of the supervisory board members surveyed report that the management boards in the companies they supervise do not devote attention to ESG issues.

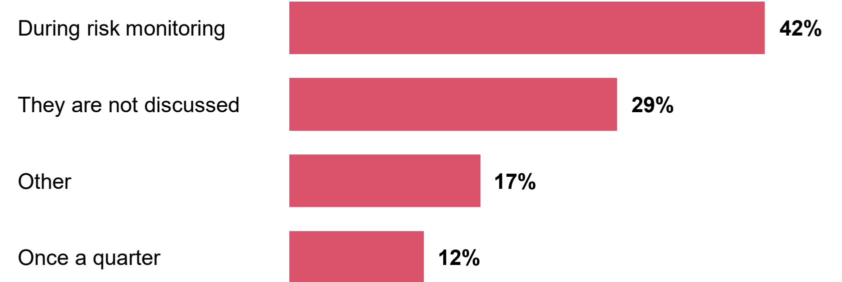
One-quarter of the surveyed supervisory board members declare that ESG issues are currently not part of their agenda. The most common situations now include making sure that the company meets the regulatory requirements for non-financial reporting (75%) and discussing ESG issues when monitoring risks (42%).

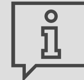
The place of ESG on the agenda of supervisory boards



Question: In your opinion, how high are ESG issues on the supervisory board's agenda?

How often ESG topics are raised at supervisory board meetings





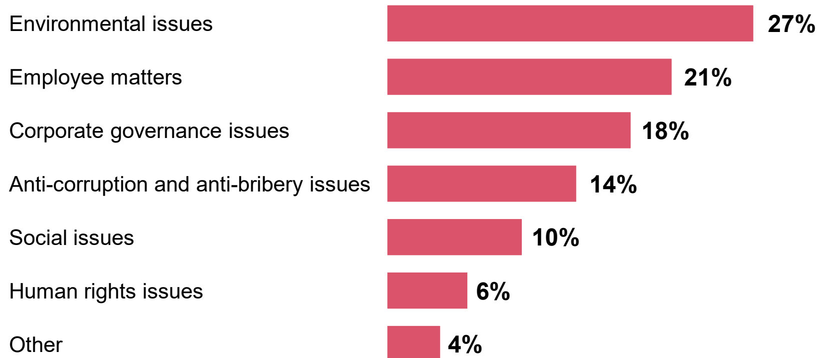
The answers listed as "other" included:

- whenever a specific topic is linked to ESG,
- during annual reporting,
- once every six months,
- sporadically, in specific situations in this area.

Question: How often are ESG issues raised by the supervisory board, and in particular by the audit committee?

Among the non-financial issues included in the risk management process in companies, both supervisory board members and listed companies indicated climate and the environment, employee matters, corporate governance and the related area of anti-corruption measures, followed by social issues and human rights. Respondents also expanded this list by mentioning cybersecurity.

The most common areas of non-financial risks observed by supervisory board members are:

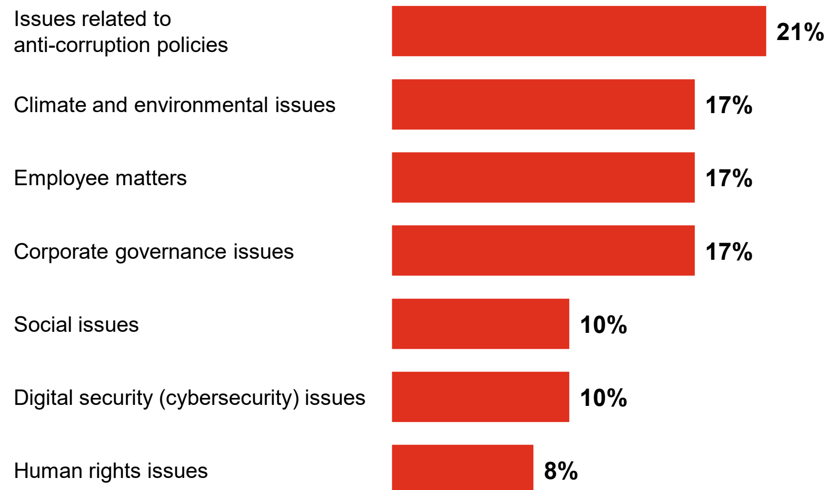


The answers listed as “other” included:

- cybersecurity,
- diversity.

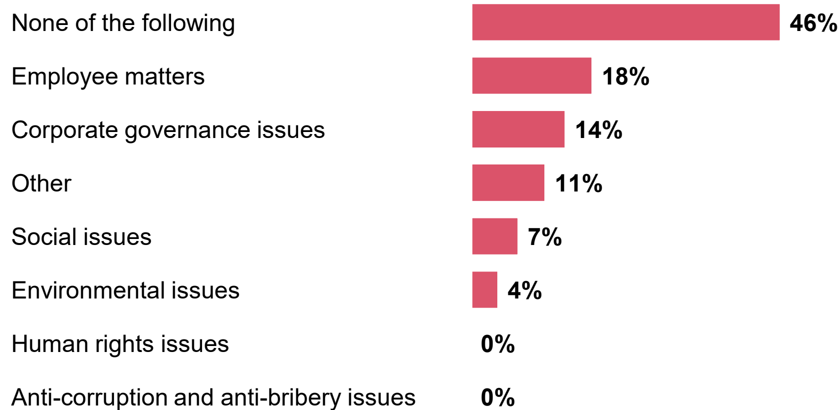
Question: What are the most common areas of non-financial risks in the companies you supervise?

In the process of managing non-financial risk, listed companies usually take into account:



Question: Which of the following areas are taken into account in your company’s risk management process?

ESG aspects reflected in the remuneration policy for the management board



The answers listed as “other” included:

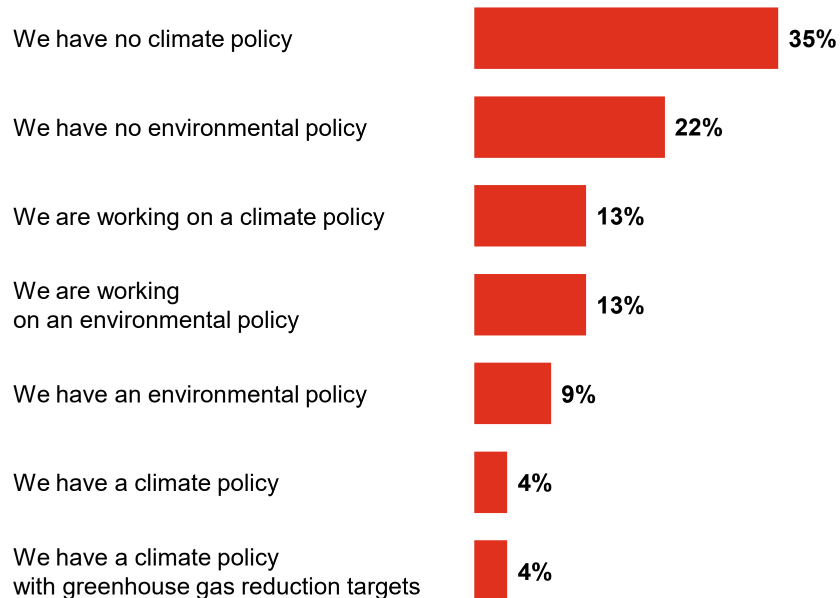
- accident rates at the production facility,
- indirect integration into the remuneration policy (in the discretionary part of the incentive scheme).

Question: Based on your experience, which non-financial aspects were most commonly integrated into the remuneration policy for the management board?

46%

of the supervisory board members surveyed indicate that non-financial aspects are not reflected in management board remuneration policies. If these factors are present, they chiefly pertain to employee matters and corporate governance.

Readiness to implement climate and environmental measures in listed companies

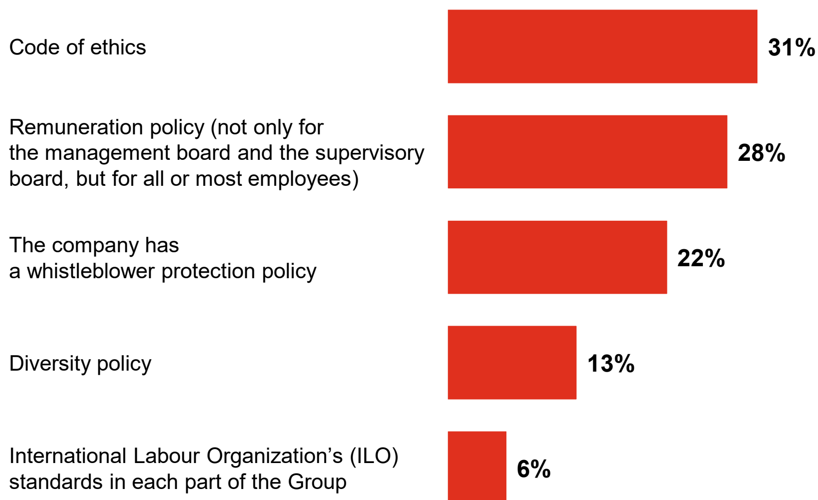


Question: Which statement best describes your readiness for reporting on environmental and climate issues?

Currently, only a small percentage of listed companies declare that they take a systematic approach to climate and environmental issues – 9% say they already have an environmental policy (with 13% working on one), while 4% report that they have a climate policy (again with 13% working on such a policy).

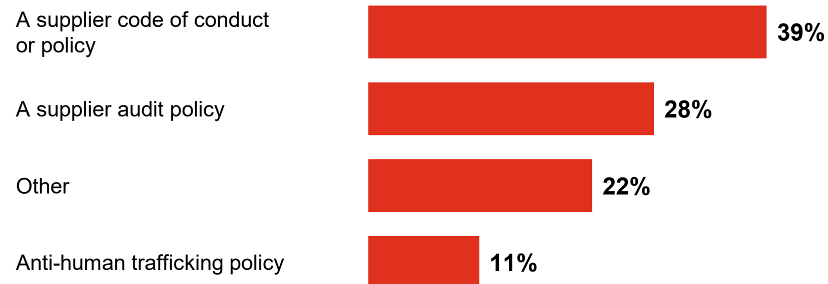
Companies are a lot better prepared to address social, employee, and human rights issues. They have codes of ethics (31%), remuneration policies for all employees (28%), whistleblower protection policies (22%), supplier policies (39%), and supplier audit policies (28%).

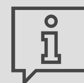
Internal regulations on social and employee issues



Question: Which document has your company implemented in the area of social and employee issues?

Company policies on human rights related aspects





The answers listed as "other" included:

- the supplier code of conduct includes provisions related to human trafficking and supplier audits,
- a code of ethics and internal regulations on suppliers,
- none of the above.

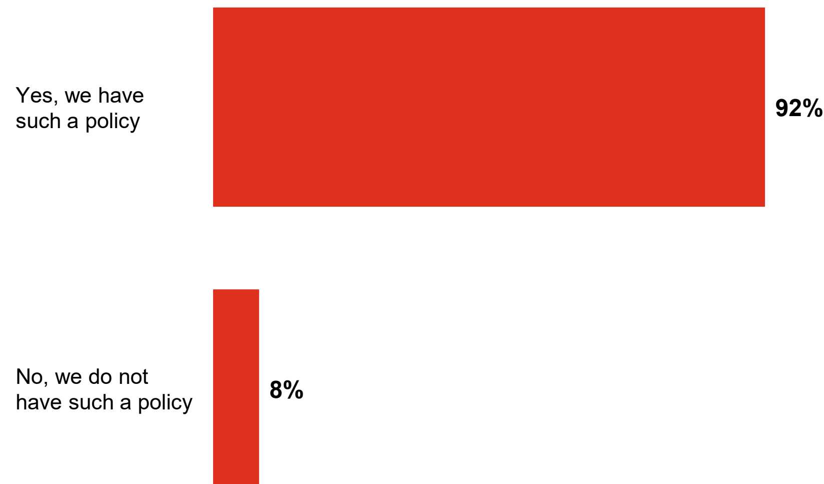
Question: Which policies do you have in the area of human rights?

In addition to audits, the respondents indicated other methods they use to evaluate suppliers, including assessment based on publicly available information as well as certificates and documents provided by suppliers. Among the respondents, 92% declare that they have an anti-corruption and anti-bribery policy.

Measures taken by listed companies with respect to suppliers

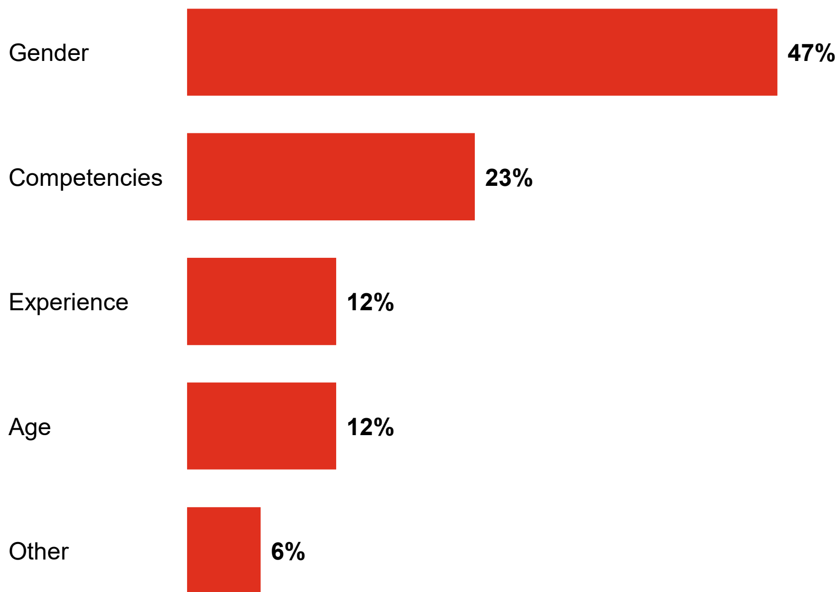
Question: What measures does your company take with respect to suppliers?

Anti-corruption and anti-bribery policy



Question: Do you have an anti-corruption and anti-bribery policy?

The biggest difficulties in the area of diversity are related to:



Question: In the area of corporate governance, which aspect of ensuring diversity in the company's governing bodies poses the biggest difficulty for you?

13%

of listed companies declare that they have a diversity policy. They see gender diversity and competencies diversity as the biggest challenges in this area.

Sustainability strategy – a regulatory requirement or a long-term ambition?

Recommendations from experts

ESG standards as practical tools for building responsible and sustainable businesses

Expert commentary

In my opinion, the data presented in this report reveal a disconcerting picture of the approach taken both by many listed companies and by their supervisory boards have in terms of risk management and business value creation. In late 2015, businesses could focus solely on just "ticking off" ESG regulatory requirements. In 2021, however, the same approach implies a failure to understand what supervisory and management boards should actually do.

Informed and modern management boards should apply ESG standards, which are practical tools for building responsible and sustainable businesses, as an indispensable part of their daily work. Some of these standards, such as anti-corruption policies, multidimensional diversity, cybersecurity, and responsible supply-chain management, should be seen as obvious business indicators, much in the same way as margin, EBITDA, and sales growth. ESG standards have a long history and established models of use, and it is easy to find textbooks or guidelines on their implementation. If these standards are not applied, it simply shows that managers are not adequately prepared for their role.

From my perspective as an investor and as a supervisory board member, I expect management teams to treat ESG in the same way as they treat financial goals and to be able not only to implement them swiftly, but also to establish reliable metrics and a transparent reporting system.

Obviously, some standards, for example those related to the transition to climate neutrality or the adaptation of business models to climate change, still require a much greater amount of analytical work and efforts to find a formula suited to the specific type of business. Despite the challenge that is undoubtedly posed by the development of adequate environmental policies and flexible climate models, however, their absence will soon not only lower the valuations of such companies, but even force them to face a shortage of liquidity and major reputational risks. For me, understanding that the climate is undergoing irreversible change has an impact on all types of businesses and must be an integral part of every strategy, in addition to being a measure of the maturity and responsibility of managers.

I am pleased with the adoption of the SFDR in Europe, and I hope that if the same survey is carried out again in 2022, it will reveal a diametrically different picture of the Polish capital market.

Monika Nachyła

Partner at Abris Capital Partners;
Member of the Supervisory Boards of Orange Polska, Velvet Care, Graal, and BGŻ BNP Paribas

ESG on the agenda of supervisory and management boards – the beginning of a campaign aimed at systemic change

The capital market has reached such a level of development that all of its participants agree it is absolutely necessary for public companies to develop and implement policies in the areas of environmental and social issues as well as broadly-understood corporate governance. The three-letter acronym “ESG” now appears to be permanently embedded in the strategy, business, and plans of management boards, with supervisory boards monitoring the impact of companies on the environment, on their surroundings, and on stakeholders.

However, the battle is not over yet – on the contrary, to continue the military metaphor, this is just the beginning of waging a long campaign aimed at effecting systemic changes, especially inside organizations. Also, I would definitely caution against excessive optimism about the approach of market participants to ESG. Although there are numerous businesses that are model examples of caring about values and act ethically in every area of their corporate life, while at the other extreme are many entities that restrict themselves to meeting the minimum regulatory and reporting requirements.

The governing bodies of public companies are faced with a major challenge that involves bringing strategic ESG goals “inside” their organizations in such a way that they become part of their companies’ DNA, and not merely marketing buzzwords.

Expert commentary

Piotr Nowjalis

CFO at MerXu
Member of the Supervisory Boards of Dino Polska SA and CompSA,
Member of the Association of Independent Non-Executive Directors

What is a sustainable business strategy?

As we have already mentioned, ESG regulatory requirements will be a significant factor influencing strategies and the future shape of business models.

What does this mean in practice? Above all, far-reaching changes. Everyone should ask themselves several strategic questions. Assessing to what extent the existing business model is aligned with the expectations of customers, business partners, employees, the communities around us, owners (including minority owners), and providers of finance is fundamentally important. Each of these aspects can be considered in seven dimensions:

1. Business potential
2. Cost effectiveness
3. Operational efficiency
4. Employee engagement
5. Access to finance and its cost
6. The method of allocating financial surpluses
7. Compliance with legal requirements

Nevertheless, we must remember that the economic transition will not happen overnight. The goals, market potential, and costs associated with adaptation to changes resulting from ESG will most likely vary depending on whether we are talking about consumers, businesses, or financial institutions. In discussions about ESG adaptation, there is talk about an “ESG journey,” which implies that the transition process will vary greatly in terms of time, investments, and intensity as well as market opportunities.

Expert commentary

Przemysław Paprotny

Partner at PwC,
Financial Services Leader
Strategic Advisor

The non-financial goals included in the remuneration policy should contribute to the performance of the company's long-term goals

We have reached, it seems, a very interesting moment in terms of the operationalization of ESG activities. Mounting regulatory pressure and the fact that fully 80% of investors include ESG issues in the valuation of companies to a smaller or greater extent encourage the integration of these issues into strategies and efforts to set concrete goals. This means such solutions as developing a whistleblower protection policy and a code of ethics, but also addressing specific employee, social, and environmental issues such as the gender pay gap and other examples of inequality (which not only improves investor relations but also entails a range of significant business benefits). In the area of the environment, in turn, the goals related to the reduction of greenhouse gas emissions, energy and water consumption, and the amount of waste, including plastic waste, will quickly make their way onto the agenda of companies.

There are already opinions about the need for broader integration of ESG aspects into remuneration policies and the inclusion of non-financial bonus indicators. This year, supervisory boards for the first time performed assessments and provided explanations on how remuneration mechanisms contributed to the advancement of their companies' long-term goals. In practice, companies were not always able to present detailed quantitative data on non-financial goals. At the same time, consecutive regulations and recommendations require the presentation of goals related to sustainability risks. It therefore appears that this aspect should be given more consideration and clarified in the nearest future.

Expert commentary

Małgorzata Fiedorczuk

Vice-Director, People & Organisation, deals with employee aspects of ESG

What should a company climate and environmental strategy look like?

A company climate and environmental strategy is no longer just a catchy slogan. It represents a true need for an informed approach to how we interact with the environment that surrounds us. In addition, this strategy is increasingly likely to serve as a response to growing regulatory requirements as well as expectations on the part of financing institutions and other stakeholders. Also, it offers an opportunity to create business value in a rapidly changing business environment.

A climate and environmental strategy should be an integral part of the business strategy and cover the full range of the company's activities – one good practice is to cover the entire value chain. Addressing the company's impact on the environment is crucially important. In addition, climate and environmental risks facing the company are identified and incorporated into the risk management strategy.

"Net Zero" has become the global narrative for climate action on the agendas of both governments and business organizations. In order to stand a realistic chance of achieving zero emissions by 2050, we should take real action over the next few years. A company's climate and environmental strategy should cover not only mitigating the impact on climate but also adapting to climate change, preventing environmental pollution and degradation, protecting and supporting biodiversity and ecosystems, using resources in a sustainable way, and pursuing a circular economy. The goals specified in the strategy for different areas important from the perspective of the company's operations should be measurable and supported by concrete action plans, monitored, and subject to reliable reporting.

Achieving the goals set out in the Paris Agreement, the European Green Deal, and national environmental protection and climate strategies requires the involvement of the private and public sectors and their cooperation. The role of the public sector is, on the one hand, to define the framework for the green transition through regulations and standards, and on the other one, to provide effective support. In addition to emission limits, bans, and additional transparency requirements, the European Green Deal provides for funding for investments that support the EU's sustainability and low-emission objectives

Expert commentary

Agnieszka Gajewska

Partner at PwC,
Leader of ESG Practices in CEE

Non-financial reporting – the company's mirror in the area of sustainable development

Shareholders and investors are placing growing emphasis on the importance of sustainable long-term business models. These models are measured by reports on environmental, social, and corporate governance issues. If companies do not publish high-quality non-financial reports, they may soon face valuation problems as well as difficulties finding sources of financing and reaching out to investors and customers.

From the financial sector and capital markets all the way to all businesses regardless of the sector, non-financial reporting will be subject to strictly defined regulations and standards. Every company will be required to define and report on key risks and performance indicators in the area of ESG.

Non-financial reporting is one of the ways of informing the market, shareholders, and investors about the approach to sustainability taken by a specific company, its level of awareness, identification and management of ESG risks, and the extent to which stakeholder expectations are taken into account. It is also, and perhaps first of all, a way to showcase the company's strategy and the level of its implementation with a special focus on non-financial issues (ESG). Other important issues include the purpose of reporting: is it a matter of strategy, compliance, or the desire to obtain financing?

There are many non-financial reporting standards and frameworks. They should be treated as complementary, and it is possible to apply them together. A framework is a set of principles and guidelines on the structure of the whole of the report and its individual sections. Standards are detailed guidelines on the scope of information that should be included in the report (see the box on the right). They are primarily aimed at making non-financial criteria (risks and opportunities) measurable and assessing their impact on the situation of the company and its long-term development.

Key findings

- **Regulatory requirements were the top reason why 50% of the listed companies we surveyed started non-financial reporting. This is presumably why half of the respondents started this process 3–5 years ago, in connection with the entry into force of the Non-Financial Reporting Directive (NFRD).**

- Compiling non-financial information is most commonly the responsibility of the PR/communication department (36%), followed by the controlling/finance department (23%). Only 36% of respondents have their non-financial reports examined by external auditors.

- **Among Polish listed companies, the prevalent approach to non-financial reporting is based on the GRI Standards (35%).** Companies also use their own approach (20%) or the Non-Financial Information Standard (SIN) (15%), whose development was coordinated by the Reporting Standards Foundation and the Polish Association of Listed Companies (SEG).

- The surveyed members of supervisory boards most commonly point to no correlation between non-financial reporting and business strategies in the companies they supervise (41%). In their opinion, the environmental area poses the biggest reporting challenge for companies (29%). Difficulties may also arise in the areas of corporate governance, social issues, and human rights.

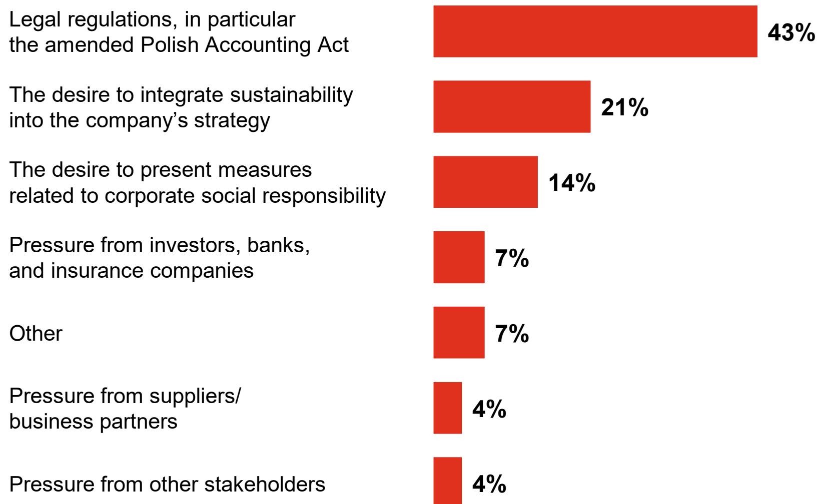
- **Representatives of listed companies who took part in the survey regard the carbon footprint-related indicators as the most complicated in the process of reporting on climate and the environment. Investors see access to data from outside the organization as posing the biggest difficulty in such reporting.**

- **Nearly 60% of the respondents declare reporting of climate-related information in compliance with the European Commission's Guidelines on non-financial reporting:** Supplement on reporting climate-related information (2019/C 209/01).

- **Both investors and supervisory board members rate their current level of knowledge on non-financial reporting as intermediate. The market needs broad education and awareness-raising efforts in the area of sustainability, non-financial risks, and reporting.**

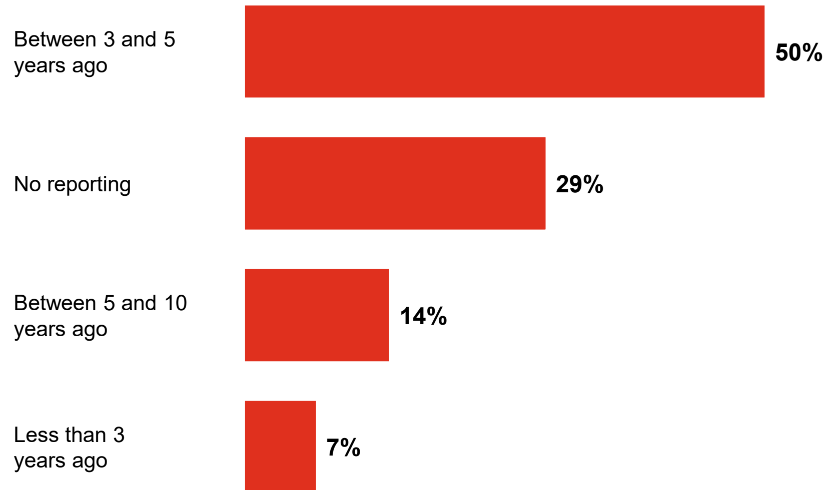
Regulatory requirements were the top reason why 50% of the listed companies we surveyed started non-financial reporting. This is presumably why half of the respondents started this process between 3 and 5 years ago, in connection with the entry into force of the Non-Financial Reporting Directive (NFRD).

Reasons why the company started non-financial reporting



Question: What was the reason why you started non-financial reporting?

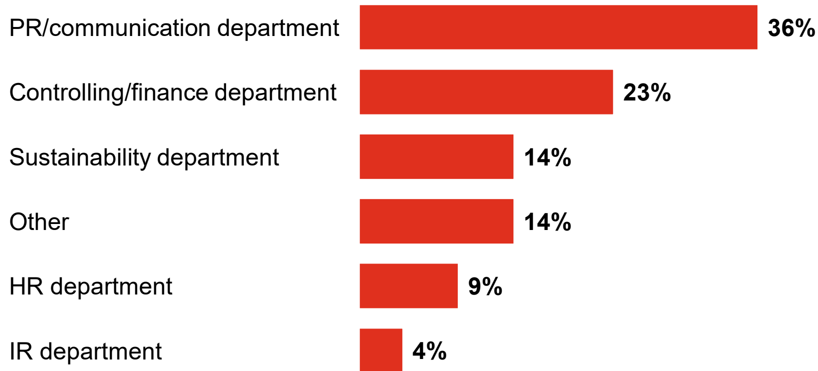
The start of non-financial reporting in companies



Question: When did you start the process of non-financial reporting?

Compiling non-financial information is most commonly the responsibility of the PR/Communication Department (36%), followed by the controlling/finance department (23%). Only 36% of respondents have their non-financial reports examined by external auditors.

Departments that compile non-financial information

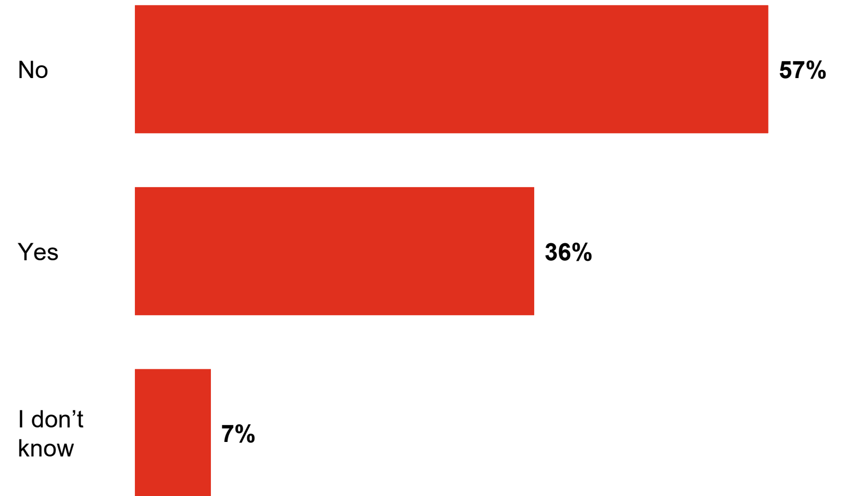


The answers listed as “other” included:

- the non-financial reporting team,
- the legal department; the Group’s Business Reporting Office.

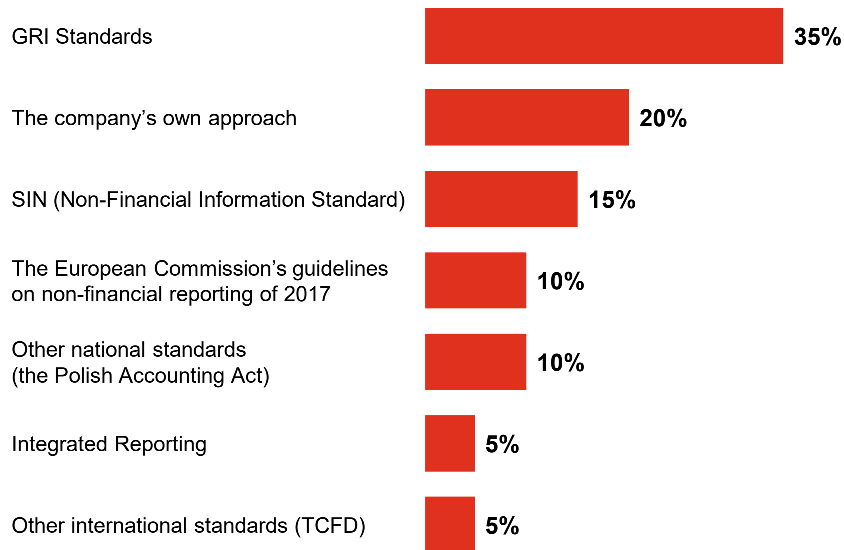
Question: Which department(s) are responsible for compiling non-financial information for reporting purposes in your company?

Verification of non-financial reports by an external entity



Question: Have your non-financial reports been verified by an external entity?

Non-financial reporting standards and guidelines applied by listed companies

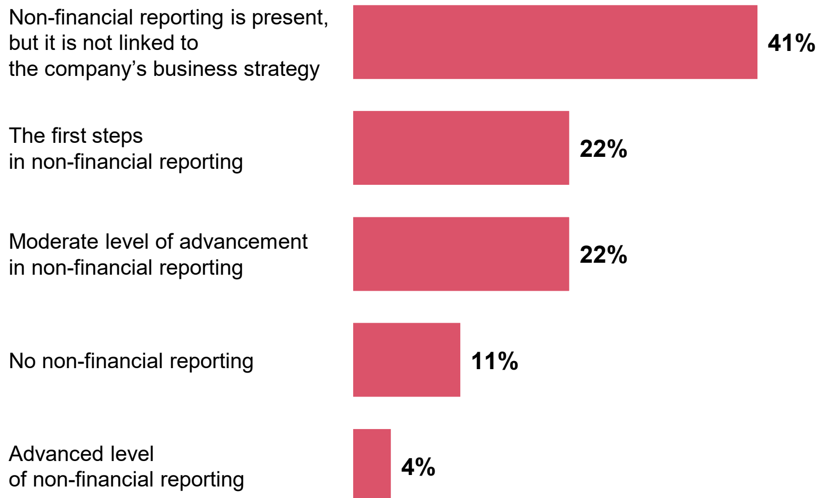


Question: Which national and/or international non-financial reporting standards and guidelines did you use in 2020 when compiling non-financial information for 2019?

Among Polish listed companies, the prevalent approach to non-financial reporting is based on the GRI Standards (35%). Companies also use their own approach (20%) or the Non-Financial Information Standard (SIN) (15%), whose development was coordinated by the Reporting Standards Foundation and the Polish Association of Listed Companies.

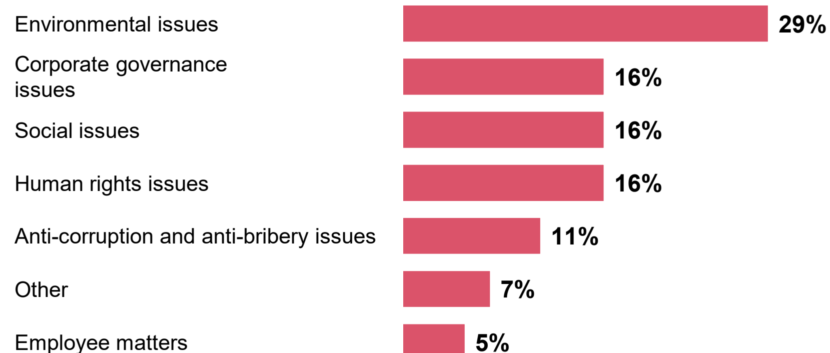
The supervisory board members surveyed most commonly report no correlation between non-financial reporting and business strategies in the companies they supervise (41%). In their opinion, the environmental area poses the biggest reporting challenge for companies (29%). Difficulties may also arise in the areas of corporate governance, social issues, and human rights.

Observations of supervisory board members



Question: What non-financial reporting situations do you most commonly observe in practice as a supervisory board member?

The areas posing the biggest reporting difficulties from the perspective of supervisory board members



The answers listed as "other" included:

- diversity issues.

Question: In your opinion, which of the following reporting areas is the most problematic for companies?

Representatives of listed companies who took part in the survey regard the carbon footprint-related indicators as the most complicated in the process of reporting on climate and the environment. Investors see access to data from outside the organization as posing the biggest difficulty in such reporting.

The level of complication of indicators related to:

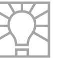
01. The carbon footprint, in particular the amount of greenhouse gas emissions

02. Biodiversity

03. Waste

04. Amount of water used

05. Amount of energy consumed



Question: How would you rate the level of complication of the reporting process with respect to environment and climate-related indicators?

More than half of the listed companies we surveyed use the European Commission's Guidelines on non-financial reporting of June 2019. Listed companies see access to data from outside the organization as posing the biggest difficulty in the area of the environment and climate-related indicators.

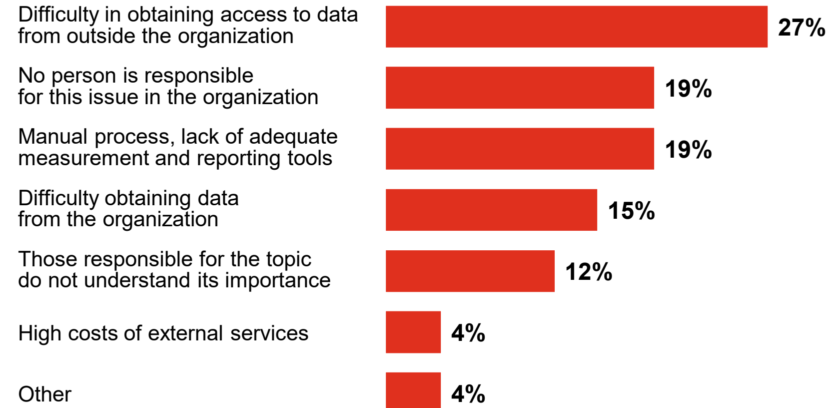
Standards and guidelines used by listed companies for reporting on climate and environmental issues

The answers listed as "other" included:

- guidelines developed by the SEG – SIN
- the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised Edition).

Question: Which standards or guidelines for reporting on environmental and climate issues did you use when compiling non-financial information for 2019?

The most important difficulties related to environmental and climate indicators



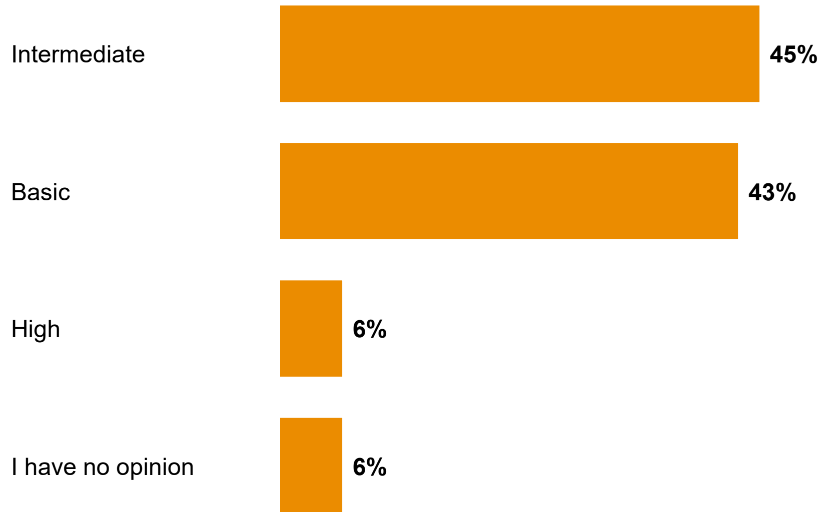
The answers listed as "other" included:

- complicated documentation; growing bureaucracy.

Question: Please indicate the most important difficulties related to environmental and climate indicators.

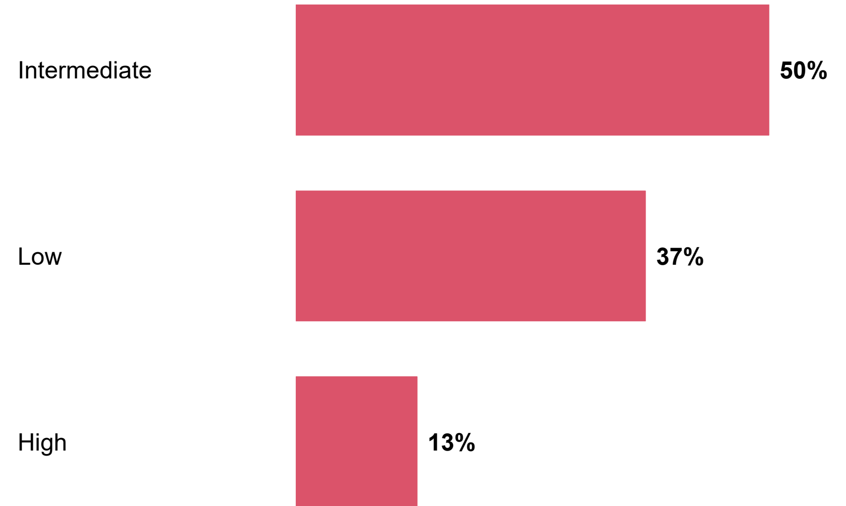
Both investors and supervisory board members rate their current level of knowledge of non-financial reporting as intermediate. A small share of respondents rate their level of knowledge as high. The survey reveals a market need for broad education and awareness-raising efforts in the area of sustainability and non-financial reporting.

Level of knowledge of non-financial reporting among investors



Question: How would you describe your level of knowledge of non-financial reporting?

Level of knowledge of non-financial reporting among supervisory board members



Question: How would you rate your knowledge of non-financial reporting?

Non-financial reporting – the company's mirror in the area of sustainable development

Recommendations from experts

Sustainability can pay

Expert commentary

The title of our report mentions “The Sword of Damocles.” As we have repeatedly indicated, such a sword – in the form of regulatory requirements – is now hanging over companies, meaning that they will have to adapt to the changes by 2023. But shouldn’t this situation be viewed as an impulse for strategic change that may translate into a business success, rather than as just a set of compliance tasks that only generate costs?

Since the adoption of the Paris Agreement in 2015, the co-responsibility for adverse climate impacts and the obligation to take action to mitigate them have been shared by all market participants, the public sector and the private sector. As part of the European recovery fund, financial resources will be allocated to transition projects in this area, and companies meeting specific conditions will be able to apply for funding. Consequently, it is worth preparing to apply already at the level of strategy and reporting.

In order to do so, businesses need two things:

1. to understand the economic benefits of the ESG transformations. This means debunking the commonly-held belief that measures taken in this area, treated as a matter of compliance with regulatory requirements that only creates costs, are associated with the erosion of shareholder value.
2. to prepare measurable business cases for projects in the ESG area.

This situation is reminiscent of an issue that now appears obvious to many companies in developed markets, namely the question of whether it is worth investing in occupational safety and why. Training and other activities in this area generate costs. Simultaneously, however, they lead to fewer accidents and less downtime, lower staff turnover rates, and a higher level of employee satisfaction, with the company enjoying a good reputation in the job market. Bringing this back to financial factors, investments in safety of work translate into lower costs, higher productivity, and greater shareholder value.

Krzysztof Szułdrzyński
Partner at PwC

What are the challenges currently facing businesses in the area of climate and environment reporting?

Companies must address two major aspects of climate and environmental reporting. These are, on the one hand, a growing number of regulations and, on the other hand, the expectations of customers, investors, lenders, and other stakeholders. Measures taken in this area should be integrated into the company's strategy and the resulting actions at the operational level.

This involves, first of all, deciding what is material, taking into account the stakeholders as well as the industry and the markets in which the company operates, and, secondly, developing a strategy in the area of ESG with a special focus on measures related to the impact on the environment, in particular greenhouse gas emissions and the generation of waste, chiefly plastics.

All environmental protection actions should be measured and subject to reporting, which entails properly defining the key indicators and targets, determining processes, assigning responsibilities within the organization, identifying data sources, and implementing the relevant tools. This makes it possible both to guarantee high-quality information and to lower costs, thus increasing return on investment.

Currently, we can observe that companies represent various levels of maturity, have various needs in each of these areas, especially in terms of calculating their carbon footprint, and still have a long way to go. Among the biggest climate reporting challenges, the respondents in the survey point to difficulty in accessing data from outside the organization. This observation is apt and relevant in the context of carbon footprint reporting, among other things. In this area, the biggest challenge is posed by the capturing of indirect emissions, which do not result from the company's operational activities.

Expert commentary

Piotr Rówiński

Partner at PwC

Now is a good time to prepare for new ESG reporting requirements

Expert commentary

Companies publishing non-financial reports, as well as those considering whether to do so, are faced with the choice between a wide range of ESG reporting standards and guidelines, often referred to as an “alphabet soup” of standards due to the multitude of abbreviations and acronyms. The EU’s actions are relevant for most companies in Poland. Announced on 21 April 2021, the proposed Corporate Sustainability Reporting Directive (CSRD) extends ESG reporting requirements to all large public and private entities (having an average of more than 250 employees per year) as well as listed small and medium-sized enterprises (SMEs). The directive also puts sustainability reporting on par with financial reporting. The first such reports are expected to be published by large companies in 2023. Also, the reports will be subject to mandatory external verification.

Now is a good time to prepare for the new requirements, and consideration should also be given to the international perspective. In my view, it will become increasingly important for companies whose shareholders include funds from outside the EU. In his open letters, Larry Fink, CEO of BlackRock, highlights TCFD- and SASB-aligned non-financial reporting as the most relevant for institutional investors. SASB stands for Sustainability Accounting Standards Board, which sets up non-financial reporting standards created with investors in mind. TCFD guidelines, in turn, are those created by the Task Force on Climate-Related Financial Disclosures.

Milena Olszewska-Miszuris

CFA, ACCA
CFA Society Poland,
The Association of Independent
Non-Executive Directors

Five steps towards high-quality non-financial reporting

If a company has not compiled non-financial information yet using available international reporting standards, it should reconsider this issue. Their application will definitely make the information more useful and the company better prepared for the upcoming changes in non-financial reporting. Here is a list of several steps towards high-quality non-financial reporting:

1. Identifying stakeholder groups, involving them in selecting key ESG issues, and assigning them relevant priorities. Universal reporting standards, such as the GRI Standards and the IIRF, will make it easier to perform this analysis.
2. Selecting quantitative and qualitative reporting indicators. Social and employee matters as well as environmental issues will be best presented using a dedicated standard that includes for example indicators for measuring GHG emissions, energy and water consumption, pollution, and waste. In addition, we can use recommendations (such as those issued by the TCFD) or an industry standard (such as the one created by SASB).
3. Drafting a code of ethics and policies on such issues as respect for fundamental human rights and employee rights and anti-corruption measures, taking into account applicable laws and the minimum safeguards contained in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.
4. Creating a strategic long-term vision in the area of ESG, including for example goals related to a gradual shift away from solutions that degrade the environment if low-emission alternatives exist. In addition to a company's own agenda, it is possible to take into account for example the SDGs.
5. Creating and implementing mechanisms for supervising and assessing the effectiveness of efforts to implement the ESG goals and for monitoring material risks is a prerequisite for reliable reporting.

Expert commentary

Ilona Pieczyńska-Czerny

Regulation Director at PwC

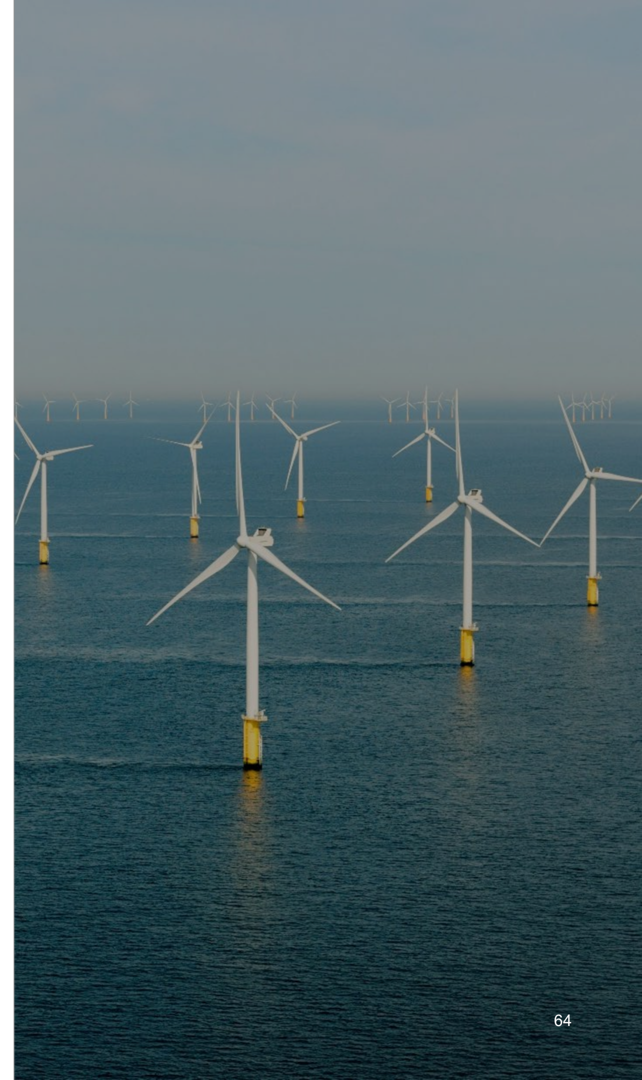
Conclusions

In addition to providing an overview of the present situation, this analysis allows us to see and define the needs that investors, supervisory boards, listed companies, and other market participants in Poland have in the area of pursuing sustainability and meeting regulatory requirements.

The most important of these needs include education and practical knowledge, support from the public sector and the financial sector, good practices, standards and guidelines in each of the three ESG areas, time to carry through changes, and access to new technologies allowing an efficient and effective transition.

- Investors need easy access to information and tools to assess the EGD data disclosed by companies. In addition, they need a structured approach to assess if a potential investment meets sustainability criteria and a well thought-out strategy for balancing their portfolios.
- Companies need knowledge and practical guidelines and often new competencies to help them embark on their own ESG journey, define the goals and activities that it will cover, and understand new regulations and the extent to which these regulations will apply to their situation.
- Supervisory boards need clear guidelines and tools to assess if a given company addresses ESG issues in the correct way, if the risks in this area are an element of the risk management system, and if the opportunities in this area are integrated into the company's business strategy.

Companies must adapt to non-financial reporting requirements by 2023. The next two years should be a time of intensive efforts and changes in the areas of not only compliance, but above all strategy and transformation.



Survey methodology

The purpose of the survey was to analyze the implementation, reporting, and use of non-financial criteria among institutional investors, stock analysts, and listed companies as well as the preparedness of supervisory boards for oversight of ESG issues in their companies.

The survey was designed as an online questionnaire and conducted in late February and early March 2021. We received 90 responses.

Survey partners:

CFA Society Poland

Partner for the survey of investors:

The surveyed investors

- **Investment funds companies/asset managers** were the most represented organizations in the survey, accounting for **51%** of the responses we received.
- The remaining organizations were as follows: brokerage offices/houses (16%), pension fund companies (11%), investment consultancies (5%), banks (8%), and universities (8%).

The surveyed representatives of listed companies

- Surveys completed by representatives of **WIG40** and **WIG80** listed companies accounted for **29%** of the questionnaires we received. The remaining respondents represented companies listed on the Warsaw Stock Exchange (GPW) outside the main indices.
- The respondents represented the following sectors: food & drinks, banks, biotechnology, construction, paper & forest, investment, energy, clothes & cosmetics, oil & gas, machinery, recycling, wholesale trade, trade & services – other, IT, leasing & factoring, mortgage, and other services (in keeping with the Warsaw Stock Exchange's classification).

The surveyed representatives of supervisory boards

- **42%** of the respondents described their experience as supervisory board members as **"more than 10 years,"** whereas 21% declared that they had "between 5 and 10 years" of experience. Another 21% reported experience of "less than 3 years." Those who indicated the answer "between 3 and 5 years" accounted for the smallest share of respondents (16%).
- **46%** of respondents are members of **one supervisory board**, whereas 17% sit on more than four supervisory boards.

Glossary of terms

- **SFDR, Sustainable Finance Disclosure Regulation** – Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

- **UN Guiding Principles on Business and Human Rights** – *Guiding Principles on Business and Human Rights: Implementing the UN "Protect, Respect and Remedy" Framework,* a document adopted by the UN Human Rights Council in in June 2011

- **GRI Standards** – guidelines on sustainability reporting drafted by the Global Reporting Initiative

- **NFRD, Non-Financial Reporting Directive** – Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups

- **TCFD Recommendations** – recommendations on climate reporting drafted by the Task Force on Climate-Related Financial Disclosures

- **CDSB Framework** – Climate Disclosure Standards Board Framework for reporting environmental and climate change information

- **The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised Edition)** – an international standard created by the GHG Protocol to measure greenhouse gas emissions

- **SIN** – Non-Financial Information Standard, a non-financial reporting standard whose development was coordinated by the Reporting Standards Foundation and the Polish Association of Listed Companies (SEG)

- **SASB Standards** – non-financial reporting standards created by the Sustainability Accounting Standards Board

- **IIRF** – the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC)

- **OECD Guidelines** – OECD Guidelines for Multinational Enterprises, a set of recommendations on responsible business conduct, updated in 2011

- **SDGs** – the Sustainable Development Goals set up by the United Nations in 2015

About the survey partners

FRN

The Supervisory Boards Forum (*Forum Rad Nadzorczych*, FRN) is a platform for communication between supervisory board members, management board members, and regulators. The forum is a joint initiative of PwC, the Warsaw Stock Exchange (GPW), and the Polish Association of Listed Companies (SEG) that has been active on the market for over 10 years. The goal of the Forum is to support the professionalization of supervisory board members and improve the quality of corporate governance on the Polish capital market. We advance this goal through numerous publications, reports, opinion surveys, conferences, workshops, and dialogue between the capital market participants.

Learn more at: https://www.forumradnadzorczych.pl/pl/

CFA

CFA Society Poland was established in 2004 and is one of the 157 local member societies of the CFA Institute. The organization is present in 70 countries, bringing together more than 185,000 representatives of the financial sector from over 164 countries. CFA Society Poland promotes and puts into effect the highest ethical and educational standards in the investment sector in Poland. The organization brings together professionals linked to broadly-understood investments and finance management. They form a prestigious group of individuals who can boast extensive knowledge of financial issues and an excellent understanding of economic processes.

Learn more at: https://cfapoland.org/p/o-nas/cfa-society-poland#o-cfa-society-poland

SNCRN

The Association of Independent Non-Executive Directors (*Stowarzyszenie Niezależnych Członków Rad Nadzorczych*, SNCRN) was established in 2019. Its goals are to promote the activity and integration of independent supervisory board members, promote the principles of corporate governance, increase trust in the authorities supervising public companies, and foster the professional development of supervisory board members and their preparedness for technological and social challenges.

Learn more at: https://sncrn.org/pl/

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