



# The sustainability imperative

*How KPMG can help you achieve your ESG goals*

2020

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# Overcoming your sustainability challenges

As climate-related risks become more acute, both investors and consumers are increasingly shifting towards more sustainable businesses. To stay competitive, organisations now see environmental, social, and governance (ESG) not as something nice to have, but as an essential part of their business strategy.

Businesses want to understand how ESG can help them identify new revenue streams, reduce costs and attract investors, while helping to contribute towards a more sustainable future. Companies that can successfully tackle these challenges will generate new opportunities, while those that fail to act may put their business models at risk.

KPMG China has a dedicated cross-functional team of experts who help corporates and public sector clients plan and execute ESG programmes to create long-term value.



# Five ways KPMG helps you achieve your sustainability goals

Whether your organisation is just beginning its sustainability journey or expanding its current ESG initiatives, we have the knowledge and capabilities to support you. Here are some of the ways we can help:

01

## End-to-end strategy development & implementation

- Sustainability roadmap planning and development
- ESG policy and governance framework development
- Training and capacity building
- ESG rating improvement

02

## Sustainable supply chain

- Responsible sourcing strategy
- KPMG Origins blockchain solution for supply chain visibility and traceability
- Supply chain risk management

03

## Sustainable finance

- Responsible investment strategy
- ESG policy development to guide responsible investing
- Green bond/social bond assurance

04

## De-carbonisation

- Identifying emission reduction opportunities
- Climate risk and opportunity strategy development
- Climate-associated risk management/business model evaluation

05

## Reporting and disclosure

- Fulfil disclosure requirements
- Reporting readiness check
- Assess and communicate value and impact

# 01 End-to-end strategy development & implementation

## Integrating sustainability into the core of your business

A sound sustainability strategy can unleash new revenue opportunities whilst achieving operating efficiencies. It can also help protect your business from future risks and disruptions.

## Your ambition, your strategy

Businesses need ESG strategies that are tailored to their ambitions. Two varying approaches to developing this strategy include:

- **Setting the 'gold standard'**: To generate overall added value to the ecosystem where you operate, this strategy goes beyond mitigating impacts but holistically considers societal needs and how to meet such needs.
- **Levelling the playing field**: This strategy focuses on getting ESG practices up to speed with industry peers to retain competitive edge

## How KPMG can help

- ✔ Translate your sustainability ambitions into an actionable **roadmap**
- ✔ Improve your **ESG ratings** (MSCI, CDP, DJSI, Sustainalytics, etc.)
- ✔ Identify the sustainability **issues most important** to you
- ✔ Incorporate **best practices** from industry peers
- ✔ **Develop ESG policies** and **governance structures**
- ✔ **Communicate** your vision and performance
- ✔ **Design targets and KPIs** to measure progress
- ✔ Provide **training and capacity building** to address skill gaps and ensure alignment across your organisation



### Case study: Strategy Development



Sustainability roadmap helps F&B manufacturer to identify improvement opportunities

With aspirations to improve their sustainability performance on external rating indices, a global F&B manufacturer engaged KPMG to transform their sustainability strategy into a year-by-year roadmap.

KPMG reviewed their existing initiatives and performance against The Carbon Disclosure Project and Dow Jones Sustainability Index to define opportunities for improvement. Together with their function leaders, KPMG translated these opportunities into actions across different parts of their business.



### Case study: Strategy Development



Enabling an arts & culture group to implement its sustainability vision

KPMG was commissioned to help an arts and culture group analyse its current ESG performance to determine future opportunities for improvement and achieve its sustainability targets.

In the roadmap, progress on targets is tracked by measuring outcomes rather than outputs to better understand the true value generated. The client was also equipped with an established reporting framework in accordance with the Global Reporting Initiative to support their communications with stakeholders.



## Case study: Strategy Implementation

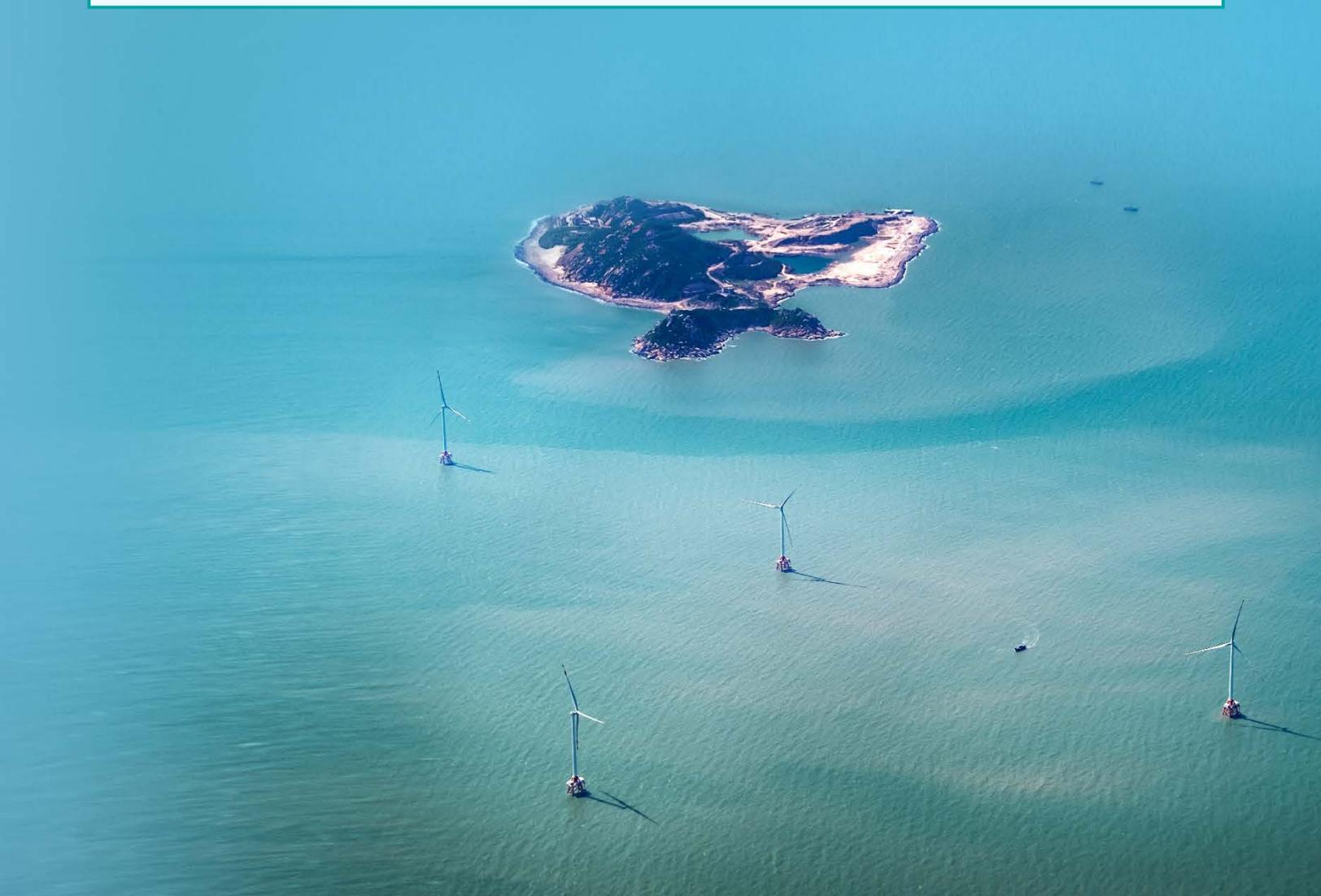


### Sustainability metrics help telecommunications company to stay aligned across departments and functions

To deliver meaningful results, embedding sustainability across different aspects of an organisation's business strategy is integral. That's why KPMG was tasked by a major telecommunications company to define their top sustainability risks and opportunities, determine metrics to drive sustainability performance and factor potential risks into their business planning.

KPMG adopted a Five-part Materiality Assessment to prioritise the top three sustainability topics with the highest risks and opportunities. Ultimately, these topics became the client's strategic business focus. Separately, the potential risks related to the top issues were incorporated into their enterprise risk register.

Identifying and developing group-level ambitions for sustainability performance cannot be achieved without employee contributions across different functions. KPMG advised the client of the need to define key performance indicators (KPIs) for the group and to translate group-level KPIs so that they are meaningful and relevant to their employees' day-to-day operations. In the course of the engagement, department heads developed individual KPIs that could allow each department to maximise its contribution to the group's sustainability.



## 02

## Sustainable supply chain



### Supply chain sustainability protects brand reputation and improves operational efficiency

Businesses are accountable for how their suppliers and supply chain operations affect communities and the environment. The range of issues this entails is daunting: from ensuring safe working conditions to paying fair wages; ending child labour; improving product traceability; using water responsibly; and discouraging corruption.

Building a sustainable supply chain that is free of these issues is not easy. Supply chains are widespread across the globe, making it difficult for companies to know where products come from and the conditions in which they are being generated.

Proactive management of suppliers and supply chain activities is crucial to protect your business and to safeguard brand reputation.

#### How KPMG can help

- ✔ Develop a **responsible sourcing strategy**
- ✔ Identify and advise on **supply chain risks**
- ✔ Gain full transparency and traceability of your supply chain, using data analytics and blockchain solutions, including [KPMG Origins](#).



#### Case study: Sustainable supply chain



### Creating a traceable and visible value chain for a wine producer

Concerned about imitation products and grey vendors compromising its consumer markets, a wine producer wanted visibility of their products once they left its factories and reached distributors and consumer markets in mainland China. If left unmanaged, there would be severe risks to brand reputation and customer experience.

KPMG Origins was adopted to offer a traceable, visible and global solution to these challenges with its application of blockchain technology. It provided an infrastructure of trust for trading partners to share reliable product information and export checklists or Internet of Things (IoT) data. KPMG put in place an authentication system with the support of partners along the value chain, allowing retail outlets, sellers and customers to verify authenticity by scanning a tamper-proof QR code.

The client and its value chain partners are now able to track real-time location, transport and warehousing conditions for all products with the ease of a mobile application. The approach has helped them to ensure product authenticity and product quality in the markets they operate in.



## 03

## Sustainable finance



Until recently, sustainable finance was viewed as a nice-to-have for asset managers and investors. Now, regulators and customers are demanding greater ESG responsibilities and impacts from the financial sector. Global fund managers have adopted this and are leading the industry to behave more responsibly.

By integrating ESG into investment processes and launching ESG products across asset classes, the financial sector can create a better future for all while also improving financial performance.

In addition, through embedding ESG, financial institutions can unleash new opportunities and attract new customer segments.

### How KPMG can help

-  Support in defining responsible investing ambitions and develop a **responsible investing strategy**
-  Develop **ESG policies** to guide responsible investing decisions
-  Support with green and social bond **assurance** to maximise credibility.
-  Assist on meeting ESG-related **compliance** requirements



### Case study: Sustainable finance



### Paving the path for asset managers to invest responsibly

Major asset owners are demanding asset managers to embed ESG into investment decisions. A Hong Kong-based asset manager aspired to leverage this as an opportunity to gain a competitive advantage to attract major European and North American asset owners.

KPMG was commissioned to develop a responsible investment strategy to guide the client's journey towards ESG integration. Together with management, KPMG worked to define the client's ESG ambitions and converted them into policies and business processes to achieve results. Procedures and controls across asset classes and investment products were put in place to provide clarity to portfolio managers.

## 04

## De-carbonisation



Climate change is a complex global challenge with the potential to disrupt business operations across multiple entry points. Further, it may disrupt the availability of products along supply chains or even change customer preferences, forcing businesses to innovate to meet customer demands. At the same time, businesses are expected to behave responsibly through reducing their greenhouse gas emissions.

Businesses need to understand climate change in two ways: first, how does your business contribute to global warming and how can this contribution be minimised? Second, what are the risks created by climate change and how do they impact your business's ability to generate financial returns?

### How KPMG can help

-  Identify value chain **emission reduction** opportunities
-  Develop a **climate strategy** to manage climate risks and opportunities
-  Assess **risks to business models** in reference to the **Task Force on Climate-related Financial Disclosures** framework.



### Disclosure of sustainability performance is increasingly important to stakeholders

Investors see sustainability performance as an indicator to inform their investment decisions. At the same time, customers favour companies who help them make informed purchasing decisions that minimise harm to the environment. Your ESG disclosures help stakeholders make decisions that support your business.

Regulators are also honing down onto businesses to disclose how sustainability is being managed. In 2020, the Hong Kong Stock Exchange released new and more stringent disclosure requirements. Soon after, the Hong Kong Monetary Authority issued a self-assessment to understand banks' management approach to climate-related risks.<sup>1</sup>

Transparency is the new norm and businesses are expected to adopt mandatory and voluntary disclosure requirements.

### How KPMG can help

- ✓ Fulfil **regulatory disclosure** requirements under The Stock Exchange of Hong Kong.
- ✓ Support on the **Hong Kong Monetary Authority's Common Assessment Framework on Green and Sustainable Banking** self-assessment.
- ✓ Report against indices and standards reporting including **GRI, SASB, DJSI, CDP, UNPRI** and **UNGC**.<sup>2</sup>
- ✓ **Assess reporting readiness** against the above standards.
- ✓ Report your contribution towards the **UN Sustainable Development Goals**.
- ✓ Assess and communicate socio-economic impacts and benefits through KPMG **True Value**.



### Case study: Reporting & Disclosure



### Assessment helps smart logistics provider unlock social impact

A logistics provider was looking to build the city's first ever smart logistics warehouse. To gain government support, the client needed to demonstrate the socioeconomic value its development would have on the society.

To present an unbiased view, KPMG assessed the positive and negative impacts of the development throughout both the construction and operational phases. Sustainable development indicators were diligently selected from regional and local development plans by government to assess whether the impacts and contributions of the smart warehouse aligned with the governments' requirements for positive social impact.

KPMG's findings created a business case to the government by demonstrating alignment with the government's development objectives. In addition, KPMG's assessment revealed additional long-term indirect benefits to society as a result of the warehouse's ability to enable upstream and downstream players in the logistics value chain to become tech-savvy.

<sup>1</sup> Hong Kong Monetary Authority, "Common Assessment Framework on Green and Sustainable Banking," December 2019, [https://www.hkma.gov.hk/media/eng/regulatory-resources/consultations/Common-assessment-framework\\_31Dec2019.pdf](https://www.hkma.gov.hk/media/eng/regulatory-resources/consultations/Common-assessment-framework_31Dec2019.pdf).

<sup>2</sup> Above abbreviations: Global Reporting Initiatives (GRI), Sustainability Accounting Standards Board (SASB), Dow Jones Sustainability Index (DJSI), UN Principles for Responsible Investment (UNPRI), UN Global Compact (UNGC).

# Contact us

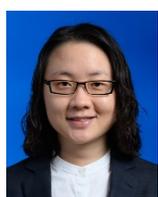
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