

Master in Management FINANCIAL AND ESG REPORTING Class 5

Fall, 2024



**Lisbon School
of Economics
& Management**
Universidade de Lisboa

ESG KPIs and Metrics

Key Performance Indicators (KPIs) for ESG



- KPIs refer to some measurable values which tell us how an organisation is performing against particular objectives, or indicators, set in advance.
- Quantitative and qualitative
- KPIs are a common way in organisations to assess how targets are being reached on multiple levels.
- KPIs for ESG...
 - help managers to integrate non-financial aspects of performance into their decision making and ensure long-term viability of their companies
 - help investors integrate ESG into their investment process and maximizes their long-term interest...

What are ESG KPIs based on?

- Sustainability strategy, goals
- Materiality assessment and stakeholder expectations
- ESG reporting frameworks and standards (GRI, SASB, TCFD...)
- Industry-specific considerations and peer benchmarking

What makes a good ESG KPI?

- Consistent
- Operational/measurable
- Align with the purpose
- Relevant: useful for decision making
 - Environmental awareness in an organisation
 - KPI: the number of people attending a training event
 - Is this a good KPI?
- Achievable but ambitious
- Time-bound

Strategy – Goals - KPIs

SUSTAINABLE DEVELOPMENT GOALS



<https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

169 targets and 232 KPIs



Strategy – Goals - KPIs

People

-  **1 NO POVERTY** End poverty in all its forms everywhere.
-  **2 ZERO HUNGER** End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
-  **3 GOOD HEALTH AND WELL-BEING** Ensure healthy lives and promote well-being for all at all ages.
-  **4 QUALITY EDUCATION** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
-  **5 GENDER EQUALITY** Achieve gender equality and empower all women and girls.
-  **6 CLEAN WATER AND SANITATION** Ensure availability and sustainable management of water and sanitation for all.

Prosperity

-  **7 AFFORDABLE AND CLEAN ENERGY** Ensure access to affordable, reliable, sustainable and modern energy for all.
-  **8 DECENT WORK AND ECONOMIC GROWTH** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
-  **9 INDUSTRY, INNOVATION AND INFRASTRUCTURE** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
-  **10 REDUCE INEQUALITIES** Reduce inequality within and among countries.

Planet

-  **11 SUSTAINABLE CITIES AND COMMUNITIES** Make cities and human settlements inclusive, safe, resilient and sustainable.
-  **12 RESPONSIBLE CONSUMPTION AND PRODUCTION** Ensure sustainable consumption and production patterns.
-  **13 CLIMATE ACTION** Take urgent action to combat climate change and its impacts.
-  **14 LIFE BELOW WATER** Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
-  **15 LIFE ON LAND** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Peace

-  **16 PEACE, JUSTICE AND STRONG INSTITUTIONS** Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Partnership

-  **17 PARTNERSHIPS FOR THE GOALS** Strengthen the means of implementation and revitalise the global partnership for sustainable development.

“This Agenda is a plan of action for people, planet and prosperity that also seeks to strengthen universal peace in larger freedom. All countries and all stakeholders, acting in collaborative partnership, will implement this people-centred Agenda. We are resolved to free the human race within

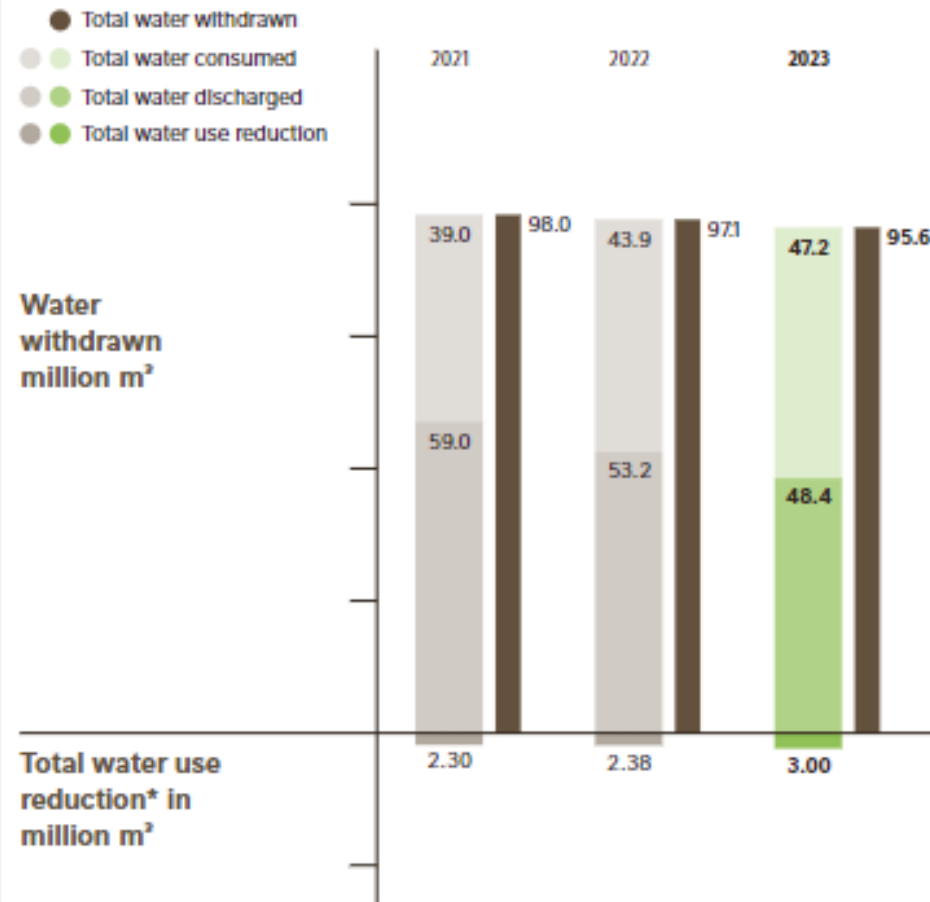
Water stewardship

SDG contributions



To track our progress, we put in place the following KPIs:

To reduce water use in our factories by 6 million m³ between 2021 and 2023 (million m³)



* This corresponds to the sum of water use reductions obtained from improvement projects realized in factories during the year.

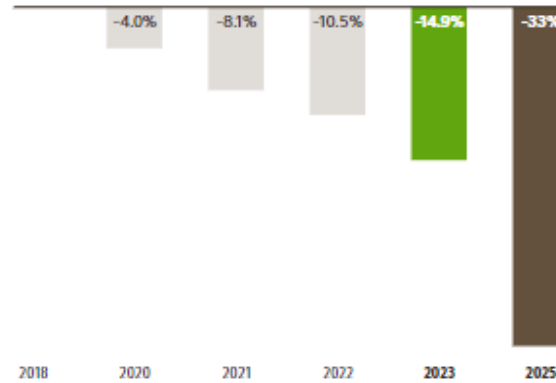


Source: Nestlé sustainability report 2023

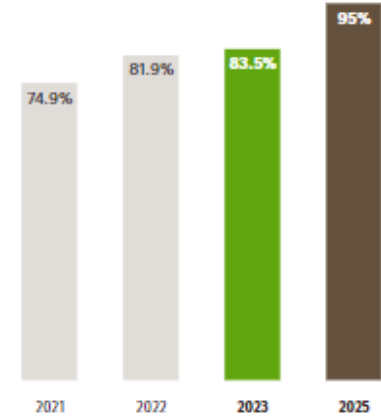
Packaging and circularity

To track our progress, we put in place the following KPIs:

We aim to reduce our use of virgin plastics by one third by 2025 (versus 2018 baseline)

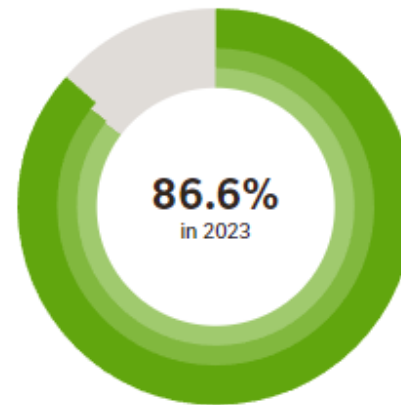


We aim for >95% of our plastic packaging to be designed for recycling by 2025*



Packaging that is reusable, recyclable or compostable*

- 86.6% in 2023
- 85.8% in 2022
- 85.4% in 2021



Packaging pieces placed on the market** (billions)



SDG contributions



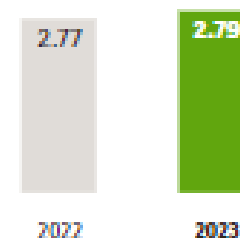
Food safety and quality

92.9%

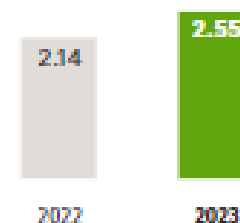
Ingredients sourced from Tier 1 supplier facilities certified to a GFSI-recognized food safety certification program (2022: 91.9%)

GFSI audits in our facilities

Major and minor non-conformance rate



Major non-conformance corrective action rate



Minor non-conformance corrective action rate



SDG contributions

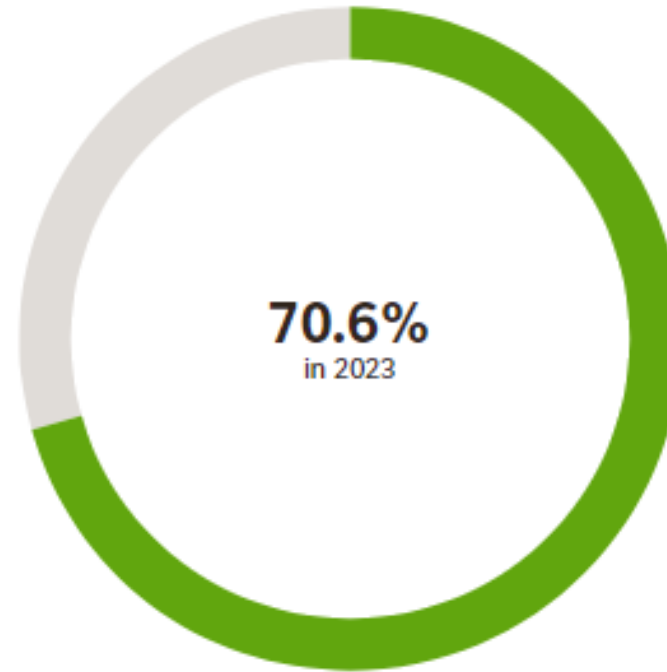


Advancing human rights



To track our progress, we put in place the following KPI:

Volume of cocoa sourced from all countries covered by the CLMRS* or other dedicated due diligence systems, with mass balance** included***



70.6%
in 2023

SDG contributions



* The Child Labor Monitoring and Remediation System (CLMRS).

** Mass balance is 'a sourcing method that allows for certified and non-certified ingredients to become mixed during the shipping and manufacturing processes.' The Rainforest Alliance traceability systems ensure that the volumes of certified ingredients bought for products with their seal were grown on certified farms, see [here](#) for more information.

*** This KPI tracks our progress on our salient human rights issue: child labor and access to education. For more details see our section on [child labor risks](#).

Cocoa's ch

Mars, Nestlé and Hershey pledged ne harvested by children. Yet much of the c

● [Meet Terry Collingsworth: the lawyer taking on Nestlé and ExxonMobil](#)



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- Share
- Save
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Agricultural commodities [+ Add to myFT](#)

Nestlé to pay cocoa farmers to stop using child labour

Maker of Kit Kat to tackle root cause through direct payments to smallholders



In Ivory Coast and Ghana, which account for almost 65 per cent of global cocoa production, 1.56m children are used as labour © Issouf Sanogo/AFP/Getty Images

Emiko Terazono and Judith Evans in London JANUARY 27 2022

No.	KPI/indicator	Code ^a	Method/reference to indicators measures/status/compliance/main components
1	Investment Risk Management	G11	Equator Principle
2	Internal Controls and Monitoring	G12	Internal Controls Report, auditing report
3	Risk Management	G12	Risk Profile and ERM
4	Political risk	G12	Lobbying costs and political donations above us\$10,000, as disclosed by the US Senate Office of Public Record/US \$ EBIT
5	Financial Disclosure and Timeliness	G13	Choice of accounting standards made clear, and details of minority interests, intra-firm and related-party transactions fully disclosed
6	Non-financial information	G13	Disclosure and reporting
7	Disclosure on Board and Committees	G13	Disclosure and reporting
8	Chairman/CEO separation	G21	Disclosure and reporting
9	Board Composition – Board size	G21	Board Size (Average Deviation)
10	Board Composition – Board expertise	G21	Financial and Industry expertise
11	Board Effectiveness – board meeting	G21	# of board meeting
12	Board Effectiveness – committee	G21	# of committee
13	Board Effectiveness – committee meeting	G21	# of committee meeting
14	Board Effectiveness – Board Attendance	G21	% Present

No.	KPI/indicator	Code ^a	Method/reference to indicators measures/status/compliance/main components
38	Social Education & Training	S12	(Total training hours/Annual average workforce) and (Total training expenditures in us\$/Annual average workforce)
39	Social Disclosure	S13	SR, Workplace Safety Reporting, Details of training disclosed
40	Product Safety	S21	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes (G4)
41	Customers	S22	Customer Privacy (Privacy and Data Security)
42	Supply Chain	S22	Supplier Assessment for Labor Practices (Significant actual and potential negative impacts for labor practices in the supply chain and actions taken)
43	Anti-competitive Behavior	S23	Fair trading agreements; Total number of legal actions for anti-competitive behavior
44	Innovation capacity	S23	R&D expenditures in us\$/us\$ EBIT
45	Employees compensation	S31	Total compensation in us\$/Total employees
46	Employee turnover	S31	Employee departures/Annual average workforce
47	Labor Practices	S31	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms (G4)
48	Employees work-life balance and family	S31	Flexible working arrangements and family benefits
49	Health and safety management	S32	Occupational safety and health (OSH); Occupational Health and Safety Assessment Series (OHSAS); Total injuries/million hours worked; Employee and contractor fatalities/1000 employees; Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender (G4)
50	Employee productivity	S32	US \$ EBIT/Annual average workforce

No.	KPI/indicator	Code ^a	Method/reference to indicators measures/status/compliance/main components
59	Environmental Risk Assessment	E11	Reduction goals; Overall Environmental Impact
60	Environmental Education	E12	Technology and Environmental Opportunities
61	Environmental Reporting	E13	Discloses its environmental policies; water, waste and carbon reporting
62	Climate change and carbon	E21	Climate change mitigation and adaptation; (US\$ sales/Scope 1 & 2 metric tons of co2e emitted); CDP initiative
63	Land Use, environmental protection & Biodiversity	E22	Total environmental protection expenditures and investments by type
64	Waste	E23	Waste Productivity (us\$ sales/Metric tons of hazardous and non-hazardous waste produced) and (Millions of cubic metres of water consumed/us\$ sales); Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the BaselConvention2 Annex I, II, III, and VIII, and percentage of transported waste shipped internationally (G4)
65	Emission and pollution	E23	EP (Scope 1,2); Toxic Emissions; CO ₂ emissions (T CO ₂); NOX, SOX, and other significant air emissions (G4)
66	Environmental Management System (e.g. ISO 14000, ISO 26000)	E31	EMS Adoption (e.g. ISO 14000, ISO 26000); Commitment to use of targets and monitoring; Environmental internal control
67	Energy Efficiency	E32	Energy Productivity (US\$ sales/mw or Joules of energy consumed); Energy consumption; Total energy consumption per occupant (kWh/OCC); use of renewable energies
68	Water Use	E32	Water Stress; water use reduction Amount of water consumed (e.g., cubic meters) by quality/source and percent water usage from recycled sources; Intensity measure: Water consumption per unit of sales

ESG metrics

‘Indicators of sustainable development need to be developed to provide solid bases for decision-making at all levels and to contribute to a self-regulating sustainability of integrated environment and development systems’
(UN, Agenda 21, Chapter 40.4)

ESG metrics



Environmental

Conservation of the natural world

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity



Social

Consideration of people & relationships

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards



Governance

Standards for running a company

- Board composition
- Audit committee structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes