

A Work Project, presented as part of the requirements for the Award of a Master's degree in
Management from the Nova School of Business and Economics

**BEL GROUP - HOW TO INTEGRATE A SUSTAINABILITY
STRATEGY IN A DIVERSIFIED HOLDING**

—
**ADAPTING A GOVERNANCE STRUCTURE TO A NEW
SUSTAINABILITY STRATEGY**

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Abstract

Diversified portfolio holdings face challenges in establishing overarching sustainability strategies. This field lab report discusses these challenges. It opens with a case study of BEL Group, a Portuguese holding, that takes its next steps in establishing a centralized sustainability strategy. The teaching note dives deeper into the corporate governance aspect of the case study. Governance issues are examined using the McKinsey 7S model to enhance the governance design. Furthermore, the teaching note discusses the option to appoint a Chief Sustainability Officer to streamline operations. Finally, the evaluation report outlines best practices of sustainability reporting based on an analysis of leading global sustainability companies. The evaluation report concludes with tailored recommendations for BEL Group.

Keywords

Sustainability, Sustainable Development, Corporate Strategy, Diversified Holding, Sustainability Reporting, Corporate Governance

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*Disclaimer: The information provided in this case study is intended for teaching purposes and includes both, factual and fictional information. Opinions formulated by the authors are intended to stimulate class discussion.

CASE STUDY

How can the BEL Group effectively implement a sustainability strategy throughout its portfolio of diverse business units? A case study about goal setting, corporate governance, and stakeholder management in the context of a sustainability strategy.

In September 2020, two months before BEL Group's board meeting, where the strategic direction of the portfolio holding for the next 5 years will be decided, Sofia joins the Portuguese corporation. She is tasked with presenting a strategy on how BEL Group can effectively implement sustainability into its core business from prioritization of impacts and stakeholders to decision-making processes. Commenting on the growing importance of sustainability commitments, Marco Galinha, CEO of BEL Group, states that "Sustainability is not about being sexy", but it's a vital aspect every business must consider. Galinha always had a positive stand towards sustainability, even during times when he received resistance from stakeholders over not prioritizing financial returns alone. The time has come for BEL Group to explicitly articulate and elevate what has been ingrained in the CEO's identity ever since he founded his first company.

Introduction

CEO perspective on sustainability

Marco Galinha, founder and CEO of BEL Group, grew up in the heart of Portugal where he developed a unique perspective on life and business. The holding he manages echoes his profound connection with both human and environmental values. Galinha's journey began on the challenging terrains of mountain bike races. In his youth, he soared to become a national champion and even competed on the international stage. Yet, it wasn't just about medals and triumphs; it was a journey that ingrained in him a deep appreciation for two mothers that shaped

his worldview. “I learned to appreciate my two mothers, my biological mother and mother nature.” In the rhythm of pedaling through rugged landscapes, he discovered a deep connection with the environment, fostering a commitment to sustainability that he wanted to transfer to BEL Group as a cornerstone of the holding’s identity. Together with his sons, Galinha owns 100% of the company, and consequently, as the CEO, he plays a key role in shaping the strategic agenda of the company.

BEL Group at a Glance

Mission and Values

BEL Group is dedicated “to create value in companies, that have values” aiming to contribute to social and economic development while safeguarding the welfare of future generations. The corporate outlines 15 core values, highlighting a.o. professionalism and solidity, sustainability, efficiency & effectiveness, and ethics & responsibility. BEL Group’s purpose is to be “a corporate group which inspires and cares”, with the aspiration to serve as an inspiration for their stakeholders to be the best version of themselves. Although the holding is not publicly traded, Galinha follows a management approach similar to publicly traded companies (BEL Group 2023).

Business Units and Industries

Galinha initiated his journey as an entrepreneur in 2001, right after he obtained his degree in computer engineering at the age of 20, with the founding of BEL Network Solutions, a business active in software development. Three years later, BEL Distribuição SA was added to the portfolio, a company that focused on the acquisition of relatively smaller companies in the commerce distribution sector. The geographical target was central Portugal and soon the business expanded to the food and beverage distribution sector.

BEL Group’s acquisition strategy is built upon identifying and leveraging synergies between business units. Following, acquisitions of distribution enterprises strengthened the

group's wide-ranging network and enabled the introduction of proprietary food brands, enabling vertical integration of the supply chain. The addition of 1.000 hectares of property to the portfolio allowed BEL Group's sustainability goals to be advanced by installing solar panels on their properties to generate renewable energy. The installation of clean energy units on BEL Group's own real estate significantly streamlines the process. This approach circumvents the often lengthy and complex process of securing government approvals, allowing for a more efficient and quicker setup of sustainable energy sources. Leveraging the proprietary Portugal-wide network of distribution infrastructure, the group then expanded to the communication sector and acquired the largest producer and distributor of newspapers in Portugal. Moreover, the group's proprietary R&D Centre facilitates technological advancements within all business units. In June 2019 for example, the R&D Centre developed a project to increase energy efficiency of light bulbs in warehouses. The new technology was implemented in BEL Group's warehouses and decreased energy consumption by 23%. The latest additions to the portfolio are two companies in the field of renewable energy. One focuses on building charging stations for electrical vehicles, as they identified a lack of available infrastructure in Portugal. As of 2020, there are 6.500 active charging stations in Portugal, in contrast to e.g., Germany, where over 50.000 stations are in operation (Statista 2023). The second company produces clean energy generated from solar panels.

Through strategic investments in complementary industries, the business developed to a multifaceted, internationally operative conglomerate comprising 88 companies. BEL Group SA categorizes its entities into six industries, namely Logistics, Industry, Innovation, Communication, Real Estate and Sustainable Solutions. The business units benefit from shared resources, including the logistics fleet that handles the delivery of a diverse range of products, from food and beverages to newspapers (Exhibit 1).

Logistics at Group BEL

The core of the group and the biggest concentration of assets is in the logistics department, comprising six companies specialized in the food and beverage distribution sector. The logistics department represents the economically strongest business unit, contributing 71% of the overall generated economic value in 2020 (Exhibit 2). The operations include the procurement of food and beverages from diverse suppliers, storing them in BEL Group's warehouses, and distributing the goods to restaurants and cafés throughout Portugal (Exhibit 3). With considerable experience in the industry, BEL Group has built up a Portugal-wide distribution network and expertise in optimizing route planning for their 100-vehicle fleet. Their comprehensive database on Portugal's road network empowers the organization to strategize distribution routes.

Core competencies in the logistics business unit are BEL group's logistics fleet, long-term contracts with over 800 customers, and their key distinguisher from competitors, their superior customer service. Conveying the core values of the group as well as a fast delivery, contribute significantly to maintaining a trustworthy and transparent relationship with BEL Group's customers.

Corporate governance structure

Corporate governance strives to achieve a balance between the various stakeholders involved in its business activities, including customers, suppliers, managers and other stakeholders.. The current corporate governance structure of BEL Group consists of different bodies that share the goal of guiding the holding and enabling efficient and sound management that can deliver long-term success for the company.

The most prominent body, the Board of Directors (BoD), is responsible for deciding on the strategic direction of the holding and decision-making processes. The current corporate governance structure has certain notable characteristics. The BoD comprises six members. Five

of them are men, and the sixth member is female. Galinha, although having a close relationship with the Chairman of the board, is not an official board member. The BoD is a coherent group, as they met each other during their economic studies. The majority of the board members share similar backgrounds, and now, being moderately aged, they exhibit a collective conservative stand with a pronounced emphasis on short-term financial performance. For decision-making purposes, the board mainly bases itself on the financial accounts of the company. Moreover, the board members get remunerated mainly based on yearly financial targets, without taking other measures of business performance into account.

The board gathers every quarter to discuss the performance of the holding and the different business units. Oftentimes, C-level executives join the meeting to present information that the board does not have access to as they are not part of the daily management of the holding. Several employees take on tasks related to sustainability but there is no formal sustainability committee. Moreover, they have never participated in board meetings before. In addition, the individuals working on sustainability initiatives are scattered throughout the business units. Hence, there is no central information gathering system.

Sustainability in a corporate environment

Trends in sustainability in corporate strategy

Sustainability refers to the capacity to operate over the long term while minimizing negative impacts on the environment, society, and economy. The idea is to fulfill the needs of the current generation without limiting future generations' ability to meet their own. Components include environmental sustainability, which focuses on protecting the natural environment, social sustainability, preserving the well-being and quality of life of current and future generations, and economic sustainability, which refers to maintaining a stable economic performance. The fast progression of climate change and the increased occurrence of climate change-related events make sustainability a core topic in today's world. The rise of renewable

energy, the transition in transport, reducing waste and pollution through innovation, and even plant-based diets all play a part in the general shift to a more green and less polluting society.

From a business perspective, advantages such as enhanced reputation, increased attractiveness as an employer, improved supply chain resilience, and increased chances of securing funds push companies to invest resources in sustainable initiatives (Fink 2020). To be considered truly sustainable, companies realize voluntary activities to contribute to solutions for societal or environmental problems. At the same time, these activities can create a positive financial return. Furthermore, a clear disclosure of how an organization's entrepreneurial activity will lead to positive impact on society and the environment effectively showcases a company's commitment (Schaltegger et al. 2012).

In corporate strategy, sustainability has been frequently perceived as a constraint to cost optimization and to subsequently hurt the company's value. Leading sustainability companies such as Vestas Wind Systems and Ørsted from Denmark, however, see sustainability not as a limitation but rather as a business opportunity that generates shareholder value (Scott 2023). For example, targeting a new customer segment, charging a green premium, or saving costs by optimizing resource utilization (Elk et al. 2023). In the early stages of implementing a sustainability strategy, data-driven decision-making can present significant challenges. Establishing a comprehensive baseline of operational emissions, for example, is a critical first step serving as a pragmatic approach to understanding the sources of Scope 1, 2, and 3 emissions (Exhibit 4). Prioritizing a company's contribution is influenced by subjective evaluations and incomplete data. Frequently, companies consult priority stakeholders on what impacts matter most to them and tailor initiatives and reporting to their interests. Navigating the prioritization frameworks such as the materiality matrix that prioritizes stakeholder's areas of interest and the SDG compass offer a strategic guide to aligning goals (Exhibit 5). Not only

prioritizing itself but also transparently communicating to stakeholders how and why decisions were made is crucial for leveraging competitive advantage through sustainability.

The BEL Group finds itself, as a corporate holding with 88 companies in its portfolio, in a responsible position to contribute to environmental and social protection. However, in 2001, when BEL Group's first company was founded, general awareness of sustainability was far less developed. Galinha faced a lack of understanding from stakeholders such as banks, suppliers, and even employees in making strategic decisions that were not only based on financial returns.

Sustainability Reporting

The lack of a standardized, globally recognized sustainability reporting framework makes it challenging to compare impact of companies. There is no legal obligation for corporations to publish information on their environmental, social, and governance (ESG) strategy, as it is for publishing a financial report. Therefore, businesses can voluntarily decide which information to publish and according to which reporting framework. The most used frameworks include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD) and the United Nations Sustainable Development Goals (UN SDGs) (Exhibit 6) (Bloomberg Law 2022).

Addressing issues of comparability, differences in quality and information gaps in sustainability reporting, the European Union, as part of its Green Deal initiative, has introduced the Corporate Sustainability Reporting Directive (CSRD). The CSRD mandates large companies and listed SMEs to comply with European Sustainability Reporting Standards (ESRS), starting from financial year 2024. Targeting transparency, uniformity, and reliability in sustainability reporting across the European Union, the directive underscores the importance of structured sustainability initiatives (Finance European Commission 2023).

External Pressure

Besides the inherent drive of BEL Group to make the holding more sustainable, there are also external factors that incentivize businesses to move towards sustainable practices. The "license to operate" of a business is more and more determined by Environmental, Social, and Governance (ESG) considerations. Scholars have found external stakeholder pressure as a crucial determinant for the adoption of a corporate sustainability strategy, even though they tend to be recognized only as secondary stakeholders in the corporate world (Enel 2023; Haleem et al. 2022). Typical external stakeholders are the media, investors, customers, local communities, and external agencies, such as the UN.

In 2015, the Paris Agreement on Climate Change and the adoption of the Sustainable Development Goals (SDGs) by the United Nations increased public attention towards challenges related to climate change and sustainable development.

The main goal of the Paris Agreement is to keep global warming significantly below 2 degrees Celsius compared to pre-industrial levels, while striving to limit the increase to 1.5 degrees Celsius (UN Climate Change 2023). Moreover, in 2015, the 2030 Agenda for Sustainable Development was implemented by all the 193 governments of states that were members of the UN. At the heart of this transformative and universal 2030 Agenda of the United Nations are the 17 SDGs, and 169 targets (Exhibit 7, Exhibit 8). The SDGs provide businesses with opportunities to capitalize on a range of benefits as they formulate, communicate, and report their corporate and business strategies (UNDP 2023).

Policymakers are putting pressure on corporations to assist in addressing ESG issues, highlighting the role companies play in achieving the SDGs. Companies that contribute to achieving the SDGs will be given preference by policymakers, and sanctions or rules that raise the cost of carbon-intensive industries will be avoided. The European Union has been a frontrunner regarding sustainability regulation. Following the 2015 Paris Agreement, the

European Union has put in place various legislative frameworks (e.g. Corporate Sustainability Reporting Directive and EU Taxonomy) for companies to comply with. BEL Group aims to submit its first CSRD report in 2026. Imposed regulations from governmental institutions often require companies to invest to be able to measure, collect, and report on data regarding the sustainability of their businesses. At the same time, this approach presents a chance to integrate sustainability as a core element of the strategy, revealing potential avenues for creating value (Fang et al. 2023). With BEL Group having its headquarters in Portugal, national regulation plays a key role in the adoption of sustainable strategies. A cornerstone in regulation was the release of the National Energy and Climate Plan (NECP) 2030 which outlines Portugal's strategic plan for energy and climate policies. This plan is a direct result of the Paris Agreement. The NECP 2030 sets specific expectations for companies to align their operations with the country's sustainable energy goals. The country is committed to renewable energy targets, investing heavily in decarbonization technologies like wind and solar energy. Portugal's global leadership in renewables, reduced energy dependence, and government incentives further push BEL Group to align with the ambitious goal of 80% renewable energy by 2030 (Portugal Energia n.d.).

When companies decide to select partners, sustainability has become a prominent factor to take into consideration (Exhibit 9). As companies should report on their whole supply chain, the production processes of firms earlier in the supply chain also have to be taken into account. Doing business with companies that have a poor sustainability track record can expose the firm to various risks, such as reputational damage, supply chain disruptions, and regulatory obligations. On the other hand, adopting sustainable business practices can help to reduce costs in the long term due to less consumption, lower waste, decrease in energy costs, and greater efficiency. Moreover, companies can even capitalize on partner companies with high ESG scores for promotional purposes and to increase their own brand reputation. BEL Group, being

a holding company, has to be aware of the fact that most of its business units have to rely on partners to operate. As a consequence, it is only advantageous for BEL Group to make sure that its entire portfolio is attractive to work with for partner companies, such as suppliers for example.

According to a report by Capgemini (2020), the majority of consumers (79%) base their purchasing preferences on sustainability. Feelings of being happy when buying sustainable products show the potential effect sustainability can have on customer experience, happiness, and loyalty. The same is true for a B2B context, where corporate buyers' procurement decisions increasingly evolve around suppliers' efforts to improve supply chain sustainability. As customer loyalty increases and new consumer segments are obtainable by sustainable initiatives, this can positively impact top-line growth. Moreover, customers are willing to spend a premium on products from companies that meet their requirements for employment quality and environmental impact.

Ongoing technological advancements increase external scrutiny on companies, demanding adherence to sustainable practices. Technology allows information to be disseminated quickly, thereby allowing stakeholders to monitor and criticize a company's environmental practices more easily. With an 84% internet penetration in Portugal, social media plays a pivotal role in communication and opinion-sharing (World Bank 2022). Social media platforms are powerful tools for individuals to voice concerns about environmental issues, potentially amplifying the impact on a company's reputation. In a world where a single online comment can catalyze community-led actions, affecting shareholders and prompting companies to reassess and change their environmental practices, it is crucial to recognize the shifting power dynamics and incorporate those in stakeholder management (Nobanee et al. 2021).

Internal Pressure

Not only external forces put pressure on companies to act responsibly but also internal stakeholders increasingly want to feel part of the movement towards a world in which companies not only fulfill their duties but are proactively involved in creating a better future. According to research (Gartner, 2023), in recent years, employee motivation and expectation changed dramatically and there is a general increase in a search for purpose in work, which is closely related to the sense of a shared responsibility. An IBM (2021) report shows that the second most important reason to change work in 2020 is the desire for meaningful work. This cultural shift is not only crucial for current employees but for talent acquisition as well. Employers who demonstrate a corporate identity and a dedication to sustainable practices are more likely to draw and retain talent since talent is increasingly looking for meaningful work. (Bernow et al., 2020).

As an employer with a total of 422 employees in 2020 to stay competitive and keep highly skilled workers in the company, BEL Group must create a working environment in which employees thrive and see their values represented (BEL Group 2020). The holding recognizes that employee turnover poses a key risk associated with human resources.

Considering the context of Portugal, the socioeconomic disparities are more pronounced than in the EU average (Exhibit 10) (Abreu 2023). This makes it imperative for companies, including BEL Group, to address these disparities through sustainable practices. In such an environment, stakeholders are likely to pressure companies to play a role in reducing disparities, adding an extra layer of motivation for BEL Group to embrace sustainable practices that contribute positively to societal and economic equality.

Finally, companies that fail to adapt to the demands of internal and external stakeholders can face a range of risks that may impact their overall success and sustainability, including

reputational damage, loss of customers, employee disengagement, regulatory issues, and overall lack of stakeholders' support.

From past commitments to future strategies

A family business deeply rooted in sustainability

In an onboarding session with the CEO himself, Sofia is briefed about past sustainability initiatives. Despite the lack of a dedicated person responsible for sustainability, social and environmental initiatives were conducted by employees alongside their day-to-day business.

Marco Galinha aligned his holding's strategy with the 2030 Agenda, making BEL Group one of the first Portuguese companies to publicly commit to this agreement. Additionally, BEL Group committed to the United Nations Global Compact in 2003, a voluntary initiative launched by the UN in the year 2000 encouraging organizations to adopt sustainable and socially responsible practices, underpinned by ten principles related to human rights, environment, and labour. Recognizing its role in Portugal's ecosystem, BEL Group joined the Lisbon Mobility Pact, which commits members to drive action to make mobility in Lisbon more sustainable. The company also shows strong contributions in initiatives related to promoting positive social change, for example establishing educational scholarships and a partnership with the Girl Move Academy project.

Recognizing the urgency to shift towards renewable energy sources, BEL Group proactively leveraged their real estate assets installing solar panels across their properties. The initiative has substantially increased the production of solar energy generating 446.213 megajoules of clean energy in 2020. The green energy produced is already in utilization for powering the office buildings and further fields of applications are in exploration as the amount produced increases exponentially.

Defining a sustainability strategy for BEL Group

Sofia is in charge of taking BEL Group to the next level of sustainable operations by embedding sustainability in the corporate's core. Navigating the complex landscape of a holding with diverse business units presents a unique set of challenges when crafting a unified sustainability strategy. Sofia quickly realizes that the 88 companies in different business units not only have various impacts on the environment and society but also differing sustainability maturity levels. Moreover, data collection methods vary across the businesses leading to incomplete and heterogenous sustainability metrics. Not less challenging for corporations is the alignment of goals and priorities, especially allocating resources strategically.

Sofia consults a friend of hers who works at a renowned consultancy and asks for recommendations on how and where to start. The consultant explains to Sofia that companies need to prioritize goals, adapt their organizational framework to ensure sustainability is integrated with every decision-making process, and revise their stakeholder engagement strategy. An adaptive, holistic approach, recognizing the business unit's differences while pursuing overarching sustainability goals is the cornerstone for effective management (BCG 2022). He additionally highlights that it is essential to be aware of an organization's resources and capabilities to generate a competitive advantage for sustainability. Sofia decides to examine the three key pillars outlined by her friend in preparation for the upcoming board meeting.

The way forward

Prioritizing BEL Group's sustainability objectives

Considering the group's diverse business sectors and various impact areas, Sofia does not know where to start prioritizing. She wants to align objectives with the SDGs, recognizing them as a common framework for measuring impact and their widespread recognition amongst stakeholders. Should she suggest incorporating as many SDGs as possible in the sustainability strategy as it shows how multifaceted the group acts and how much positive contribution they

can have? Sofia thinks about all the great initiatives that have been taking place last year that all correlate to different SDGs. Additionally, it would ensure that the entire company is involved and contributes. On the other hand, Sofia is afraid that stakeholders could regard the listing as exaggerated and could suspect greenwashing, the practice of making actions look more environmentally friendly than they are. The alternative is the prioritization of certain SDGs to bundle the company’s efforts on chosen initiatives.

Sofia knows that the management is keen on data-driven decision-making. In terms of prioritization, they are looking to mitigate the most severe negative impacts. She examines each business units individually by conducting interviews with representatives. She identified that few sustainability related metrics are tracked and visualizes them in the table below (Figure 1).

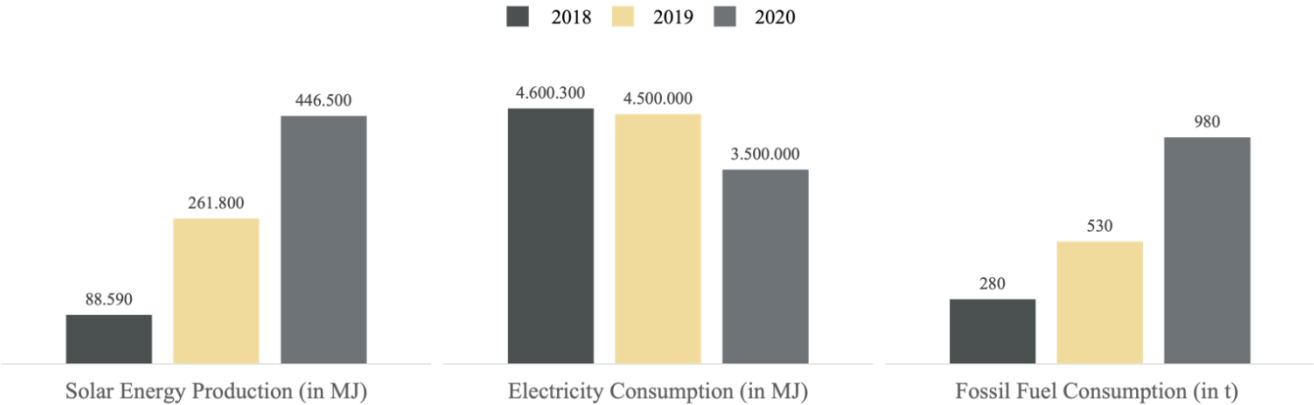


Figure 1: Sustainability Metrics BEL Group 2018 - 2020

Sofia wants to have a closer look at the economically strongest business unit, logistics, and conducts a risk analysis from climate change. She identifies that the consumption of fossil fuels for the combustion vehicle fleet poses a significant risk in terms of cost and supply chain security. Fuel prices are highly volatile and dependent on countries outside of the EU, increasing geopolitical risk. Furthermore, the Portuguese government is actively considering regulations to control fuel supply, to force companies transitioning towards green energy.

With a clear understanding of potential risks and available sustainability metrics, how can Sofia effectively prioritize SDGs by leveraging BEL Group’s core strengths?

Crafting an Effective Stakeholder Engagement Strategy

Sofia wants to focus engagement efforts on crucial stakeholders that are and will be affected by BEL Group's decisions and its sustainability strategy. She agrees with commonly cited scholars that corporate sustainability is a stakeholder-based strategy, and managing the organization-stakeholder interaction is critical for achieving organizational goals (Friedmann and Miles 2006, Gibson 2012). Going beyond only recognition of stakeholders but engaging them in strategy formulation is another important part of the process to ensure smooth strategy implementation.

Marco is thinking back to the early days when their internal stakeholders were a clear group of top managers in the two business units that existed then. Regulators and public international organs established the first guidelines for sustainability management and society started to be more concerned about the environmental impact and social responsibilities of corporates. He said that over the last decade, they have been experiencing an increased interest in the topic of sustainability from internal stakeholders as well as external stakeholders and regulators. This did not come as a surprise, he added. In combination with extensive growth in the past years, this made the stakeholder landscape much more complex with the major challenge being the great disparity in the type of stakeholders they need to manage. Sofia saw a need to approach the topic of stakeholder management and engagement in a more holistic and structured way and got a few people on board to do an extensive stakeholder analysis.

A guideline for stakeholder engagement was published by the Global Sustainability Standards Board (GRI 2021) which the BEL Group already makes use of. According to this guideline, an approach to stakeholder engagement should at least include:

1. the categories of stakeholders with whom the company engages with, and how they are identified;
2. the purpose of the stakeholder engagement;

3. how the organization intends to ensure meaningful engagement with stakeholders.

To start the process BEL Group therefore first had to know who their stakeholders are. To give the analysis a general frame the team has decided to adopt the stakeholder definition of Freeman (1984, cited in Friedman and Miles, 2006, p. 5): “person who can affect or is affected by the achievements of the organization’s objectives”. A similar definition is put forward in the GRI Standards (GRI 2021).

Once a broad list of stakeholders was created (Figure 2) the team considered different frameworks to create a stakeholder map. Through a quick desk research, she identified commonly used frameworks for stakeholder mapping (Exhibit 11). Most of those consist of 4x4 matrices and two stakeholder characteristics such as the Power-Interest matrix. A colleague argues to instead use the stakeholder salience model by Mitchell et. al. because it allows clustering stakeholders into more differentiated groups. Sofia now had to make the choice of which characteristics to use for the mapping.

Internal Stakeholders	External Stakeholders
<ul style="list-style-type: none"> • Board of Directors • Human Resources • Workers Committee • Internal product suppliers 	<ul style="list-style-type: none"> • Clients and Visitors • External suppliers • Community • Media • Universities • Government

Figure 2: BEL Group’s Internal and External Stakeholders

Sofia furthermore considers how the matrix can help to guide stakeholder engagement and what other tools might be needed to decide on engagement. She also remembers that in early 2020 a materiality assessment was already once conducted. This involved an exhaustive analysis of sustainability trends in their operational sectors, such as recent developments in policies and targets the Portuguese government drew up to reach international climate goals. Sofia asks around if someone still has data used in the analysis and a colleague is luckily able to provide her with some information on which stakeholders are especially interesting for

suppliers, and how their perception towards sustainability within the supply chain has changed over time (Exhibit 12).

The materiality analysis finally culminated in the identification of several material topics. Through interviews and questionnaires, insights were gathered to determine the significance of the identified material topics. A total of 89 stakeholders actively participated in the last consultative process the BEL Group did, enriching the understanding of the diverse perspectives. She feels like the material topics offer additional valuable insight to better understand the needs of stakeholders (Figure 3).

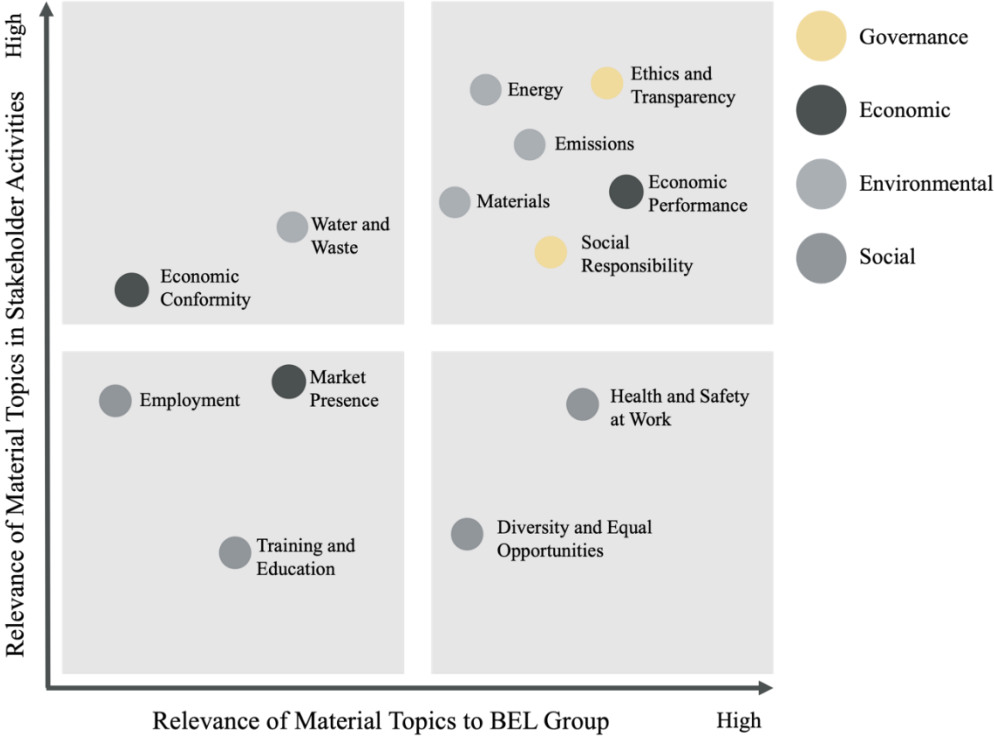


Figure 3: Materiality Matrix

In order to create a process that brings BEL Group’s stakeholder engagement to a next level that takes into account Sofia's journey in formulating an effective stakeholder engagement strategy for BEL Group underscores the complexity and dynamism of stakeholder management in contemporary business settings.

With a clear understanding of the stakeholder engagement process and a first indication of what stakeholder needs are, what are steps Sofia has to take to create a stakeholder strategy that elevates BEL Group's stakeholder engagement to a next level?

Sustainability challenges within the corporate governance structure

Under pressure of Galinha, the board agreed to let Sofia present a potential sustainability strategy that could be implemented throughout the whole holding. Sofia, however, has never been in contact with a board of directors and is not confident that she will be able to successfully convey her message. Therefore, she introduces herself to the topic of corporate governance. Furthermore, she realizes that she has to persuade the BoD of the importance of sustainability to convince them to integrate sustainability in the future of BEL Group.

In order to achieve this, Sofia wants to show the board that engaging in sustainable business practices can not only decrease the environmental footprint of the holding and improve the overall reputation of the holding but that it can also have a positive financial impact. To prove this, she consults her colleagues from the logistics business unit and collects information about the current procurement methods of vehicles. Currently, the vehicle fleet that is used for distribution consists only of combustion engine vehicles. Moreover, BEL Group leases its fleet. However, in a recent conversation with Galinha, they talked about the possibility of shifting to electric vehicles (EVs) which could be powered by green energy produced by BEL Group. This will additionally also result in a decrease in the CO₂ emissions of the holding. After conducting thorough market research, she found estimates of the costs of both options over the long-term (10 years) for 100 vehicles. Furthermore, Sofia would like to compare the costs of both options. A colleague from the finance department mentioned that a discount rate of 5% would be appropriate. This should allow Sofia to make a data-based decision between using the current approach to transportation and shifting to EVs.

In €	Combustion vehicles	Electric vehicles
Initial investment	550 000	1 000 000
Annual leasing cost per vehicle	400	550
Yearly operating costs	3000	2000

Figure 4: Investment in Combustion and Electric Vehicles

Furthermore, Sofia also aims to restructure the governance structure as she means that the flow of information is not running smoothly throughout the holding. To make sustainability a forefront concern for the holding, she believes that appointing a Chief Sustainability Officer (CSO) is the right way to go.

In order to eradicate processes and habits that decrease the quality of communication and decision-making and to persuade the BoD of the importance of integrating sustainability into the center of corporate strategy, a couple of questions need to be answered. What are the current flaws in the corporate governance structure? What is the financial impact of transitioning to an EV fleet? And should BEL Group appoint a CSO as the central C-level executive to overview and lead all sustainability related topics in the holding?

Conclusion

BEL Group has come a long way since the founding of the first company back in 2001. However, due to the developments in sustainability and the rise of public attention towards ESG matters, BEL Group, as other holdings, are facing important challenges. How should the holding tackle sustainability in the long run? What specific goals and objectives should the holding set up for itself? How will the BEL Group engage and communicate to its stakeholders, to ensure that the holding meets the expectations of everyone involved? And finally, how should Sofia deal with the board of directors and what does the ideal corporate governance structure look like for BEL Group?

Appendix

Exhibit 1: BEL Group's Business Units



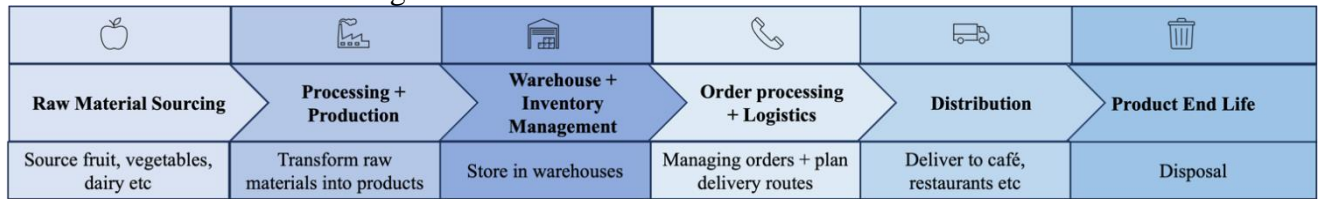
Source: Author's own creation

Exhibit 2: Direct economic value generated of logistics companies in 2020

Company Name	Generated Economic Value (million €)	Economic Value Retained (million €)
Bel Distribuicao	71.8	0.6
DLP	1.5	-1.03
SDT	13,6	1.3
ADR	11	-1.6
Costa & Diogo	1.3	-2.03
Spiritamicis	0.7	-0.02
Total Logistics	234.6	-0.1
BEL Group Total	348.4	-2.8

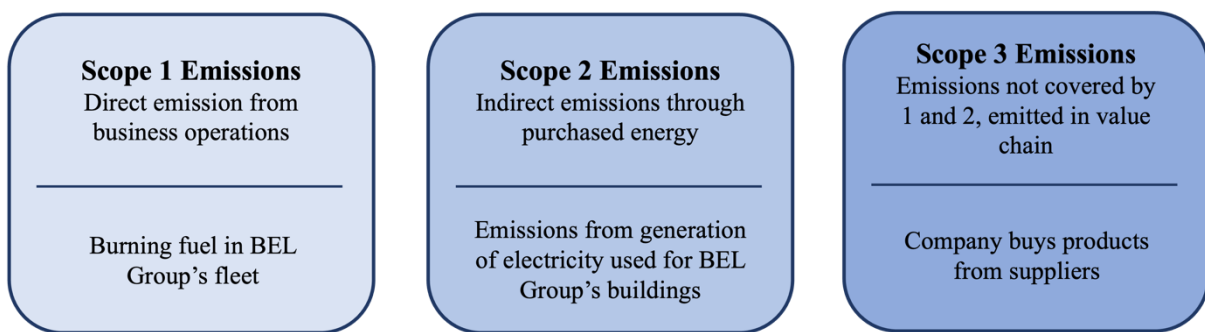
Source: Author's own creation

Exhibit 3: Value Chain of Logistics Unit



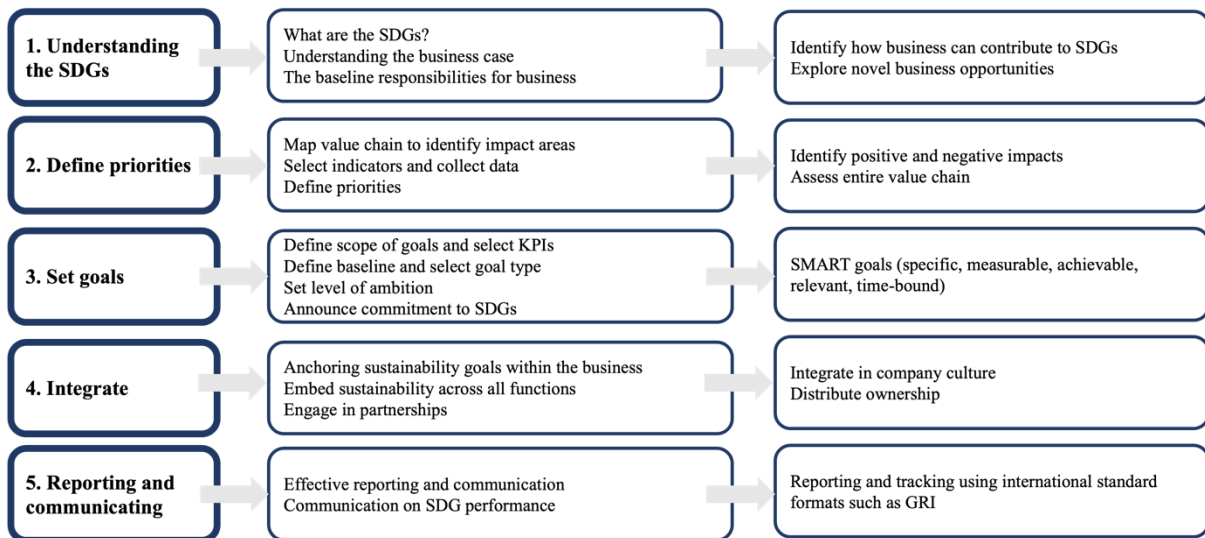
Source: Author's own creation

Exhibit 4: Scope 1, 2 and 3 emissions



Source: National Grid n.d

Exhibit 5: SDG Compass Framework



Source: Author's own creation

Exhibit 6: Frequent sustainability reporting frameworks

	GRI	SASB	SDGs	TCFD
Context	International independent standard Used by 82% of world's largest 250 corporations	Industry specific framework Public companies to determine financial materiality	Support and advance the SDGs that have been adopted by all UN member states	Climate related financial disclosures
Format	Universal standards and topic related standards	Industry specific	17 goals with 2030 target data	Comply with existing reporting requirements
Materiality Required	Materiality assessment required	Materiality assessment required	No Materiality assessment required, but recommended by SDG compass	Materiality assessment required

Source: Paul 2023

Exhibit 7: Sustainable Development Goals

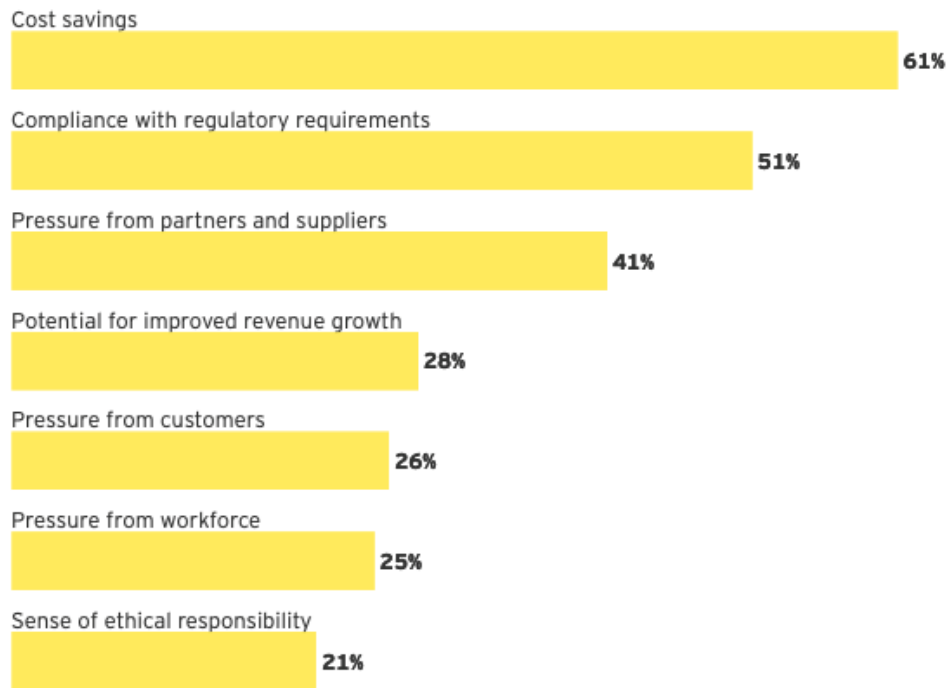
SDG 1	End poverty in all its forms everywhere
SDG 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
SDG 3	Ensure healthy lives and promote well-being for all at all ages
SDG 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
SDG 5	Achieve gender equality and empower all women and girls
SDG 6	Ensure availability and sustainable management of water and sanitation for all
SDG 7	Ensure access to affordable, reliable, sustainable, and modern energy for all
SDG 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
SDG 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
SDG 10	Reduce inequality within and among countries
SDG 11	Make cities and human settlements inclusive, safe, resilient and sustainable
SDG 12	Ensure sustainable consumption and production patterns
SDG 13	Take urgent action to combat climate change and its impacts
SDG 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
SDG 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
SDG 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
SDG 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

Source: UN n.d

Exhibit 8: SDG Targets of SDG 7, SDG 12, SDG 13

SDG 7	7.1	By 2030, ensure universal access to affordable, reliable and modern energy services
	7.2	By 2030, increase substantially the share of renewable energy in the global energy mix
	7.3	By 2030, double the global rate of improvement in energy efficiency
	7.a	By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology
	7.b	By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programmes of support
SDG 12	12.1	Implement the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries
	12.2	By 2030, achieve the sustainable management and efficient use of natural resources
	12.3	By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses
	12.4	By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment
	12.5	By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
	12.6	Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle
	12.7	Promote public procurement practices that are sustainable, in accordance with national policies and priorities
	12.8	By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature
	12.a	Support developing countries to strengthen their scientific and technological capacity to move towards more sustainable patterns of consumption and production
	12.b	Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products
	12.c	Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities
SDG 13	13.1	Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries
	13.2	Integrate climate change measures into national policies, strategies and planning
	13.3	Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning
	13.a	Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly \$100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible
	13.b	Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities

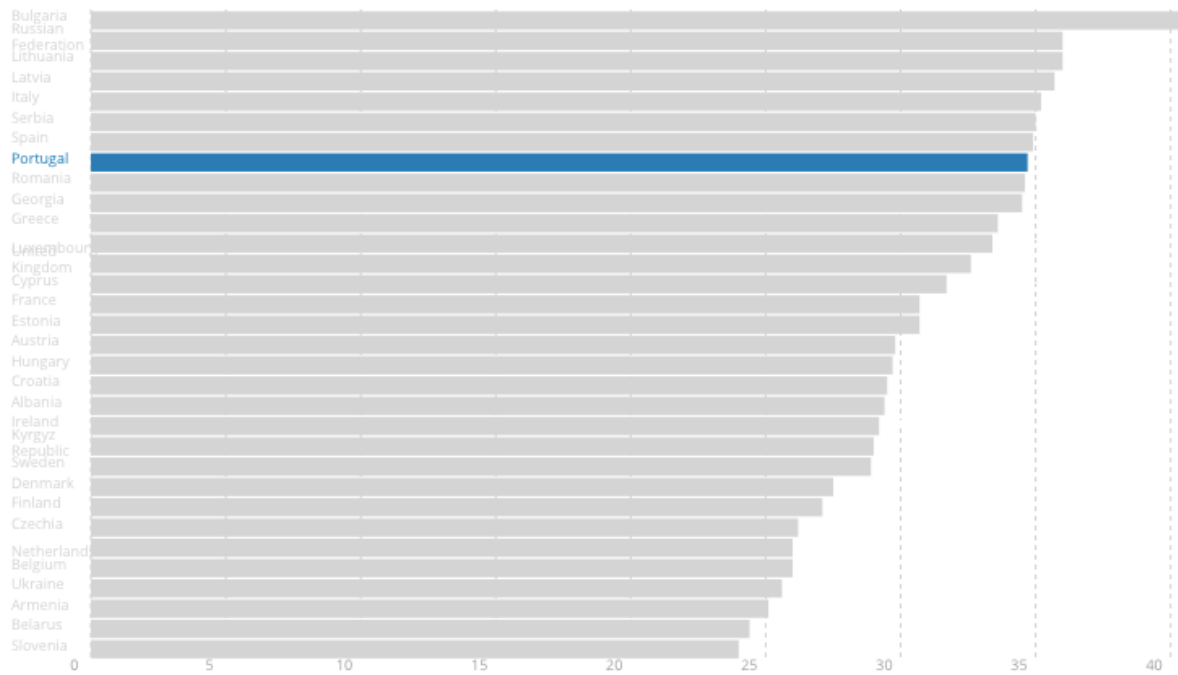
Source: UN n.d

Exhibit 9: Top Motivators for improving sustainability along the supply chain

Source: EY 2022

Exhibit 10: Gini-Coefficient across EU countries in 2020

Definition Gini Index: “The Gini index measures the extent to which the distribution of income or consumption among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.” (World Bank 2020)



Source: World Bank 2020

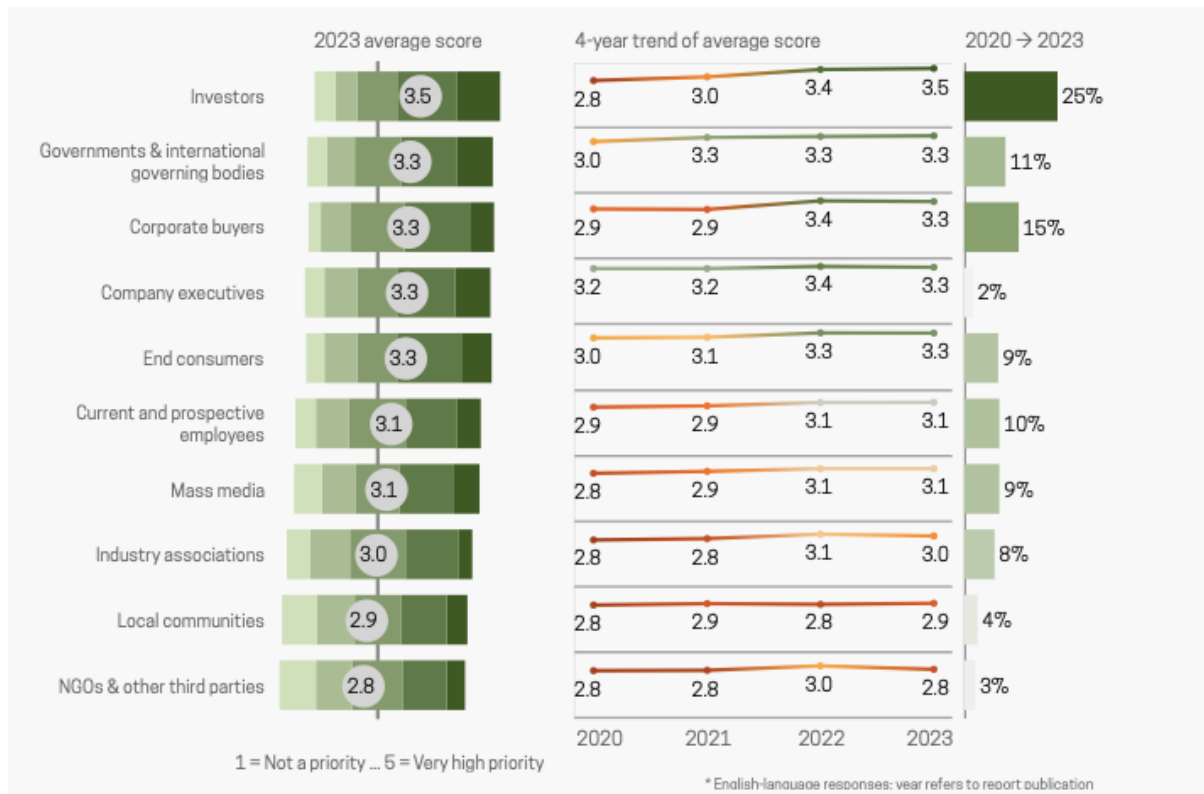
Exhibit 11: Stakeholder Maps

Tool	Description of Dimensions
<p>Power-interest matrix (Mendelow 1991)</p>	<p>Power: This dimension assesses the influence or power a stakeholder holds within or over an organization. It could be derived from their control over resources, decision-making authority, or their position within the company or industry.</p>

	<p>Interest: This dimension gauges the extent to which a stakeholder is interested, involved, or affected by the organization's actions, decisions, or outcomes.</p> <p>Finally, the matrix places stakeholders into one of four quadrants.</p>
<p>Stakeholder salience model (Mitchell et al. 1997)</p>	<p>Power: The ability of a stakeholder to influence the organization's decisions or activities.</p> <p>Legitimacy: The perceived validity or appropriateness of a stakeholder's claim to be considered in decision-making.</p> <p>Urgency: The degree to which a stakeholder's claims require immediate attention or response.</p> <p>Stakeholders are evaluated based on these attributes, and their salience, or importance to the organization, is determined by the number and combination of these attributes they possess. Stakeholders with all three attributes are the most salient and should be given the highest priority in stakeholder management strategies.</p>

Source: Mendelow 1991; Mitchell et al. 1997

Exhibit 12: Level of pressure on suppliers per source year over year



Source: MIT 2023

Exhibit 13: GRI Standards

GRI standard	Disclosure
GRI 2: General Disclosures 2021	2-1 Organizational details
	2-2 Entities included in the organization’s sustainability reporting
	2-3 Reporting period, frequency and contact point
	2-4 Restatements of information
	2-5 External assurance
	2-6 Activities, value chain and other business relationships
	2-7 Employees
	2-8 Workers who are not employees
	2-9 Governance structure and composition
	2-10 Nomination and selection of the highest governance body
	2-11 Chair of the highest governance body
	2-12 Role of the highest governance body in overseeing the management of impacts

	2-13 Delegation of responsibility for managing impacts
	2-14 Role of the highest governance body in sustainability reporting
	2-15 Conflicts of interest
	2-16 Communication of critical concerns
	2-17 Collective knowledge of the highest governance body
	2-18 Evaluation of the performance of the highest governance body
	2-19 Remuneration policies
	2-20 Process to determine remuneration
	2-21 Annual total compensation ratio
	2-22 Statement on sustainable development strategy
	2-23 Policy commitments
	2-24 Embedding policy commitments
	2-25 Processes to remediate negative impacts
	2-26 Mechanisms for seeking advice and raising concerns
	2-27 Compliance with laws and regulations
	2-28 Membership associations
	2-29 Approach to stakeholder engagement
	2-30 Collective bargaining agreements
GRI 3: Material Topics 2021	3-1 Process to determine material topics
	3-2 List of material topics
	3-3 Management of material topics
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed
	201-2 Financial implications and other risks and opportunities due to climate change
	201-3 Defined benefit plan obligations and other retirement plans
	201-4 Financial assistance received from government
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage
	202-2 Proportion of senior management hired from the local community
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported
	203-2 Significant indirect economic impacts
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers

GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption
	205-2 Communication and training about anti-corruption policies and procedures
	205-3 Confirmed incidents of corruption and actions taken
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices
GRI 207: Tax 2019	207-1 Approach to tax
	207-2 Tax governance, control, and risk management
	207-3 Stakeholder engagement and management of concerns related to tax
	207-4 Country-by-country reporting
GRI 301: Materials 2016	301-1 Materials used by weight or volume
	301-2 Recycled input materials used
	301-3 Reclaimed products and their packaging materials
GRI 302: Energy 2016	302-1 Energy consumption within the organization
	302-2 Energy consumption outside of the organization
	302-3 Energy intensity
	302-4 Reduction of energy consumption
	302-5 Reductions in energy requirements of products and services
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource
	303-2 Management of water discharge-related impacts
	303-3 Water withdrawal
	303-4 Water discharge
	303-5 Water consumption
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas
	304-2 Significant impacts of activities, products and services on biodiversity
	304-3 Habitats protected or restored
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions
	305-2 Energy indirect (Scope 2) GHG emissions
	305-3 Other indirect (Scope 3) GHG emissions
	305-4 GHG emissions intensity

	305-5 Reduction of GHG emissions
	305-6 Emissions of ozone-depleting substances (ODS)
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts
	306-2 Management of significant waste-related impacts
	306-3 Waste generated
	306-4 Waste diverted from disposal
	306-5 Waste directed to disposal
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria
	308-2 Negative environmental impacts in the supply chain and actions taken
GRI 401: Employment 2016	401-1 New employee hires and employee turnover
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees
	401-3 Parental leave
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system
	403-2 Hazard identification, risk assessment, and incident investigation
	403-3 Occupational health services
	403-4 Worker participation, consultation, and communication on occupational health and safety
	403-5 Worker training on occupational health and safety
	403-6 Promotion of worker health
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships
	403-8 Workers covered by an occupational health and safety management system
	403-9 Work-related injuries
	403-10 Work-related ill health
	404-1 Average hours of training per year per employee

GRI 404: Training and Education 2016	404-2 Programs for upgrading employee skills and transition assistance programs
	404-3 Percentage of employees receiving regular performance and career development reviews
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees
	405-2 Ratio of basic salary and remuneration of women to men
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor
GRI 410: Security Practices 2016	410-1 Security personnel trained in human rights policies or procedures
GRI 411: Rights of Indigenous Peoples 2016	411-1 Incidents of violations involving rights of indigenous peoples
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs
	413-2 Operations with significant actual and potential negative impacts on local communities
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria
	414-2 Negative social impacts in the supply chain and actions taken
GRI 415: Public Policy 2016	415-1 Political contributions
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling
	417-2 Incidents of non-compliance concerning product and service information and labeling
	417-3 Incidents of non-compliance concerning marketing communications

GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data
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Source: GRI 2017

EVALUATION REPORT

1. Introduction

In 2022, 96% of the world's largest revenue-generating companies, known as the G250, embraced the practice of voluntarily sustainability reporting. This significant proportion reflects a growing corporate consciousness towards environmental and social responsibility. However, the absence of a uniform and globally adopted reporting framework presents a challenge: the varying content and structure of these reports make it difficult to assess and compare the sustainability performance across different corporations (KPMG 2020). Moreover, due to the voluntary nature of reporting, concerns might arise about the reliability of reported content including suspicions of greenwashing, and the practice of communicating exaggerated positive environmental claims (SP Global 2021). There are several different frameworks that companies can use voluntarily to communicate ESG information in a comprehensive manner such as the General Reporting Initiative (GRI), or the Carbon Disclosure Project (CDP), which are among the most widely adopted sustainability frameworks. The GRI framework for corporate social responsibility focuses on the three ESG factors with equal weight. The importance of stakeholder engagement to identify materiality topics is heavily emphasized. The CDP, on the other hand, focuses mainly on greenhouse gas (GHG) emissions, potential governance actions, and business strategies to mitigate climate change and deforestation and to promote water security. Furthermore, the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) aim to assist companies in aligning non-financial and financial disclosures (Measurabl 2020).

However, mandatory sustainability reporting is on the rise. The EU, for example, introduced the Corporate Sustainability Reporting Directive (CSRD) accompanied by the European Sustainability Reporting Standards (ESRS) to improve the reported sustainability information of companies in terms of the quality, transparency, and comparability (Florence

School of Banking and Finance 2023). The CSRD will first come into effect in 2024 for large, listed companies and will be phased in for more and more companies up until 2029. This development mirrors the established norms for financial reporting, underscoring the growing significance of sustainability in corporate governance (KPMG 2022).

Since 2020, BEL Group has published three sustainability reports, detailing their ambitions and measures to mitigate negative impacts of their business activities. Despite being a private holding, CEO and founder Marco Galinha leads the Portuguese company with transparency and accountability by voluntarily publishing reports. This commitment not only aligns with emerging global trends but sets a benchmark for corporate responsibility.

This report aims to provide BEL Group with both strategic and sustainability reporting recommendations, derived from an assessment of sustainability reports from global companies, recognized as leaders in sustainability. The suggestions are designed not only to refine but also to elevate BEL Group's approach to sustainability reporting, ensuring it aligns with global best practices and effectively communicates its commitment to sustainable development.

2. Methodology

2.1 Objective

The core objective is to conduct a comprehensive analysis of sustainability reports to gain valuable insights and identify best practices. A sustainability report is the representation of a company's commitment to sustainability and environmental, social, and governance (ESG) principles (PWC 2021). This perspective serves as a guiding principle in understanding the significance of sustainability reporting. Our analysis aims to achieve three key objectives: (1) to identify best practices in sustainability reporting, (2) to understand the prevalence of key components in sustainability reports, and (3) to assess BEL Group's sustainability report against established benchmarks to derive recommendations (Figure 1).

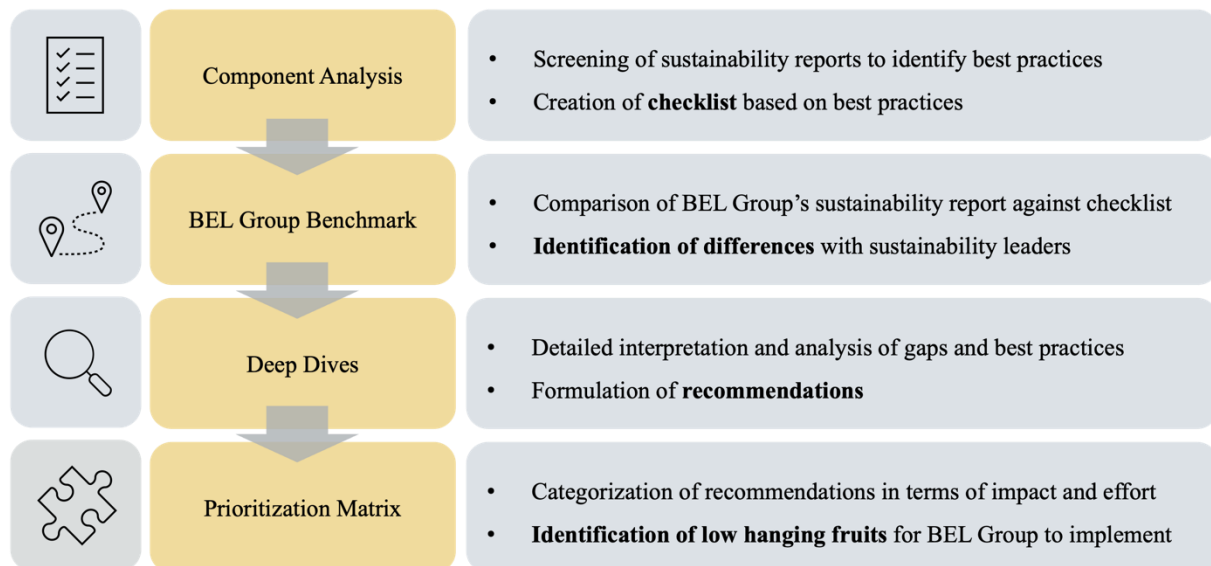


Figure 1: Overview of Methodology

2.2 Scope

Data Collection: through a literature review, we developed a set of criteria that reflect key components in a sustainability report. Based on this set of criteria, we gathered data by evaluating the sustainability reports of the companies in our sample. Microsoft Excel was used to collect and organize the data, allowing for a systematic analysis of key metrics in sustainability reports. Moreover, focus areas were set on goal setting, stakeholder engagement, and governance. To ensure consistency, only reports from 2022 were examined. Additionally, insights from a KPMG study (KPMG 2018) are integrated to further enrich the framework. These components serve as the foundation for the in-depth analysis, ensuring a comprehensive examination.

Company selection: to ensure relevance and credibility in identifying best practices, we focus on companies recognized as leaders in sustainability. Drawing from the Sustainability Leaders Survey by SustainAbility Institute and GlobeScan (Globescan 2023), and rankings by Corporate Knights (Scott 2023), we compiled a list of 27 companies. Two different rankings were combined for the identification of leading sustainability companies to diversify the data pool which assists in increasing the robustness of the results. The rationale behind the company

selection is threefold: (1) The companies all have a global footprint. Hence, their sustainability reports provide a broad perspective on how companies address sustainability on a global scale. (2) Leading companies are often at the forefront of innovation and adaptation to emerging sustainability trends which allows our research to reveal how they are responding to evolving ESG issues and how they integrate them into their strategies. (3) Leading companies typically invest significantly in comprehensive sustainability reporting, providing a wealth of data and consistency in their reporting.

Additionally, we also researched 10 of the largest companies in Portugal as a control group for BEL Group. Larger companies have more resources and experience with financial reporting are therefore more inclined to develop consistent sustainable reporting processes. The selection of Portuguese companies allows a better understanding of how similar entities navigate and implement sustainability strategies in the same geographical area. In-scope documents include both standalone sustainability reports and annual reports that integrate the sustainability report.

In conclusion, the company selection is designed to explore best practices that are relevant to BEL Group's business operations, ensuring the applicability of our research findings.

2.3 Analysis

Component Analysis: First, the sustainability reports are examined based on the defined set of criteria to identify best practices which are then summarized in a checklist. We used a rating system (low, medium, high) to classify the prevalence of components in sustainability reports. Components occurring in more than 75% of the reports are classified as high, those between 75% and 50% are considered medium and elements below 50% are classified as low. Building on this, we performed a correlation analysis, to reveal potential relations between our data variables.

BEL Group Benchmark: Next, we examined BEL Group against the checklist. This comparison reveals areas where BEL Group aligns with leading companies and highlights

potential areas of improvement. Further evaluation considers the fit of these components with BEL Group's corporate characteristics and efforts to incorporate them into their report.

Deep Dive Analysis: Based on the benchmark exercise, we executed a deep dive into specific components to derive recommendations for BEL Group. This in-depth analysis goes beyond a binary inclusion or exclusion assessment of components. It provides a qualitative analysis and contextual interpretation of how strategic elements are presented in each company's report.

2.4 Expert Interview

To enhance our recommendations and confirm their applicability to the Portuguese market an interview was conducted with the director of ESG and Sustainability from a Big Four consultancy in Portugal. Based on his experience of over fifteen years in advising corporations on sustainability matters, our recommendations are refined and tailored to BEL Group.

2.5 Limitations of Research Design

(1) Our research is based on a sample size of 37 companies to enable an assessment of the sustainability reports. The data set is composed of leading sustainability companies and the largest Portuguese companies. The limited sample size may restrict the external validity of the study. Hence, a certain level of scrutiny is advised when generalizing the findings to a broader range of companies. (2) The evaluation of qualitative information inherently introduces interpretive biases which we attempted to reduce as much as possible through a precise definition of criteria. (3) A key aspect of our evaluation was the selection of leading sustainability companies, which were selected from the Corporate Knights ranking and the Sustainability Leaders Survey. Even though the sustainability report is an adequate proxy of a company's strategies, being ranked high in sustainability does not necessarily equal to having the best practices in sustainability reports. (4) The selection of Portuguese companies was based on the level of revenue which does not automatically translate into high-quality sustainability reports.

3. Component Analysis

The component analysis discovers recurring elements in leading sustainability reports and categorizes them in high, medium, and low frequency. Best practices are defined as components occurring with a high and medium frequency in the sustainability reports analyzed. Furthermore, elements that occur with a low frequency are pointed out. Differences between sustainability leaders and the Portuguese peer companies are highlighted, enabling us to gain a more nuanced understanding of how similar entities perform against sustainability leaders.

Best practices: Looking at defining goals for sustainability, the research uncovered that more than 75% of the reports (1) addressed SDGs, (2) prioritized them, (3) assessed the full value chain, (4) set goals using the SMART framework, and (5) clearly communicated progress made towards these goals. For stakeholder management, best practices include (6) disclosing stakeholder engagement strategies and (7) conducting a materiality assessment. In terms of corporate governance, leading sustainability companies (8) incorporate a CEO or C-level manager statement, (9) inform about the governance structure, (10) address diversity, and (11) explain the responsibilities of different entities. Our analysis further identified components present in between 50% and 74% of the reports. With medium frequency, sustainability leaders (12) demonstrate their business case for integrating the SDGs and in turn (13) assess how the business impacts the SDGs. Furthermore, (14) the explanation of the methodology to prioritize SDGs, (15) the identification of SDG targets, and (16) the formulation of goals for SDG targets can be considered best practices. Lastly, (17) integrating a list of all stakeholder groups in the report is a common practice of sustainability leaders.

Not best practices: Only a few elements occur with a low frequency and can therefore not be categorized as a best practice. Here, the (1) mapping for prioritizing stakeholder groups leads the list, followed by the (2) description of how the board is nominated and selected. The small

number of elements with a low frequency indicates that our preselected best practices based on the literature review are to a large part confirmed by our research.

Differences: Comparing leading and Portuguese peer companies, a few differences become apparent. (1) Leading companies tend to adopt a more focused approach, defining fewer strategic priorities (typically between 1 and 4). On the contrary, most Portuguese comparables opt for a broader strategic spectrum, concentrating on 5-7 priorities, revealing divergent strategic approaches within the two clusters. (2) Most sustainability leaders evaluate their business impact on the SDGs. Portuguese comparables generally do not include this element as often in their reports. (3) Additionally, while Portuguese comparables exhibit proficiency in identifying relevant SDGs, they lack a detailed explanation of how the prioritization was conducted and which goals are set for SDG performance. (4) Lastly, 90% of the Portuguese comparables illustrate the materiality assessment in their reports, while only 77% of leading sustainability companies do.

The component analysis validates the majority of preselected best practices in sustainability reporting. However, differences emerge between leading sustainability companies and Portuguese comparables, particularly in strategic focus and detailed SDG impact assessment.

4. Benchmark of BEL Group

BEL Group has published three sustainability reports since 2020, reflecting the holding's recent move into sustainability reporting. The examined companies, with an average of 9 sustainability reports published, demonstrate an advanced level of maturity in reporting practices. The following chapter compares BEL Group's sustainability report with the identified best practices of sustainability leaders to pinpoint areas of improvement (Figure 2). Identifying differences and similarities in reports guides our research toward formulating targeted recommendations for BEL Group. This assessment focuses on whether BEL Group's

report incorporates the identified best practice components and provides potential reasons why some components might be missing.

In their sustainability report, BEL Group commits to the 2030 Agenda and thereby to contributing to the SDGs. However, the report falls short in prioritizing a set of SDGs relevant to its business and strategy in contrast to sustainability leaders. Moreover, 90% of the Portuguese comparables showcase a clear prioritization, stressing the relevance of prioritizing SDGs, independent of geography. The absence of SDG prioritization subsequently leads to a lack of explanation of the prioritization process. Additionally, a clear indication of how BEL Group contributes to the SDGs is lacking in the report. Operating in diverse business units leads to various areas where BEL Group can have an impact. This can make it challenging to decide on focus areas on a corporate level. Additionally, insufficient data on sustainability metrics further enhances the complexity of formulating a comprehensive sustainability strategy based on where BEL Group can contribute most efficiently.

Furthermore, BEL Group does not demonstrate its business case for SDGs, a challenge shared by 60% of Portuguese peer companies. BEL Group might hesitate to highlight the financial benefits, concerned that stakeholders perceive the sustainability efforts as being mainly driven by profit (Lee 2020). On the contrary, combining SDG contribution with a business case illustrates that the sustainability strategy is truly embedded in the corporation's core operations.

Moreover, BEL Group's report significantly deviates from best practices by not setting SMART goals (specific, measurable, achievable, relevant, and time-bound). Other Portuguese companies (80%) make use of the SMART framework signaling the element is likely independent of geography. BEL Group's challenge might be rooted in the limited availability of historical sustainability data, making it necessary to rely on estimates and difficult to formulate SMART goals that are ambitious, yet achievable.

CHECKLIST SUSTAINABILITY REPORT			
	SUSTAINABILITY LEADERS	PORTUGUESE COMPARABLES	STATUS BEL GROUP
CEO MESSAGE	96%	90%	✓
GOVERNANCE STRUCTURE	92%	90%	✓
ADDRESS DIVERSITY	88%	90%	✓
SET SMART GOALS	88%	80%	✗
ASSESS FULL VALUE CHAIN	88%	60%	✓
SDGS ADDRESSED	81%	90%	✓
RESPONSIBILITIES OF ROLES	81%	70%	✓
IDENTIFY PRIORITY SDGS	77%	90%	✗
COMMUNICATE PROGRESS TOWARDS GOALS	77%	80%	✗
STAKEHOLDER ENGAGEMENT STRATEGIES	75%	50%	✓
MATERIALITY ASSESSMENT	75%	90%	✓
ASSESS BUSINESS IMPACT ON SDG	69%	20%	✓
STAKEHOLDER LIST	65%	60%	✓
IDENTIFY SDG TARGETS	54%	10%	✗
DEMONSTRATE BUSINESS CASE FOR SDGs	58%	40%	✗
FORMULATE GOALS FOR SDG PERFORMANCE	50%	20%	✗
EXPLAIN SDG PRIORITIZATION METHODOLOGY	50%	40%	✗

Figure 2: Checklist of best practices based on component analysis

5. Interpretation and Recommendations for BEL Group

The following analysis seeks to interpret key elements recognized as best practices in sustainability reporting, which are absent in BEL Group's report. Next to that, we provide recommendations to further refine existing components within their reporting.

Showcase BEL Group's sustainability commitment through a business case for SDGs.

Our study reveals that most leading sustainability companies (81%) and Portuguese comparables (90%) address their contribution to the SDGs in their sustainability reports. The most frequently prioritized goals are SDG 13 Climate Action (62%) and SDG 7 Affordable and Clean Energy (54%) (Figure 3). However, figures are significantly lower in the presentation of business cases for SDGs, explaining how SDGs align with business strategy and drive financial performance. Slightly more than half (58%) of leading sustainability and less than half (40%) of Portuguese comparables effectively demonstrate this aspect in their reports. BEL Group articulates its engagement with 13 of the 17 SDGs, while there remains a lack of explaining the business rationale underpinning its sustainability strategy.



Figure 3: Frequency of addressed SDGs

The considerable gap of 23% between reporting on SDGs and explaining their business case suggests that businesses find it challenging to integrate the UN goals into their core business strategy. Reflecting on how a business can contribute to the SDGs and at the same time generate profits, allows one to discover novel market opportunities, such as targeting new market segments, reducing cost through increased operational efficiency, or increasing profits through charging a green premium (SDG Compass 2015). By transparently reporting a business case, stakeholders perceive the company's sustainability strategies as intrinsic to its core operations, rather than vague declarations (KPMG 2020).

Drawing on insights from existing literature and data from the present assessment, it is recommended that BEL Group strategically selects and prioritizes certain SDGs. The emphasis should be on those areas where their operational capabilities can make the most impactful contribution. Effective prioritization of sustainability goals requires a deep understanding of where positive and negative impacts occur throughout the value chain and is aligned with both internal and external stakeholders (McKinsey 2014). Guided by the principles of the SDG Compass, BEL Group is encouraged to either focus on capabilities that mitigate the most severe negative impacts or to concentrate on areas where they can generate the most positive influence (SDG Compass 2015).

Furthermore, by explicitly demonstrating a business case for its sustainability strategy, BEL Group can show stakeholders that its commitment goes beyond being ethically driven but presents a strategically beneficial aspect, enhancing the organization's long-term success. It shows that sustainability is aligned with the corporation's interests, demonstrating a seamless integration into its core business. To illustrate, describing the potential business case of prioritizing SDG 7 – Affordable and Clean Energy will make it comprehensive why it is a strategic priority. Further investments in solar energy production will not only lead to an ecological result such as a reduction

of CO2 and Scope 2 emissions, but also offer substantial economic potential. Energy costs as well as supply chain disruption risk can be significantly reduced while lowering dependency on volatile market prices. Commercializing excess energy production to the grid presents a lucrative revenue stream, exemplifying how sustainability initiatives can enhance financial business objectives.

Disclose the SDG prioritization process to enhance transparency.

While 77% of leading sustainability companies and 90% of Portuguese comparables identify priority SDGs, only 50% of leading sustainability companies and 40% of the Portuguese organizations disclose their decision-making process in ranking their contribution to SDGs.

This gap suggests that companies either do not have a structured approach to prioritizing SDGs or they prefer not to disclose it. Most of the companies from our sample (77% sustainability-leading companies and 90% Portuguese comparables) make use of a materiality matrix for prioritization. However, there is a notable lack of detailed disclosure on the methodologies used to derive prioritized SDGs. Given the various subjective factors that influence decision-making, it is important to illustrate the process of how and why SDGs are prioritized (SDG Compass 2015).

BEL Group should transparently communicate its SDG prioritization process to enhance its stakeholders' understanding of selected strategic priorities. This approach enables a comprehensive understanding among stakeholders about the organization's strategic focus. It's a crucial step in presenting an authentic picture of how BEL Group can best contribute to global sustainability goals.

Establish and report on SMART sustainability goals, enhancing accountability.

From the organizations assessed, 70% of leading sustainability companies and 80% of Portuguese comparables define objectives until 2030, aligned with the UN SDGs. Approximately 20% of all companies set milestones for the upcoming year, 2023, and only a small portion (26%

of leading sustainability companies and 10% of Portuguese comparables) define goals until 2040. Over 75% of assessed organizations communicated their progress achieved toward sustainability goals.

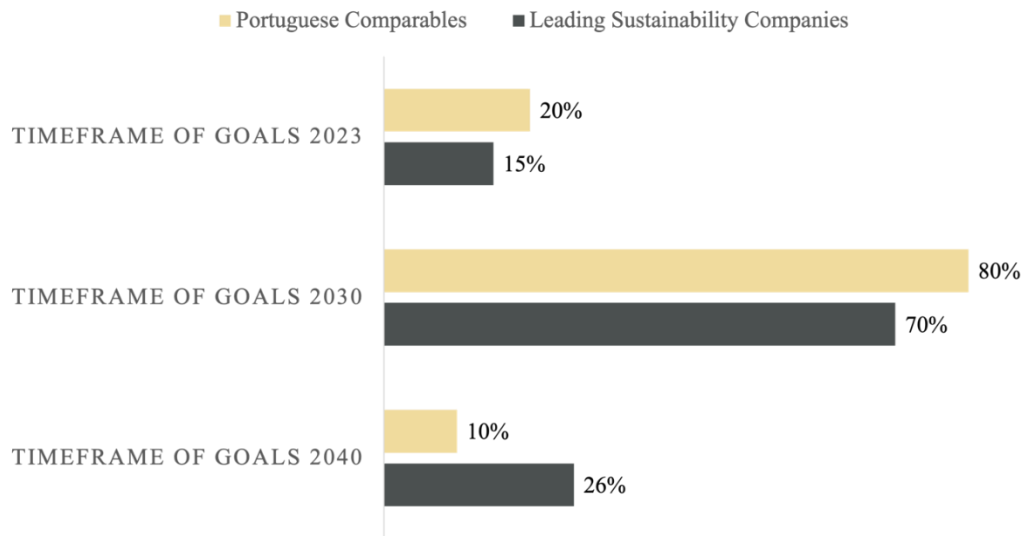


Figure 4: Frequency of different timeframes for goals

Long-term goals, exceeding 5 years, are vital for a company to establish a visionary roadmap for major transformations. These objectives can be inspirational and offer a clear indication of the organization's future direction. In parallel, setting short-term milestones is essential to enable the tangible tracking of progress and ensure accountability for commitments announced. Moreover, transparently reporting on progress is more than informative for stakeholders to understand the organization's progress. It allows for a comprehensive picture of the company's advancement and offers insights into whether set objectives have been met. If goals are not achieved, evaluation of reasons fosters continuous improvement, strategic realignment, and public credibility (SDG Compass 2015). The expert interviewed suggests establishing cross-functional objectives at the corporate level within conglomerates, that are then tailored and implemented at the business unit level. Transversal objectives can include setting minimum standards for all business units to

execute, for instance, mandating the systematic tracking of greenhouse gas emissions (Expert Interview 2023).

BEL Group should implement a two-layer approach of setting SMART long-term objectives and complementing them with short-term milestones. Take, for instance, the ambitious goal of transforming the logistics fleet into an electrical one. This significant transformation requires substantial investments and spans over a longer period. To enable tracking of progress on objectives, yearly milestones can be set that require for example the substitution of 25% of existing combustion vehicles with electric vehicles each year. Furthermore, due to the variety of impact areas of BEL Group's portfolio, defining cross-functional goals such as setting a priority on SDG 7 – Affordable and Clean Energy is recommended. Each business unit needs to reflect on its unique contribution towards the strategic focus. This approach allows for transparent tracking of progress as well as regular assessment if adjustments in goal settings are required.

Make materiality a continuous exercise and review materiality topics every year.

Our research indicates that integrating materiality assessments into sustainability reports is a prevalent best practice (Figure 5). It is and will remain the backbone of sustainability reporting.

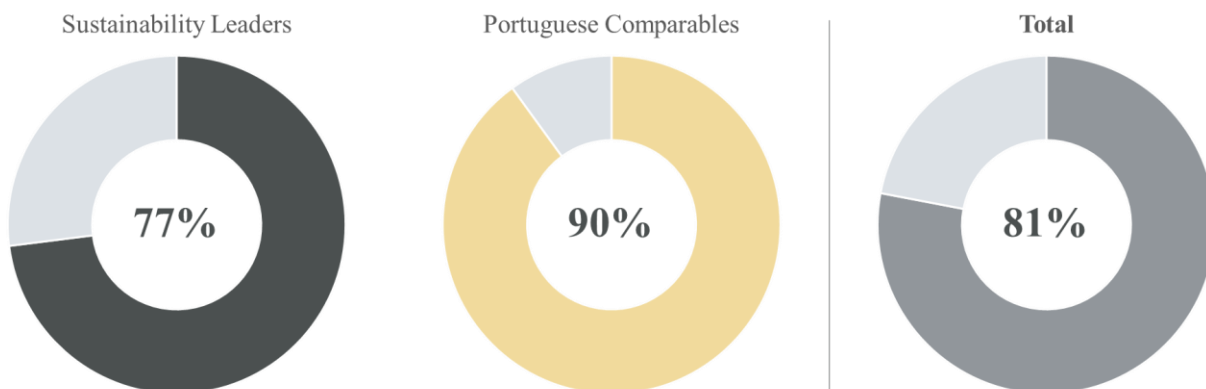


Figure 5: Frequency of materiality assessment

While there is no significant difference in materiality reporting frequency between public and private companies in our sample, a trend emerges concerning company size, measured by employee count. Companies with fewer than 5,000 employees report on materiality at a frequency of 89%, while those with more than 5,000 employees show a lower frequency of 75%. This suggests that smaller companies are more proactive in communicating their materiality process in the report itself, compared to communicating their assessment on their website or irregularly every other year. Another statistically significant finding is that 88% of companies, reporting following GRI also include materiality assessments in their sustainability reports (correlation coefficient: 0,38). This aligns with the expectation that a report claiming GRI compliance should inherently cover material topics and their assessment as defined in the standard (ADEC ESG 2022). In essence, reporting on materiality assessments is a widespread practice, spanning industries, sizes, and global borders, with nuances related to company size and adherence to reporting standards (Figure 6).

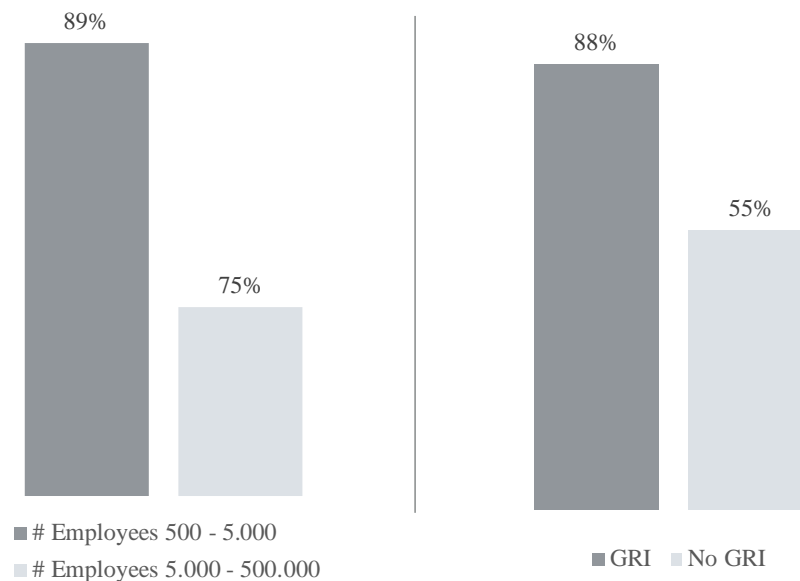


Figure 6: Frequency of materiality assessment depending on # employees & GRI adoption

While the large majority state that they conduct materiality assessments, a deeper analysis reveals that not all companies assess materiality annually, with some opting for assessments every two years or as needed. Research and the sustainability expert interviewed, however, stress the importance of continuous materiality management due to its dynamic nature and evolving sustainability issues (Klein et al. 2023). To accommodate this perspective, BEL Group should consider making materiality a continuous exercise, conducting yearly reviews, and implementing a dynamic process to gather tactical and operational feedback from stakeholders regularly, ensuring adaptability to shifting expectations and emerging sustainability trends e.g. new green energy technologies.

Go beyond compliance and adopt a double materiality assessment.

The data findings highlight the recent adoption of double materiality assessments, incorporating perspectives on the business case for sustainability and the company's impacts on its environment. While this approach is not reflected in standards yet, it is anticipated to gain prominence in the upcoming CSRD and the revised GRI (ADEC ESG 2022; PWC n.d.). Although BEL Group is currently not subject to the CSRD, comparable Portuguese companies like Sonae, recently embraced a double materiality matrix aligned with CSRD requirements (Sonae 2022). Despite differences in size, this case underscores the importance of anticipating future reporting standards and the trend of double materiality. Additionally, experts recommend going beyond compliance, emphasizing that companies should always focus on the next steps in their sustainability journey (Expert Interview 2023). In conclusion, given the trend toward double materiality assessments, BEL Group should consider preparing for or, if feasible already, integrating this approach into their sustainability reports. This recommendation becomes even more

relevant considering BEL Group's aspiration to pioneer in sustainability and their aim to act like a public company.

Only report topics that drive strategy and business, and therefore focus on reporting the process of assessing materiality rather than the topics determined.

Materiality assessments serve as a critical guide for companies, determining what to report and providing a rationale for the inclusion of specific topics in sustainability reports. The reported topics should align with driving business strategy rather than serving superficial purposes. An expert states that the sustainability report is “*not a place to have philanthropy or photos of people planting trees*” (Expert Interview 2023).

However, common pitfalls in materiality assessments, such as one-size-fits-all approaches and a lack of transparency, can lead to a situation where reported activities do not align with organizational objectives (Klein et al. 2023). Furthermore, attempts to standardize materiality assessment by industry, exemplified by initiatives like SASB, may pose challenges for multinational companies like BEL Group, given their diverse operations.

The data findings underscore that the true value of reporting lies in explaining the process of materiality assessment rather than providing a static list of material topics. Best practices show the process is typically divided into four stages: Identification, Prioritization, Validation, and Review. In the identification stage, companies exhibit diversity in their approaches. Some start by assessing their value chain, while others opt to identify material topics at regional or business unit levels first. This flexibility allows for a tailored assessment of specifics of the business. Several tools can play a role in this initial step, such as (1) peer benchmarking, a review of material topics disclosed by leading peers, (2) ESG reporting frameworks, particularly industry-specific ones like SASB, (3) requirements from international sustainability ratings, such as the Dow Jones Sustainability Index, and (4) external context analysis to mapping sustainability trends. A

multifaceted toolkit enhances the comprehensiveness of the materiality assessment process. Furthermore, the prioritization phase is commonly facilitated by engaging various stakeholders through online surveys or in-depth interviews.

In light of these findings, BEL Group should prioritize reporting on the process of assessing materiality. This ensures that disclosed topics follow the firm's overarching strategy, fostering transparency and strategic relevance of their sustainability reporting.

Dedicate a chapter in your report on stakeholder engagement and describe engagement outcomes in addition to the engagement goals.

Reporting on stakeholder engagement practices emerges as a best practice in sustainability reporting, with a notable 75% of leading sustainability companies incorporating this aspect into their reports. Our analysis reveals no substantial correlation between company characteristics and the occurrence of engagement practices in sustainability reports, indicating a widespread adoption across diverse corporate profiles. However, a significant positive correlation (correlation coefficient: 0.38) is observed between reporting on materiality assessment and detailing stakeholder engagement strategies. The two elements are closely intertwined, as the materiality assessment process inevitably integrates stakeholder input to identify material issues. Furthermore, scholars emphasize that embedding stakeholder engagement in sustainability reporting not only aligns with best practices but also serves as a mechanism to hold companies accountable to their stakeholders and to showcase their dedication to responsible and responsive business practices (Ardiana 2023).

A prior content analysis spanning from 2015 to 2017 unveiled limited disclosures regarding stakeholder engagement, primarily focusing on reporting practices rather than substantive engagement details (Ardiana 2023). Despite this former backdrop, our recent data analysis

highlights variations in the level of detail. Specifically, companies incorporating a dedicated section on stakeholder engagement offer thorough descriptions, signaling an elevated priority.

Taiwan High Speed Rail Corporation (2022) is an exemplary company with a dedicated chapter on stakeholders (Exhibit 4). The report specifies the type of stakeholder, their priority issues, and communication channels including the frequency and engagement outcomes from the past years are measured against their goals. A similar structure is followed by Nestlé (Exhibit 5). However, it is important to note that data is entirely qualitative and no gaps or opportunities for improvement are reported.

From the analysis, we recommend including a dedicated chapter on stakeholder engagement, focusing on engagement goals and also on reporting on engagement outcomes.

Utilize information disclosure as a backbone for stakeholder engagement but do not fall short of higher quality engagement.

Our research reveals challenges with the inconsistent use of the term "engagement," varying across companies. While some see it as equal to communication (Taiwan High Speed Rail Corporation 2021), others describe it as advocating for sustainable policies with public bodies, international organizations, trade associations, and experts.

Data findings show commonly reported forms of engagement, such as information disclosure, forums, and panels, dialogues, conferences, town halls, virtual info meetings, feedback surveys, reporting channels for concerns, training, voluntary work, and partnerships. These align with other studies, where almost half (49%) of engagement strategies refer to information provision, like reports and newsletters. Additionally, 46% involve two-way communication, like forums, surveys, customer service, and dialogues. However, fewer strategies involve stakeholders actively in decision-making (Stocker et. al 2020).

Despite the prevalence of these tools, the literature stresses the importance of stakeholder engagement quality. Less commonly reported but higher-quality engagement forms include focus groups, solution support for customers, performance reviews/discussions, education through workshops, newsletters, networks, social media, and day-to-day contact.

In conclusion, BEL Group should leverage information disclosure as a foundational element for stakeholder engagement, given its prevalence and alignment with best practices. However, the company should prioritize higher-quality engagement forms. Balancing both approaches will help BEL Group build robust and meaningful connections with stakeholders.

Use the CEO statement as a way of directly communicating with stakeholders to address the company's take on sustainability.

The inclusion of a CEO statement is commonly used by leading sustainability companies as an introduction. Moreover, it is an important component of the sustainability report (Sauerwald and Su 2019). In the sample, 95% of the companies integrated a CEO statement into their sustainability report. In certain cases, instead of the CEO, the chairman or CSO took the responsibility of opening the report.

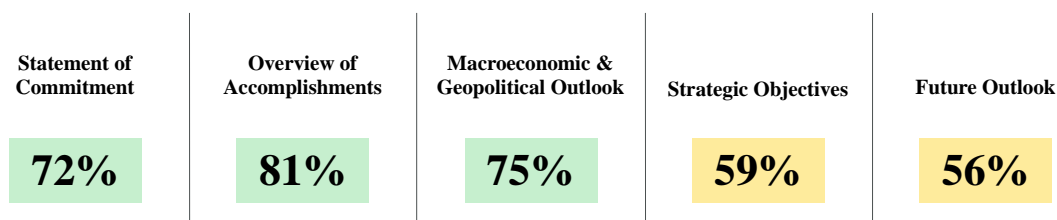


Figure 7: Contents of CEO message

As a best practice, leading companies in sustainability used the CEO Statement to discuss topics such as (1) a statement of commitment, (2) an overview of the accomplishment of the past year(s), (3) a macroeconomic and/or geopolitical outlook, and to a lesser extent (4) an outline of the strategic objectives and (5) a future outlook (Figure 7). One observation was that leading companies explained the relationship between their company and sustainability.

The CEO statement is an excellent opportunity to directly communicate with stakeholders and to discuss how a company's performance results align with its Corporate Social Responsibility (CSR) initiatives (Khan & Sulaiman 2021). In our analysis, CEOs implemented a statement of commitment and provided an overview of accomplishments to communicate the effective integration of concrete business practices with relevant ESG aspects that the company aims to invest in or improve on. Mads Nipper, for example, CEO of Ørsted, first discusses the current climate situation and its impacts, then addresses the commitments of his company, followed by strategic actions that Ørsted aims to undertake to contribute to a more sustainable future. This elaboration gives a clear view on the perspective and sustainability goals of Ørsted. Furthermore, a macroeconomic outlook provides insights into how the business(es) are impacted by certain events with a global reach, such as the pandemic and the war in Ukraine in recent years. It is important to convey the link between sustainability issues or other topics and the organization and society to avoid raising the impression of seeking legitimacy.

Personality traits of CEOs, like overconfidence, narcissism, hubris, greed, and short-sightedness, can influence a CEO's standpoint towards its business in its relation to CSR (Brennan and Conroy 2013; Sajko et al. 2020), and excessively highlighting positive results is oftentimes viewed as a strategy to manage impressions to satisfy stakeholders (Merkl-Davies and Brennan 2007). Hence, we recommend a certain degree of neutrality in the CEO statement. Moreover, high information quality can benefit the company in the long run (Du and Yu 2020).

In conclusion, we recommend BEL Group to integrate a well-designed CEO statement in the sustainability report. In order to gain the most benefits out of the statement, BEL Group should discuss its commitments, its past achievements, and the macroeconomic outlook in a clear manner that shows the link between the addressed topics and BEL Group. Finally, being consistent, year

over year, will improve transparency and traceability. This can enhance the overall credibility of BEL Group's sustainability report.

Have a diverse board and disclose the board composition and gender distribution. Explain the impact of the board composition on business and sustainability performance.

In our sample, virtually every company reports on the governance structure with only two exceptions. This clearly outlines the significant role of corporate governance in sustainable business practices. Furthermore, a substantial 89% of the companies report on diversity, with a strong focus on board composition and gender distribution. The leading companies disclose information about the board size, and the board selection procedures, and provide specific percentages of women in the board, senior-management positions, and the company-wide gender distribution, as well as targets for the future.

A good governance structure is a cornerstone of high-quality sustainability reporting practices. Moreover, the characteristics of the board of directors can enhance various aspects of sustainability reporting. (1) Transparency in sustainability practices is closely linked to the independence and diversity of board members (Fuente et al. 2017). (2) CSR engagement and reporting are positively influenced by participation of females and independence of the board, enhancing the overall legitimacy of CSR reporting (Jizi 2017). (3) Moreover, higher female representation on boards is associated with higher sustainability reporting quality, marked by reduced impression management strategies and improved balance, comparability, and reliability (García-Sánchez et al. 2019). (4) A higher percentage of woman on boards also increase the likelihood of voluntary climate change disclosure (Ben-Amar et al. 2017). Aligning these findings with the analysis, it is evident that leading companies prioritize a diverse board of directors and communicate this commitment via their sustainability reports. Our correlation analysis adds to this:

companies that report on their governance structure, are likely to provide information on stakeholder engagement strategies (correlation coefficient: 0.35) and their materiality assessment (correlation coefficient: 0.45), set smart goals (correlation coefficient: 0.37), and are transparent in their progress towards goals (correlation coefficient: 0.45). These correlations are statistically significant.

A well-designed governance structure not only positively influences business sustainability performances. It can also improve decision-making processes. More concretely, a diverse boardroom composition is likely to result in more ethical decision-making (Hillman 2015). Next to that, a diverse board can also contribute to a decrease in CO² emissions and enhanced carbon performance applications (Toukabri & Youssef 2022). Additionally, companies achieving improved gender balance demonstrate a propensity for initiating more positive CSR activities while reducing negative ones, fostering a holistic and responsible approach to sustainability (Yarram & Adapa 2021).

In conclusion, BEL Group should ensure a board composition with a high level of diversity and a healthy gender distribution to benefit from better decision-making. Moreover, a diversified board oftentimes results in higher reporting standards while further legitimizing the information in sustainability reports, making them more transparent, legitimate, and reliable.

6. Prioritization

A prioritization matrix was designed to rank the recommendations for BEL Group. The required effort and the potential positive impact of implementing each action were estimated (Figure 8). The prioritization matrix depicts the impact of recommended actions on the sustainability report and does not indicate the importance in corporate strategy in general.

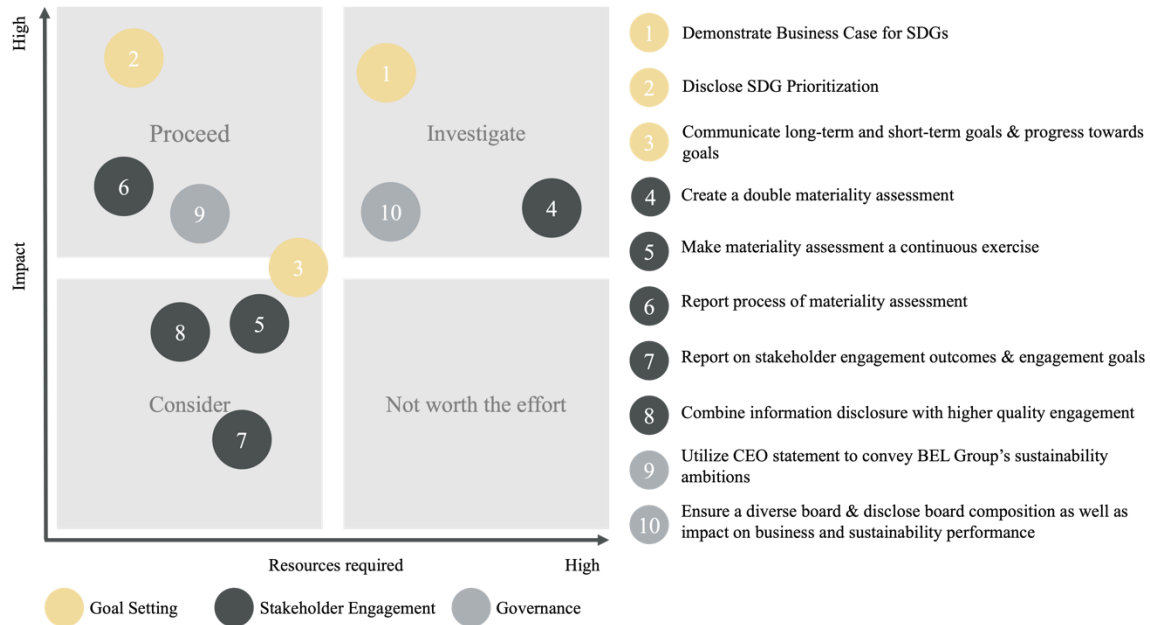


Figure 8:: Prioritization Matrix

BEL Group should prioritize recommendations located in the “Proceed” quadrant as it represents activities that require low resource allocation and generate high impact, the so-called “low-hanging fruits”. Disclosing the SDG prioritization and materiality assessment process requires low resources, given that the process of prioritizing and assessing materiality has already been executed. The only requirement remaining is to formulate and articulate the process steps in the sustainability report. Furthermore, utilizing the CEO statement provides an impactful tool for BEL Group to convey how the holding aims to contribute to a more sustainable society. Summarizing the CEO’s perspective on BEL Group’s ambitions, time effort is assumed low, while achieving a significant enhancement in the report’s credibility.

Recommendations worth investigating, which require higher resource allocation, while potentially generating high impact are categorized in the “Investigate” quadrant. Demonstrating a business case for SDGs requires time effort to reflect on how a sustainability initiative can yield an economic benefit. Simultaneously, the impact can be of great value as potential novel business opportunities are explored. Furthermore, creating a double materiality assessment requires

significant resources but at the same time can create significant value, by providing a more holistic perspective and evaluating the reciprocal relationship between a company and its external environment. In parallel, BEL Group can thereby proactively identify and mitigate risks arising from external factors (PWC n.d.). Furthermore, increasing the diversity of the board requires substantial resources as board appointments take time and consideration. However, the beneficial business outcomes and the enhanced reporting practices due to a diverse board composition, justify investigating how BEL Group can implement these measures.

Aspects that are lower in effort but also lower in potential impact include making the materiality assessment a continuous exercise, the disclosure of stakeholder engagement outcomes compared to engagement goals, and the introduction of high-quality engagement tools. While there is potential for incremental improvements in several domains, these enhancements are not immediate priorities given that BEL Group aligns with the main best practices of stakeholder engagement. For example, integrating materiality assessment tools (like surveys or forums) into regular company operations can ensure that BEL Group always has up-to-date insights into stakeholder concerns. For optimal effectiveness, this approach, however, requires establishing new processes and continual information evaluation. Moreover, disclosing information on short- and long-term goals requires considerable coordinative effort, especially since it involves consolidating the objectives of all 88 companies within BEL Group. As a lean approach, BEL Group could initially focus on communicating long-term objectives established at the corporate level and report progress made towards these overarching goals. In the medium run, BEL Group should aim to effectively communicating progress on short-term goals on business-level objectives. These suggested enhancements should be progressively integrated into the company's planning, aligning with the availability of resources.

7. Conclusion

We identified that BEL Group, a diversified holding that started relatively recently with sustainability reporting and only published its third sustainability report, can further enhance certain aspects of its sustainability report. Through a detailed analysis of three key aspects of sustainability reporting, namely goal setting, stakeholder engagement, and governance, we recommend the following. First, BEL Group is advised to a.o. prioritize SDGs to which they can contribute most effectively and disclose their progress towards reaching sustainability goals. Second, we advise that BEL Group discloses how stakeholders are involved in prioritization processes and how they engage with their stakeholders. Third, BEL Group should provide information on how sustainability is implemented in decision-making processes throughout the board and the entire company. The three recommendations categorized as low hanging fruits are to be implemented first, in order for BEL Group to elevate its sustainability report to a more mature level thereby taking the next step on their sustainability journey. Finally, we would like to point out our main observation: sustainability reports should not be seen as a formality or legitimacy-seeking exercise but should showcase the deep integration of sustainability efforts into the core strategy of a business. The road to a sustainable future is a race that everybody wins.

Appendix

Exhibit 1: Transcript of interview with director of Big Four consultancy in Portugal, December 2023, shortened

You mentioned that companies are currently not talking about broad sustainability strategies, but that there is a tendency to focus on specific sustainability topics. Do you see any other trends in sustainability reporting here in Portugal or globally in general?

Sustainability reporting in Portugal and globally is currently mostly voluntary. Companies have been using frameworks like GRI, but from next year, large companies will need to adopt the CSRD, a European standard for sustainability reporting. This change will set a new benchmark for disclosure. Although CSRD is initially for large companies, it's expected to eventually apply to medium and small-sized companies as well. Interestingly, even companies not mandated to follow CSRD, because they are not public, are voluntarily adopting these practices.

In our research, we realized that every company has a different way of reporting. Do you think the CSRD will increase the comparability?

GRI, already well-established, focuses on sector-specific guidelines, which CSRD hasn't yet fully incorporated. There's a transition period of about 2 to 3 years for the market to adapt and for sectoral guidelines to develop under CSRD. We've noticed that each company has its unique approach to sustainability reporting. CSRD aims to enhance comparability by standardizing the reporting process. The objective is to produce comprehensive documents containing information relevant to shareholders, investors, and society, helping them understand the impacts and relevance of various sustainability topics.

Can you share any best practices that you saw over the last couple of years that you would recommend to your companies to include in your sustainability report? Is there any specific tool or any specific information that you advise to disclose?

When advising companies on sustainability reporting, we emphasize the backbone of the GRI, which outlines key aspects to address. Companies should clearly communicate how they identify and report on material topics. The concept of double materiality, which includes both the impact on the environment and society, as well as the influence on financial performance, is crucial. Reports should not only identify relevant topics but also include action plans, targets, and

monitoring through relevant KPIs. Sustainability it's not something that I do just for reporting, it's something that is driving my strategy, driving my business. Consequently, the sustainability report is not a place to have philanthropy or photos of people planting trees.

Does it make sense for holdings to have a centralized sustainability department that is creating the whole strategy?

The formation of a dedicated sustainability team can be beneficial, especially for companies at the beginning of their sustainability journey. However, the ultimate goal is to integrate these competencies across the organization. As for the reporting aspect, it's sensible to have a multidisciplinary team, possibly within the financial department, to handle the diverse information and coordination required.

The role of Chief Sustainability Officers (CSOs) varies depending on a company's maturity and approach to sustainability. CSOs are more common in companies where sustainability is a core value. The position and its effectiveness depend on how the company integrates sustainability into its overall strategy.

What challenges do you see considering stakeholder engagement? What would you consider as most effective in stakeholder engagement?

Effective stakeholder engagement is a fundamental business practice. It's essential to consider stakeholder expectations in both reporting and strategy development. Engaging stakeholders helps in understanding their perspectives, which can lead to better policies and strategies. This engagement is crucial for addressing broader sustainability challenges, like circularity or emissions. Talking about scope three emissions, which are outside your value chain, you really need this engagement. It's important to conduct stakeholder engagement in a structured manner, regularly gathering insights that support long-term strategies.

What would you recommend to companies operating in diverse industries in terms of prioritization of goals?

For portfolio companies with diverse business units, prioritizing impacts involves understanding the integration level of sustainability in management strategies. The management approach of the portfolio influences the integration of sustainability. Portfolio managers should consider establishing general, transversal sustainability topics and minimum standards for all businesses in their portfolio, like greenhouse gas inventories and science-based targets. The specifics should be left to individual companies, while the portfolio manager sets broad guidelines and principles.

In conclusion, sustainability is a continuous journey where achieving one goal leads to focusing on the next. It's a race where everybody wins as progress is made in sustainable practices

Exhibit 2: Excerpt of Corporate Knights Global 100 Sustainability Ranking

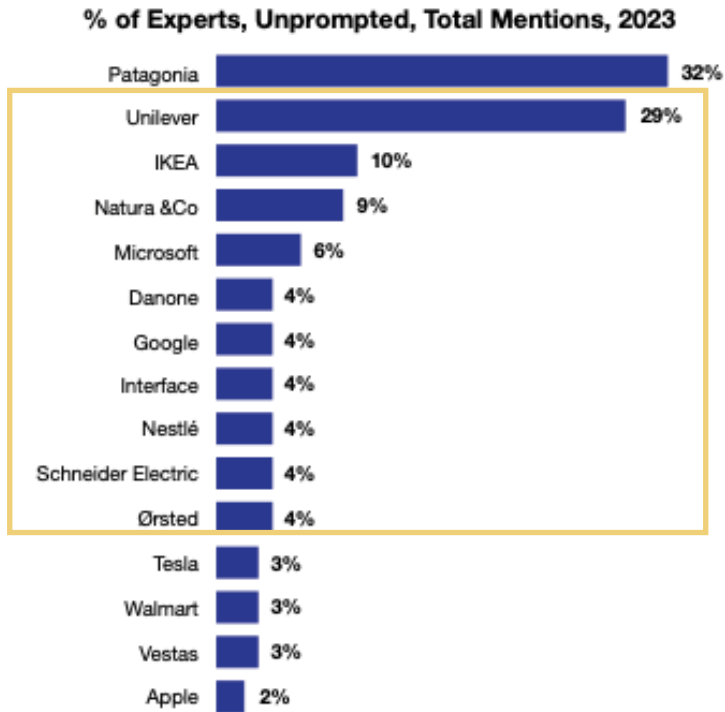
2023 G100 Rank	Name	GICS Sector	HQ Location	Energy Productivity	Energy Productivity Score
1	Schnitzer Steel Industries Inc	Materials	Portland, USA	\$ 992,5	76,2%
2	Vestas Wind Systems A/S	Industrials	Aarhus, Denmark	\$ 13.831,2	71,0%
3	Brambles Ltd	Industrials	Sydney, Australia	\$ 7.197,7	41,3%
4	Brookfield Renewable Partners LP	Utilities	Hamilton, Bermuda	\$ 508,4	48,2%
5	Autodesk Inc	Information Technology	San Francisco, USA	\$ 52.746,5	71,1%
6	Evoqua Water Technologies Corp	Industrials	Pittsburgh, USA	\$ 1.720,6	14,5%
7	Schneider Electric SE	Industrials	Rueil-Malmaison, France	\$ 25.903,9	96,1%
7	Stantec Inc	Industrials	Edmonton, Canada	\$ 14.130,9	92,2%
8	Siemens Gamesa Renewable Energy SA	Industrials	Zamudio, Spain	\$ 30.810,3	96,5%
9	Taiwan High Speed Rail Corp	Industrials	Taipei City, Taiwan	\$ 979,9	83,3%
10	Dassault Systemes SE	Information Technology	Velizy-Villacoublay, France	\$ 90.678,3	84,1%
13	Orsted A/S	Utilities	Fredericia, Denmark	\$ 17.858,2	84,2%
16	Rockwool A/S	Industrials	Hedehusene, Denmark	\$ 246,9	48,8%
17	Johnson Controls International PLC	Industrials	Cork, Ireland	\$ 3.763,1	39,6%
18	Chr Hansen Holding A/S	Materials	Hoersholm, Denmark	\$ 3.135,0	83,4%
19	Kone Oyj	Industrials	Espoo, Finland	\$ 62.061,9	96,3%
23	Novozymes A/S	Materials	Bagsvaerd, Denmark	\$ 818,1	9,8%
24	Iberdrola SA	Utilities	Bilbao, Spain	\$ 126,0	34,6%

Source: Own illustration based on Scott 2023

Exhibit 3: Excerpt from GlobeScan SustainAbility Survey





Patagonia, Followed by Unilever, IKEA, and Natura &Co Are the Companies Most Recognized for Their Sustainability Leadership

For the first time in this survey, Patagonia is the company most recognized by sustainability professionals for their work on sustainability, dethroning Unilever who had enjoyed the top spot for over a decade. IKEA, Natura &Co, and Microsoft round out the top five, maintaining their status from the past year.



Source: GlobeScan 2023

Exhibit 4: Stakeholder engagement plan 2022 Taiwan High Speed Rail

Type	Top Three Priority Issues	Communication Channel (Frequency)	Communication Performance in 2021
 Shareholders and Investors (Note)	<ul style="list-style-type: none"> Operational strategies and performance Corporate governance Legal compliance 	<ul style="list-style-type: none"> Shareholders' meeting/Investor conference (Non-periodic/Once a year) Internal/External Reports (Non-periodic/Once a year) 	<ul style="list-style-type: none"> Shareholders' Meeting on August 12, 2021 Investor Conference on March 11, 2021 Investor Conference on May 25, 2021 Investor Conference on August 16, 2021 Investor Conference on November 29, 2021
 Partners (Including Non-Governmental Organizations and Schools)	<ul style="list-style-type: none"> Transportation safety management Climate change mitigation and adaptation Legal compliance 	<ul style="list-style-type: none"> Internal/External activities (Non-periodic/Four times a year) 	<ul style="list-style-type: none"> 2021 "High-Speed Educational Endowment Program" cooperated with the "Down Syndrome Foundation R.O.C." raising nearly NT\$9.5 million Organized a total of four winter HSR Camps in 2021, attracting 2,329 online registrations, with a total of 120 students participated
 Suppliers and Contractors	<ul style="list-style-type: none"> Transportation safety management Policy and Information Security Management Operational strategies and performance 	<ul style="list-style-type: none"> Internal/External meetings (Monthly/Non-periodic) Inspection/Repair/Examination/Survey/Maintenance (Non-periodic/Monthly/Twice a Month/Once a Year) Internal/External activities (Once a year) 	<ul style="list-style-type: none"> System and equipment maintenance Suppliers/contractors completed 100% of the work according to the contract period Completed annual damage prevention and inspection survey Held insurance workshops and insurance claims conferences for four times each Passed ISO 9001:2015 quality management system verification Contractors submitted monthly manufacturer reports and held technical report meetings each month
 Government and Competent Authorities	<ul style="list-style-type: none"> Customer relationship and quality management Transportation safety management Traffic dispersion and transfer services 	<ul style="list-style-type: none"> Internal/External meetings (Monthly) Internal/External reports (Four times a year) Inspection/Repair/Examination/Survey/Maintenance (Once a year) 	<ul style="list-style-type: none"> Explained the video on the name "Worry-Free about Pregnancy, Childbirth, and Childcare" for CEDAW gender equality of THSRC to the Railway Bureau of the Ministry of Transportation and Communications in October 2021, and met the target of the gender equality project of the competent authority The test reported that THSRC had a 100% completion rate in terms of matters to be cooperated according to laws and regulations (full score 100%) Passed the annual regular THSRC operation inspection conducted by the Ministry of Transportation and Communications/Railway Bureau

Source: Taiwan High Speed Rail Corporation (2022)

Exhibit 5: Stakeholder engagement plan 2022 Nestlé

Stakeholder engagement

Considering external feedback is fundamental to our approach.

We engage with stakeholders in many different ways. However, each project, launch, collaboration, campaign and event has a common purpose: to foster collaboration, knowledge sharing, open discussion and deep dialogue.

Our stakeholder universe is large and varied and we engage with our stakeholders in many different ways. However, each project, launch, collaboration, campaign and event has a common purpose: to help advance regenerative food systems at scale.

Throughout the year, we also consult regularly with our CSV Council, an external advisory council established in 2009 and formed of a group of experts from a broad range of fields, from corporate responsibility, strategy and sustainability to nutrition, water and rural development. The Council has an advisory role. In 2022, topics discussed included implementation of the Nestlé packaging vision and commitments, progress on our [Net Zero Roadmap](#) and regenerative agriculture commitments, the roll out of our income accelerator program and our commitment to provide transparency on the nutritional value of the Nestlé portfolio. The Council also discussed how to develop our sustainability reporting in light of incoming regulatory requirements.

In 2022, we were pleased to be ranked first among 25 food and beverage companies benchmarked in the ATR's Spotlight on Lobbying scorecard, released in December 2022. Nestlé received the Highest score for its policy commitments and management systems, and the second highest score for disclosures.



Nestlé employees speaking at a workshop at COP27 in Egypt in November 2022, on efforts to advance regenerative food systems at scale.

Examples of engagement in 2022

Employees

How did we engage?
 - Regular internal communication campaigns
 - Regular forums and panel events
 - Regular surveys and webinars
 - Periodic performance and development reviews
 - Collective action for employees

Key topics covered?
 - Corporate strategy and workplace culture
 - Employee and management performance, staff welfare and benefits
 - Sustainability and regeneration
 - Internal and external reporting of non-compliance concerns and questions

What did we do?
 - Ran Employee Resource Groups focused on people with disabilities, such as THRIVE
 - Continued to create an open culture and dialogue around disability with our NestAbility network
 - Promoted the inclusion of people with disabilities through membership of the ILO Global Business and Disability Network
 - Launched the NestAbility 500 commitment to elevate disability inclusion to our leadership agenda
 - Continued to raise awareness of Speak Up, our internal and external reporting channel for non-compliance concerns and questions. The global rollout of the channel was completed during the year

Suppliers

How did we engage?
 - Periodic supplier meetings and workshops
 - Regular safety training for contractors
 - Annual conferences
 - Periodic audits and assessments

Key topics covered?
 - Advancing regenerative food systems at scale
 - Human rights and labor rights
 - Internal and external stakeholder performance and strategy

What did we do?
 - Piloted the Child Risk Assessment Framework toolkit with a supplier in 2021 and completed the pilot in 2022
 - Took part in and sponsored the Sustainable Brands Conference in San Diego, United States, where we shared our progress on advancing regenerative food systems at scale, focusing on our Nestcafé, Libby's and Gerber brands in particular
 - Launched the Nestcafé Plan 2030 as an online webinar. Over 1000 registrants were in attendance - including suppliers
 - Worked with an independent third party to interview 55 internal and external stakeholders as part of our materiality assessment. This included suppliers and customers
 - Hosted Water Week panel event and engagement with suppliers

Consumers

How did we engage?
 - Brand campaigns
 - Key opinion leader labs
 - Site visits and open days
 - Annual Nestlé CSV & Sustainability Report
 - Interaction via social media channels

Key topics covered?
 - Connecting brand sustainability plans with key opinion leaders
 - Company performance and strategy
 - Sustainability performance and strategy

What did we do?
 - Held a stakeholder engagement initiative with key opinion leaders before the launch of the Nestcafé Plan 2030 - the feedback was used to refine the final details
 - Engaged consumers, media and partners to amplify a dialogue around diversity and inclusion with Nestlé Canada, Kirkor Chocolate and Friends of Ruby
 - Communicated [Generation, Regeneration](#) proof points related to our promise to advance regenerative food systems at scale

Customers

How did we engage?
 - Regular leadership meetings
 - Nestlé Net Zero Roadmap communications
 - Forum and panel events
 - Workshops on joint sustainability roadmaps

Key topics covered?
 - Nestlé Net Zero Roadmap and commitments
 - Brand and category sustainability strategies and strategy
 - Recyclable or reusable packaging
 - Alternative delivery systems (refill and reuse)
 - Plant-based and "Better for you" options

What did we do?
 - Responded to sustainability requests including through EcoVadis and CDP
 - Nestlé Professional organized a LinkedIn webinar about Nestcafé Plan 2030 for its out-of-home customers and provided a specific social media toolkit and website banners, over 500 people attended the webinar
 - Nestlé was recognized as a Giga-Guru partner - a supplier with a SMART goal and publicly reported emissions reductions - under Walmar's Project Gigaton
 - Built joint roadmaps and action plans together with customers, unlocking synergies
 - Continued partnership testing of refill-and-reuse delivery systems and scalable business models

Investors and analysts

How did we engage?
 - Annual General Meeting
 - Nestlé Net Zero Roadmap investor days
 - Regular analyst calls
 - Periodic Chairman's Roundtables
 - Annual Nestlé CSV & Sustainability Report

Key topics covered?
 - Company performance and results
 - Business development, goals and forecasts
 - Company sustainability strategy performance, development and outlook, including environmental, social and governance issues and commitments

What did we do?
 - Engaged with the investment community through our Annual General Meeting and regular investor meetings and analyst calls
 - Held Chairman's Roundtables virtually and face-to-face during the year with investors in Germany, Japan, Singapore, Switzerland and the United Kingdom

Source: Nestlé 2022

Exhibit 6: Set of criteria utilized for component analysis

Category	Metric	Yes/No or WH or Figure	
General Company Information	Company Name	WH	
	Year	Figure	
	# Sustainability Reports	Figures	
	Sustainability Report integrated into annual report	Yes/No	
	Country	WH	
	Public / Private	WH	
	Industry Business Case for Sustainability	WH	
	Industry	WH	
	Revenue (2022; in m€)	Figure	
	# Employees (2022)	Figure	
	Sustainability Report Framework	WH	
	General Information Sustainability Report	# Page count without appendix	Figure
		Executive Summary / Introduction	WH
CEO Message		Yes/No	
CEO Message Content		Yes/No + WH	
Strategic priorities Quantity		Figure	
Strategic priorities Content		WH	
SDGs Addressed		Yes/No	
SDG Prioritization	Demonstrate business case for SDGs	Yes/No	
	Assessment of the full value chain	Yes/No	
	Assessment of business' impact on SDGs	Yes/No	
	Identification of priority SDGs	Yes/No	
	Explanation of SDG prioritization methodology	Yes/No	
	Identification of specific SDG targets	Yes/No	
	Goals formulated for SDG performance	Yes/No	
	Stakeholder List	Yes/No	

	Mapping for prioritizing stakeholder groups	Yes/No
	Stakeholder engagement strategies	WH
	Materiality Assessment	Yes/No + WH
	Double Materiality	Yes/No
Goal Setting	Timeframe of goals	WH
	SMART goal setting	Yes/No
	Progress towards goals transparently communicated	Yes/No
Governance	Governance structure	Yes/No + WH
	Address diversity in board composition	Yes/No
	Responsibility and roles of various entities	WH
	Conflict of Interest	Yes/No + WH
	Board Selection	Yes/No + WH

Source: Author's own creation 2023

Exhibit 7: Component Analysis

Component Analysis							
			Frequency	Leading Sustainability Companies	Fequency	Portuguese Companies	BEL Group 2022
General Information	Standardized Reporting Frameworks	GRI	67%	medium	80%	high	yes
		TCFD	38%	low	30%	low	no
		SASB	58%	medium	20%	low	no
		United Nations Compact	21%	low	0%	low	yes
		EU Taxonomy	21%	low	20%	low	no
		SBTI	8%	low	0%	low	no
	Sustainability Report integrated in Annual Report	Y/N	22%	low	50%	medium	no
	CEO Message	Y/N	96%	high	90%	high	yes
	Strategic priorities	1 - 4	92%	high	10%	low	no
		5 - 7	8%	low	70%	medium	yes
8 - 10		0%	low	20%	low	no	
SDG Prioritization	SDGs addressed	Y/N	81%	high	90%	high	yes
	Demonstrate Business Case for SDG	Y/N	58%	medium	40%	low	no
	Assessment of full value chain	Y/N	88%	high	60%	medium	yes
	Assessment of business's impact on SDG	Y/N	69%	medium	20%	low	yes
	Identification of priority SDGs	Y/N	77%	high	90%	high	no
	Explanation of SDG prioritization methodology	Y/N	50%	medium	40%	low	no
	Identification of specific SDG targets	Y/N	54%	medium	10%	low	no
	Goals formulated for SDG performance	Y/N	50%	medium	20%	low	no
Stakeholders	Stakeholder List	Y/N	65%	medium	60%	medium	yes
	Mapping for Prioritizing Stakeholder Groups	Y/N	38%	low	40%	low	yes
	Stakeholder Engagement Strategies	Y/N	77%	high	50%	medium	yes
	Materiality Assessment	Y/N	77%	high	90%	high	yes
Goal Setting	Timeframe for goal	2023	15%	low	20%	low	
		2030	70%	medium	80%	high	
		2040	26%	low	10%	low	
	SMART goal setting	Y/N	88%	high	80%	high	no
	Progress towards goals transparently communicated	Y/N	77%	high	80%	high	no
Governance	Governance Structure	Y/N	92%	high	90%	high	yes
	Address diversity (in board composition)	Y/N	88%	high	90%	high	yes
	Responsibility and roles of various entities	Y/N	81%	high	70%	medium	yes
	Conflict of Interest	Y/N	31%	low	60%	medium	no
	Board selection	Y/N	46%	low	30%	low	no

Source: Author's own creation 2023

Exhibit 8: Correlation Analysis performed on data sample

Sustainability Report Integrated in Annual report (yes = 1)	Country	Public / Private (1 = public)	Business Case for 2022 (m€)	Revenue 2022 (m€)	Employee 2022	GR (yes = 1)	TCPD (yes = 1)	Strategic priorities addressed (yes = 1)	Democratize business value (yes = 1)	Assess business value (yes = 1)	Identify business's SDGs (yes = 1)	Explanation of priority SDGs (yes = 1)	Identify specific targets (yes = 1)	Formulate SDG performance metrics (yes = 1)	Stakeholder List (yes = 1)	Mapping for Prioritization (yes = 1)	Stakeholder Engagement (yes = 1)	Materiality Assessment (yes = 1)	SMART goal setting (yes = 1)	Progress towards goals (yes = 1)	Governance Structure (yes = 1)	Board selection (yes = 1)		
1.00		1.00																						
0.04		0.18	1.00																					
0.04		-0.04	-0.06	1.00																				
0.33		0.13	-0.15	0.19	1.00																			
-0.09		0.11	0.02	-0.14	0.10	-0.09	1.00																	
0.04		0.17	-0.21	0.06	0.14	0.24	0.12	0.09	1.00															
0.15		0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	1.00														
-0.20		0.07	0.31	0.30	-0.01	-0.18	0.20	-0.13	0.17	0.22	1.00													
-0.23		0.12	0.36	-0.05	0.22	0.14	0.14	0.28	0.03	0.12	0.36	1.00												
-0.23		0.29	0.12	0.14	0.14	-0.12	0.23	-0.07	-0.24	0.39	0.51	0.25	1.00											
-0.30		0.00	0.08	0.14	-0.31	-0.38	0.23	-0.07	0.30	0.58	0.41	0.08	0.31	1.00										
0.15		0.00	-0.14	0.01	0.15	-0.02	-0.03	0.01	-0.21	0.28	0.09	0.14	0.37	0.06	1.00									
0.15		0.04	0.30	-0.10	-0.24	0.06	0.06	-0.28	0.12	0.47	0.26	0.54	0.43	0.43	0.17	1.00								
-0.11		0.24	-0.20	0.37	0.05	-0.07	0.16	-0.22	0.36	0.12	0.42	0.25	0.50	0.25	0.50	0.55	1.00							
-0.02		0.00	0.20	0.15	0.05	-0.07	0.26	0.19	0.12	0.08	0.42	0.37	0.12	0.03	-0.04	0.26	0.30	0.05	0.30	0.05	0.30	0.05	0.30	0.05
0.14		-0.20	0.22	0.11	0.05	0.07	-0.02	0.04	-0.28	-0.08	0.49	0.21	0.22	0.25	0.27	0.31	0.05	0.09	0.06	-0.02	0.26	0.11	1.00	0.05
0.16		-0.04	0.02	0.23	0.00	0.07	-0.03	0.21	-0.15	-0.01	0.20	0.29	0.35	-0.05	0.09	0.06	-0.02	0.26	0.11	0.16	0.25	0.38	0.18	0.05
0.05		-0.16	0.08	0.14	-0.20	-0.12	0.38	-0.07	0.30	0.25	0.41	0.25	0.31	0.36	0.06	0.30	0.11	0.16	0.25	0.38	0.18	0.05	0.30	0.05
-0.26		0.00	0.46	0.04	0.18	0.15	0.09	0.03	0.22	0.21	0.09	0.41	0.11	0.18	0.03	0.00	0.13	0.04	0.13	-0.08	0.18	0.05	0.30	0.05
-0.21		0.00	0.08	-0.01	0.02	0.23	0.38	0.33	0.18	0.42	0.28	0.42	0.31	0.20	0.19	0.17	0.39	0.16	-0.03	0.09	0.36	0.18	1.00	0.05
-0.15		0.16	0.22	-0.01	0.04	0.34	0.34	0.30	0.28	0.18	0.50	0.20	0.24	0.13	0.11	0.07	0.29	0.26	0.34	0.45	0.37	0.45	1.00	0.05
0.03		-0.03	0.26	0.14	-0.12	0.05	0.21	0.56	0.08	0.14	0.19	0.28	0.26	0.19	0.01	0.28	0.27	0.19	0.27	0.21	0.33	0.19	0.46	0.30

Country	Public / Private (1 = public)	Business Case for 2022 (m€)	Revenue 2022 (m€)	Employee 2022	GR (yes = 1)	TCPD (yes = 1)	Strategic priorities addressed (yes = 1)	Democratize business value (yes = 1)	Assess business value (yes = 1)	Identify business's SDGs (yes = 1)	Explanation of priority SDGs (yes = 1)	Identify specific targets (yes = 1)	Formulate SDG performance metrics (yes = 1)	Stakeholder List (yes = 1)	Mapping for Prioritization (yes = 1)	Stakeholder Engagement (yes = 1)	Materiality Assessment (yes = 1)	SMART goal setting (yes = 1)	Progress towards goals (yes = 1)	Governance Structure (yes = 1)	Board selection (yes = 1)			
0.015		0.1466	0.282508	1																				
0.78988		0.821006	0.70988	1																				
0.98733		0.253041	0.4228	0.36704	1																			
0.168		0.113773	0.55011	0.16537	0.24826	1																		
0.7291		0.523185	0.889	0.27273	0.56653	0.60149	1																	
0.7394		0.431552	0.7207	0.39879	0.14072	0.43818	0.8968	1																
0.78988		0.033884	0.31216	0.20283	0.3384	0.9919	0.3109	0.497814	1															
0.7068		0.453759	0.31352	0.49929	0.44337	0.05308	0.07768	0.982104	0.09616	1														
0.2406		0.69763	0.06244	0.00749	0.9421	0.27035	0.2406	0.42600	0.29691	0.18413	1													
0.40015		0.453759	0.02587	0.77358	0.18904	0.38699	0.40615	0.95888	0.45393	0.27654	0.02722	1												
0.16311		0.073223	0.46006	0.39011	0.38755	0.48264	0.16311	0.671835	0.15423	0.01685	0.00094	0.13491	1											
0.15932		1	0.61395	0.3859	0.05754	0.00814	0.15932	0.669704	0.06941	0.90812	0.01094	0.62646	0.06152	1										
0.27304		1	0.40034	0.9472	0.36071	0.87732	0.86263	0.95471	0.20843	0.98589	0.60957	0.39155	0.23147	0.7164097	1									
0.2706		0.042066	0.78491	0.65445	0.56211	0.13306	0.73467	0.9338	0.48336	0.60560	0.11738	0.00046	0.066244	0.1284	1									
0.2239		0.1498	0.2378	0.02555	0.73410	0.63444	0.39881	0.52449	0.18392	0.02484	0.53857	0.99338	0.04445	0.1316271	0.901379	0.00339	1							
0.92053		1	0.23778	0.35799	0.77249	0.66998	0.1086	0.26338	0.47104	0.04102	0.60951	0.08333	0.4854	0.8767779	0.79639	0.11236	0.759784	1						
0.39881		0.217911	0.18728	0.50875	0.78417	0.66988	0.20555	0.70659	0.0941	0.64102	0.0018	0.20359	0.17613	0.136271	0.089789	0.054258	0.759784	0.058071	1					
0.32417		0.831895	0.889	0.16301	0.98731	0.67443	0.83491	0.206414	0.375	0.94185	0.2406	0.07768	0.03167	0.7458739	0.589679	0.74142	0.92655	1.08509	0.520077	1				
0.74887		0.342912	0.61195	0.3859	0.22662	0.47876	0.19759	0.669104	0.06941	0.13139	0.01094	0.13139	0.06152	0.0254974	0.7165	0.067286	0.505096	0.325446	0.131627	1				
0.11256		1	0.00351	0.83228	0.28442	0.1741	0.59592	0.877439	0.17618	0.10967	0.59196	0.00965	0.50522	0.2892126	0.877439	0.979312	0.455446	0.810242	0.453446	0.618477	0.289213	1		
0.15932		1	0.61395	0.38609	0.91272	0.01979	0.044828	0.27143	0.00924	0.06152	0.00924	0.06152	0.00924	0.06152	0.2225388	0.244643	0.318497	0.325446	0.876778	0.493966	0.025497	0.289213	1	
0.34567		0.345704	0.19391	0.97394	0.94408	0.82225	0.03390	0.065611	0.23489	0.09313	0.26998	0.00145	0.21163	0.1466763	0.44303	0.5102127	0.659198	0.076598	0.120464	0.03991	0.004443	0.021621	0.004443	
0.86263		0.844741	0.11556	0.39879	0.47108	0.76024	0.20641	0.00026	0.64449	0.39155	0.24146	0.08589	0.11873	0.244424	0.957571	0.085483	0.098799	0.253338	0.998799	0.206414	0.045428	0.264963	0.003795	

TEACHING NOTE - GOVERNANCE

Abstract

BEL Group, a Portuguese holding company operating in various industries, is taking steps in establishing a centralized sustainability strategy. The firm is facing challenges in the integration of sustainability into its corporate governance structure. This teaching note examines BEL Group's governance issues. It proposes using the McKinsey 7S model to address these issues and enhance the design of the governance structure, aligning the company's strategy with sustainability goals. A key discussion point is whether BEL Group should appoint a Chief Sustainability Officer (CSO) to streamline sustainability efforts and influence long-term strategic decisions. The note concludes that while the appointment of a CSO presents challenges, it could strategically align BEL Group's operations with sustainable practices, driving long-term success and stakeholder trust. Finally, the evaluation report outlines best practices of sustainability reporting based on an analysis of leading global sustainability companies. The evaluation report concludes with tailored recommendations for BEL Group.

Keywords:

Sustainability, ESG, Corporate Strategy, Corporate Governance, Corporate Governance Framework, Chief Sustainability Officer

Case synopsis

The case outlines the sustainability journey of BEL Group, a Portuguese holding company active in different industries. After elaborating on BEL Group and the growing importance of corporate sustainability, the case continues with a discussion of the three elements that need to be addressed in a sustainability strategy, namely goal setting, stakeholder management, and corporate governance. Next, potential next steps to move forward are provided. The reader is invited to think critically about how they would approach these topics. This teaching note focuses on how BEL Group should adapt its governance structure to a new sustainability strategy. The teaching note concludes with a decision whether or not BEL Group should appoint a Chief Sustainability Officer (CSO). [Exhibit 1](#) and [Exhibit 2](#) outline the teaching objectives and teaching approach respectively.

Section 1: Understanding the basics of corporate governance

Sofia was invited to present a new sustainability strategy to the board. She realized that she is lacking general knowledge of corporate governance and has never met any of the board members. She decides to educate herself in the topic of corporate governance. As Sofia aims to get a deep understanding of which role corporate governance plays within a firm, she asks herself various basic questions. Furthermore, she aims to get clear insights in how a well-designed corporate governance structure can assist BEL Group in achieving its sustainability goals.

Question 1: What is corporate governance and what is its main objective?

Corporate governance encompasses the set of rules and practices that guide BEL Group and its employees in their business activities (Greenly, 2023). The main goal of corporate governance is to **enable effective, entrepreneurial, and cautious management that ensures long-term success across the entire holding.** (ICAEW, 2023). In case of BEL Group, this could mean aligning the

different business units (Logistics, Industry, Innovation, Communication, Real Estate, and Sustainable solutions) to work together and set shared goals to maximize synergies.

Corporate governance aims to **establish a balance among the diverse parties connected to BEL Group's business activities** (Greenly, 2023), including customers, the Portuguese government, suppliers, other stakeholders, and the local community. BEL Group could initiate various initiatives to obtain a healthy balance by e.g. establishing sustainability standards for suppliers and providing training and support for its suppliers to become more mature in sustainability. Moreover, BEL Group could consider collaborating with the Portuguese government in setting the abovementioned standards to ensure these align with national sustainability policies and regulations. This could even result in joint initiatives to promote sustainable practices in the industries that BEL Group is active in. Furthermore, BEL Group could set up programs to engage with the communities around which BEL Group operates, for example, in the surrounding areas where BEL Group is investing in real estate projects.

Through the establishment of guidelines for organizing its business activities, corporate governance should be an integral component of BEL Group. It covers various aspects including the formulation and execution of management plans, disclosing data, and tracking progress towards objectives. This goal underscores the importance of a structured framework in which the **board of directors make decisions that align with the best interests of BEL Group and its stakeholders**. Moreover, by adhering to good corporate governance principles, such as developing a Code of Ethics specifically designed for all employees of BEL Group and establishing efficient mechanisms for monitoring compliance, the firm can **ensure accountability, fairness, and transparency in its corporate actions, thereby contributing to its long-term sustainability and success**.

Question 2: How are corporate governance and sustainability related?

Corporate governance and sustainability are mutually reinforcing. Through high-quality governance practices, BEL Group can enable and support sustainable business strategies. On the other hand, focusing on sustainability can enhance BEL Groups' governance by opening up the perspective of the holding to include environmental and social topics.

(1) BEL Group's governance structure is in charge making decisions and establishing a long-term strategy. Hence it is their responsibility to take ESG-related topics into account in making crucial choices that impact BEL Group's future. This implies e.g. taking into account long-term sustainable projects such as investing in green energy by installing solar panels on BEL Group's properties, thereby transitioning to a more sustainable source of energy while minimizing risk of volatile energy prices by reducing the dependency of external energy sources. **(2) A sustainable corporate governance structure ensures that the interests of BEL Group's stakeholders are balanced.** This can encourage taking decisions that are not only focused on short-term profits, but also focus on long-term environmental and social well-being, such as having a diversified employee base and minimizing the environmental impact of BEL Group's logistic units. Increasing employee well-being can be achieved by providing fitness hut gym-subscriptions, free-of-charge counseling sessions with company therapists, or rewarding employees with wellness treatments after intense workweeks. **(3) BEL Group's board of directors is responsible for managing risks (such as environmental and social risks) and driving the adoption of sustainable practices throughout the holding.** There is even evidence that a better governance structure in terms of board size, independence of directors, and the presence of woman on the board, is likely to reduce carbon emissions (Toukabri & Youssef, 2022).

Section 2: Analysing the flaws in BEL Group's corporate governance framework.

After getting a thorough understanding of corporate governance, Sofia recognized that there are a number of flaws in the current corporate governance structure. She wants to get an overview of how the board of directors is functioning and where things go sideways. This will give Sofia insights in how she can improve the corporate governance structure.

Question 3: What are the current flaws in the corporate governance structure?

(1) There is a **lack of diversity** in the Board of Directors. The underrepresentation of women and other stakeholder groups can limit the range of perspectives and may not adequately represent the interests of all of BEL Group's stakeholders. (2) The similarity in backgrounds of the board members may result in too much **homogeneity in the board**. This can lead to a lack of innovative and out-of-the-box thinking which can lead to the inability to adapt to rapidly changing market demands. (3) As the board only meets quarterly, there might be **insufficient board meetings** for the BoD to stay up to date and responsive to BEL Group's needs and challenges. (4) Due to the **overemphasis on financial metrics**, both in remuneration and business objectives, the BoD might neglect other aspects of the business performance, such as employee well-being, innovation, customer satisfaction, and long-term strategic objectives. Moreover, the fact that remuneration is only based on financial metrics may lead to incentive misalignment between the board and BEL Group. (5) As CEO Marco Galinha is not an official board member, this can potentially result in **conflicts of interests**. Due to his good relationship with the chairman, he still might have an informal influence on board decisions. (6) The board only supports C-level executives for the flow of information. The **lack of communication** with employees from a lower line of hierarchy suggests a possible gap in their understanding of the day-to-day operations, which could impact the quality of the decision-making. (7) The **absence of a formal sustainability committee** and

their exclusion from board meetings may indicate a lack of integration of sustainability into the core strategy of BEL Group. (8) The fact that **sustainability employees are scattered across the holding** can lead combined with a lack of central information gathering system can result in inefficiencies and an incoherent strategy.

In conclusion, there is a lack of a clear, shared conviction in the homogeneous board regarding the integration of sustainability into the holding's strategy. Moreover, communication issues manifest themselves between the board and the employees involved in sustainability. These issues argue for a solutions that aim to put sustainability on the forefront of the governance agenda.

Question 4: How can BEL Group solve these problems?

The McKinsey 7S model is a framework that provides a comprehensive approach to organizational change and design . In this case, it can assist in improving BEL Group's governance structure.

Shared Values: (1) Strengthen BEL Group's commitment to diversity and sustainability. This could involve further revising the current company's mission statements to reflect these priorities explicitly. (2) Foster a corporate culture that actively values stakeholder engagement, by going beyond traditional business interests to include social and environmental concerns. BEL Group could consider launching an internal campaign to promote inclusivity, featuring success stories of employees from the various business units to get direct testimonials from all over the holding.

Strategy: (1) Redefine BEL Group's strategic objectives to incorporate sustainability and long-term resilience as key components. This involves integrating environmental, social, and governance (ESG) factors into strategic planning. Specific goals could be set to, for example, minimize the water and resource use in the Industry business unit, targets for green energy usage,... (2) Balance the focus on short-term financial performance with long-term value creation, considering impacts on all stakeholders, including employees, customers, and the community.

Structure: (1) Establish a dedicated sustainability committee to guide and oversee sustainability initiatives and consider a central manager to overview all sustainability initiatives. BEL Group could select one representative from every business area, and employ two more full-time sustainability employees who could form a sustainability committee. This ensures that every unit of the holding gets supervised by a specific employee to initiate and monitor sustainability. (2) Enhance board diversity, aiming for a balanced representation in terms of gender, professional background, and expertise, to enrich decision-making and reflect a broader range of stakeholder interests. BEL Group could invest in a new hiring strategy that focuses on diversity, both for lower-level employees as well as the management and board. Especially considering that a diversified board can result in a higher sustainability performance throughout the company (Naciti, 2019).

Systems: (1) Implement a comprehensive information system that provides the board with regular updates on every aspect of the business, including sustainability performance, employee welfare, and customer satisfaction. A central information system could be created and managed by the sustainability committee to make sure all relevant data gets measured, and subsequently can be used for decision-making purposes. (2) Develop a centralized framework for managing sustainability initiatives, ensuring coherence and alignment with the overall business strategy.

Style: (1) Encourage a leadership style among the BoD and senior executives that is adaptive, open to diverse perspectives, and proactive in addressing emerging challenges and opportunities. (2) Shift the leadership approach to be more inclusive, facilitating cross-functional collaboration and breaking down silos, particularly between sustainability efforts and other business units. Moreover, BEL Group could organize workshops and events to gather executives and/or employees from various business units that could lead to joint-projects within the holding.

Staff: (1) Aim for a workforce composition that reflects the diversity of BEL Group's surroundings. BEL Group could set up specific targets for new hires to meet the desired workforce

composition in a smooth and efficient way (2) Actively involve staff from different areas, especially those working on sustainability, in decision-making processes to leverage their insights and expertise. BEL Group could organize open meetings, where people from around the holding could gather and brainstorm about new ideas to improve sustainability or to discuss certain issues.

Skills: (1) Initiate development programs for the board and employees to build competencies in strategic planning and leadership in a diverse and evolving business environment. All of the six industries that BEL Group is active in, can undergo massive disruptions. In order to effectively take long-term decision for the various business units, there needs to be knowledge on how to perform strategic foresight. Development programs can assist in employees acquiring these specific forecasting skills. (2) Identify skills that support innovative thinking and long-term planning, with a focus on sustainable business practices. BEL Group could launch an innovation lab to encourage employees to enhance their skills and think strategically about the long-term transformations of the business unit that they are active in.

Section 3: Assessing the financial viability of sustainable strategic decisions

Through the assessment of the corporate governance structure of BEL Group, Sofia identified various opportunities to embed sustainability within the organization. However, she will have to persuade the board. Given the Board's overemphasis on financial performance, she thinks about how she can build a case for sustainability in one strategic decision. Recalling her meeting with Galinha about a possible shift from combustion to electric vehicles, she calculates the financial impact of transitioning to an EV fleet. Sofia wants the board realize that sustainable business practices positively impact the bottom line, even without taking into account indirect advantages.

Question 5: What is the Net Present Value of (1) leasing combustion vehicles and (2) shifting to leasing EV's?

We consider two options for BEL Group's vehicle fleet: leasing combustion vehicles and leasing electric vehicles. The analysis spans over a 10-year time period. [Exhibit 6](#) outlines the different steps for BEL Group's NPV analysis. [Exhibit 7](#) is an overview of the calculations. Figure 1 outlines the annual cash flows for both options. Due to the higher cost price, electric vehicles require a significant initial investment. However, the consistent higher operating costs for combustion vehicles indicate that EV's may offer cost reductions over the long run.

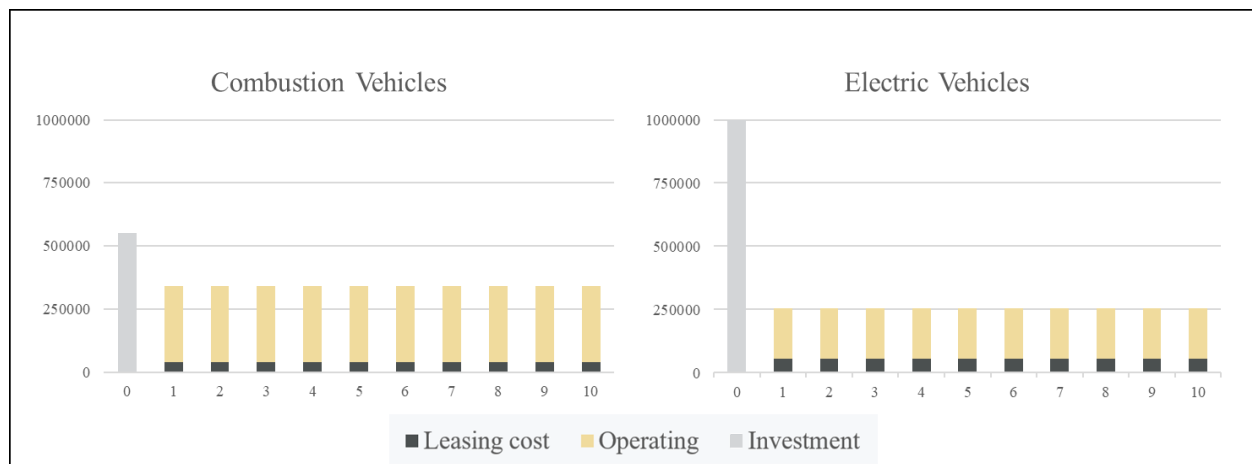


Figure 1: annual cash flows of leasing combustion and electric vehicles

The NPV for combustion vehicles yields a results of approximately - € 3 175 390. On the other hand, the present value of the total costs of an electric vehicle fleet amounts up to - € 2 969 042, indicating a lower total costs compared to combustion vehicles. Despite the higher initial investment, electric vehicles are the most cost-efficient option for BEL Group over a ten-year period. This outcome further underscores the financial viability of sustainable choices. By opting for an electric fleet, BEL Group can achieve lower operating costs while minimizing CO2 emissions and contributing to its sustainability goals. BEL Group can use its existing resources (solar panels) to initiate new sustainable opportunities (electric vehicles), thereby leveraging the advantages of green and less expensive energy to further reduce fuel costs. To put this in the

perspective of the case, these results can help Sofia in persuading the Board of Directors of putting more attention towards integrating sustainability into the corporate strategy.

Section 4: Appointing a Chief Sustainability Officer

Sofia managed to shift the attention of the board towards sustainability. The board was impressed by her presentation and decided to lease EVs. Building on the positive momentum, Sofia seizes the opportunity to introduce the idea of appointing a Chief Sustainability Officer. She assesses what implications the appointment of such a role within BEL Group might be.

Question 6: Should BEL Group appoint a Chief Sustainability Officer?

Appointing a CSO can result in the following advantages. (1) **Strategic Integration:** A C-level sustainability manager can address the current lack of central and formal approach in the governance structure, thereby ensuring the integration of sustainability into the long-term strategy of BEL Group. (2) **Expertise and Experience:** The CSO could bring specialized knowledge and experience to the holding, which can be key in implementing a new sustainability strategy. This is particularly beneficial for BEL Group, operating across diverse industries, as it can lead to innovative, sustainable solutions tailored to each sector. (3) **Improved Coordination:** Given the dispersed nature of sustainability efforts across various business units in BEL Group, the CSO, as manager of the sustainability committee, can centralize and streamline these efforts, by establishing a centralized information and data system, proposing sustainability KPIs, and monitoring initiatives. Moreover, due to the centralization of data knowledge, the CSO could improve decision-making processes with data. (4) **Enhanced Communication and Stakeholder Engagement:** Appointing a CSO on itself, signals the commitment of BEL Group to its stakeholders. Moreover, as an expert in this field, the CSO will be able to communicate BEL Group's sustainability commitments and achievements, thus enhancing stakeholder trust and

company reputation. (5) **Influence on Board:** Considering the board's current liability on C-level executives for their information gathering, the CSO is well positioned to influence key long-term decisions in the board, thereby helping to shift the board's focus to include long-term sustainability goals alongside financial metrics.

On the other hand, there are certain things to consider. (1) **Resource allocation:** BEL Group will have to allocate budget and resources to a new C-level position. (2) **Risk of Isolation:** There is a risk that sustainability becomes isolated within the CSO's domain. BEL Group can prevent this through initiatives which involve engaging employees from all over the holding. (3) **Risk of Overlapping Roles:** The introduction of a CSO might create overlaps with existing roles, particularly in strategy and operations. This necessitates a clear definition of the CSO's responsibilities to avoid confusion and conflict. (4) **Restructuring:** Adding a new C-level position requires organizational restructuring, which might disrupt existing operations. There might be a cultural shift needed within BEL Group, demanding careful management. In conclusion, **BEL Group should appoint a Chief Sustainability Officer** to engrain sustainability deep into BEL Group's strategy. Moreover, the CSO will centralize and streamline efforts across various business units, improve coordination and communication, and enable a data-driven approach using key performance indicators (KPIs). By doing so, BEL Group will effectively address the existing gaps in sustainability decision-making, align ESG risks with strategic planning, and enhance the impacts of its sustainability efforts.

Sofia proposed the appointment of the CSO. The board voted unanimously in favor and decided to appoint Sofia as the new CSO based on her strategic and entrepreneurial drive.

[Exhibit 9](#) outlines how BEL Group addresses corporate governance in its day-to-day business.

Appendix

Exhibit 1: Teaching Objectives

The case should be used in a pedagogical way to introduce students into how a holding can implement a sustainability strategy throughout the different business units. This teaching note will focus on the corporate governance structure as part of the sustainability strategy. There is no previous knowledge required to be able to reap the benefits of solving this case. The target audience of this case are both bachelor and master students. There are three main learning objectives related to the corporate governance section of the case. After the discussion of the case in class, students should be able to: (1) Demonstrate creative and critical thinking through the assessment of a corporate governance structure. (2) The understanding of the tangible impact of sustainable practices on business performance, recognizing that sustainability is not only a moral imperative but also a strategic business driver. (3) Analyze the implications of changes in the corporate governance structure.

Exhibit 2: Teaching Approach

The case study should best be handed out to students before class for them to get familiar with the case challenge and BEL Group. In total, 60 min are estimated for the in-class discussion including working out and discussing the questions.

The four different sections in the teaching note focus on different learning outcomes. **The first section** provides open questions that students must answer with common sense accompanied with explanations from teacher to assure that students have the required knowledge to get a clear sense of the topic of the case, namely corporate governance and sustainability. The teacher can decide to elaborate more in-depth on the basics of corporate governance by for example introducing different

type of frameworks such as Anglo-American model, German model, Japanese model, or Stakeholder model.

The second section can be answered with information from the case and requires the student to think critically about the which issues can cause problems in the corporate governance framework of BEL Group. The McKinsey 7S model is used in the teaching note to have a structured approach to provide solutions for the identified flaws. However, the teacher might opt to already introduce the framework in the first question of section two to identify the flaws and build further on that.

In section 3, the students have to solve a numerical financial exercise with information from the case. All the calculations are provided in the appendix. After the exercise, the teacher can extend the discussion in the direction of other sustainable practices that have an influence on financial performance. The class discussion can also shift towards which indirect benefits sustainable practices can have on other business outcomes, such as enhanced reputation, increased employer attractiveness and so on.

The fourth section requires students to think both strategic and creative. To formulate an answer, students have to build on their answers from previous questions and information from the case.

The case concludes with a final decision on whether or not BEL Group should appoint a CSO.

SECTION	PROCESS STAGE	QUESTIONS	OBJECTIVES
1	Introduction to corporate governance and link with sustainability	What is corporate governance and what is the main objective? How are corporate governance and sustainability related?	<ul style="list-style-type: none"> Get a basic understanding of corporate governance and what its role is within a company Learn about the interconnected relationship between sustainability and governance
2	Analysis of BEL Group's corporate governance structure	What are the current flaws in the corporate governance structure? How can BEL Group address these flaws?	<ul style="list-style-type: none"> Critically assessing a corporate governance structure through the identification of issues that prevent the optimal functioning of a corporate governance structure Think both logically and creatively within a framework to address the abovementioned issues.
3	Net Present Value Analysis strategic sustainability project	What is the Net Present Value of leasing combustion vehicles and shifting to electric vehicles	<ul style="list-style-type: none"> Realize the connection between sustainability and the financial impact it can have through a short financial exercise Broaden students' view by extending the class discussion to other (indirect) benefits of sustainability
4	Analysis of impact of appointing a Chief Sustainability Officer	Should BEL Group appoint a Chief Sustainability Officer?	<ul style="list-style-type: none"> Understand how changes in the corporate governance structure influence the current structure and way of working by assessing pros and cons

Exhibit 3: Corporate Governance Structure Example

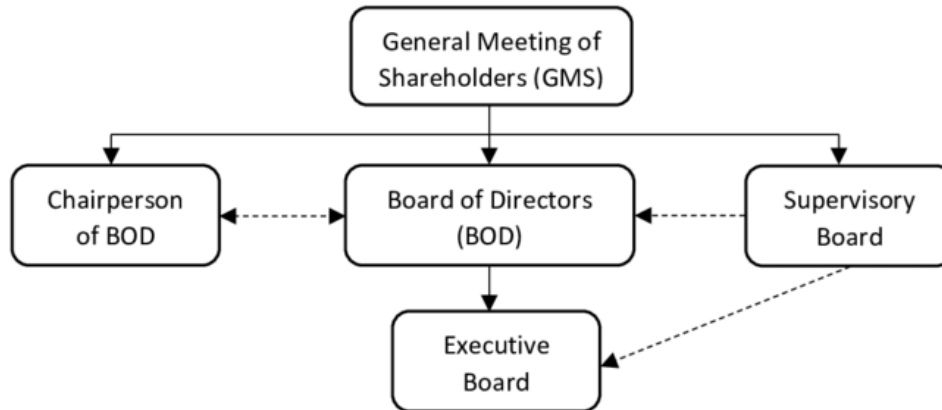
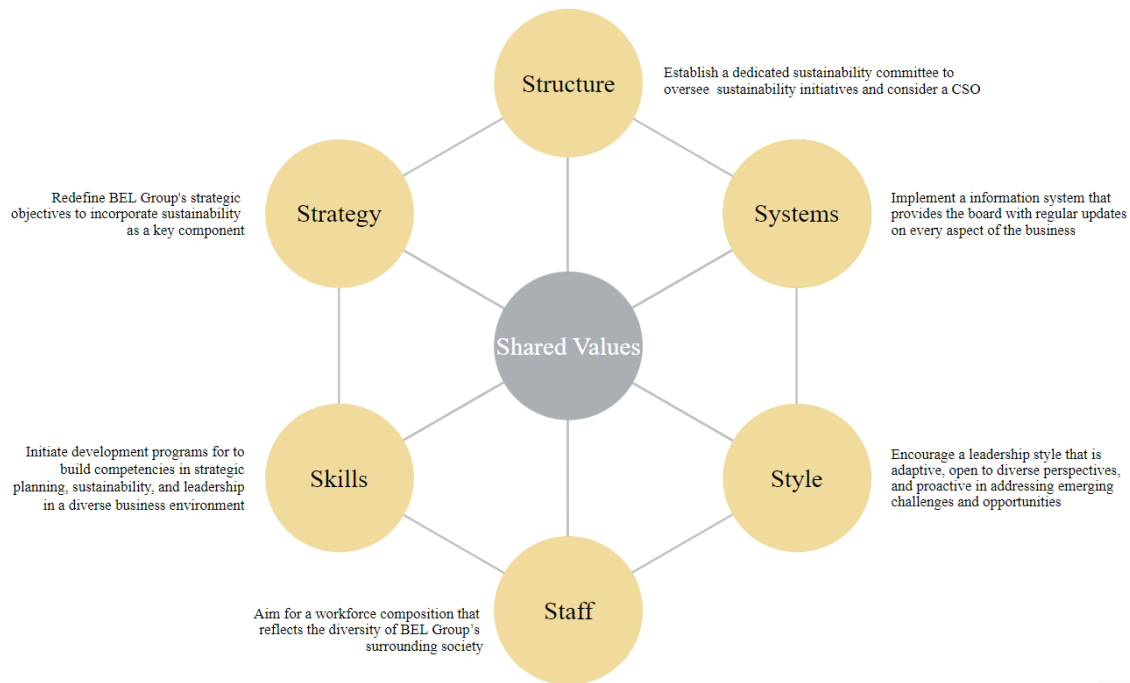


Exhibit 4 : General McKinsey 7S Model

Shared Values	The mission, objectives, and values form the foundation of every organization and play an important role in aligning all key elements to maintain an effective organizational design.
Strategy	Strategy refers to a well-curated business plan that allows the company to formulate a plan of action to achieve a sustainable competitive advantage, reinforced by the company’s mission and values.
Structure	Structure is the way in which a company is organized – the chain of command and accountability relationships that form its organizational chart.
Systems	Systems entail the business and technical infrastructure of the company that establishes workflows and the chain of decision-making.
Style	The attitude of senior employees in a company establishes a code of conduct through their ways of interactions and symbolic decision-making, which forms the management style of its leaders.
Staff	Staff involves talent management and all human resources related to company decisions, such as training, recruiting, and rewards systems.
Skills	Skills form the capabilities and competencies of a company that enables its employees to achieve its objectives.

Source: CFI Team, 2023

Exhibit 5: McKinsey 7S Framework for BEL Group

Source: Author's own assessment based on case study 2023

Exhibit 6: Net Present Value Step-by-step Explanation

The teacher might need to introduce Net Present Value (NPV) calculations, depending on the financial literacy of the students. NPV is the sum of all present values of the cash flows coming from the project. For each year's cash flow, the present value can be calculated using the following formula:

$$Present\ Value = \frac{Cash\ Flow}{(1 + Discount\ Rate)^{Year}}$$

Step 1: Calculate the annual cash flows.

Concretely, in **year 0**, we only take into account the initial investment cost. Leasing contracts oftentimes include a down payment. This is a sum of money required to be paid at the beginning of the lease term. It is also known as the 'capitalized cost reduction,' because it reduces the capitalized costs of the vehicle, which is the basis for calculating the monthly payments. For combustion vehicles, this initial investment is €550 000 in contrast to the higher initial investment for the electric vehicles, which is due to the additional procurement costs of electric vehicles and the extra investments required to install charging stations for the fleet.

In **years 1 to 10**, the annual cash flows consist of the leasing costs and operating expenses such as fuel, maintenance, and insurance. For the combustion vehicles, this amounts up to annual cash flows of €340 000 (€40 000 for leasing and €300 000 for operating expenses). The annual cash flow for electric vehicles amounts up to €255 000 (€55 000 for leasing and €200 000 for operating expenses). This difference in operating expenses is due to the fact that BEL Group could charge its electric vehicle fleet with the existing solar panels that the company has. Hence, this is already a clear indication of the financial advantages of using green energy through the shift to electric vehicles.

Step 2: Discount the annual cash flows and sum them up.

We want to compare the value of all the cash flows at the current time. Hence, the cash flows need to be discounted to the present moment, using a 5% discount rate. This rate reflects the time value of money and the opportunity cost of investing capital elsewhere. After that, we sum up all the cash flows at the current moment to become the NPV of both options.

Step 3: Comparing the outcomes

The NPV for combustion vehicles yields a results of approximately - € 3 175 390. On the other hand, the present value of the total costs of an electric vehicle fleet amounts up to - € 2 969 042, indicating a lower total costs compared to combustion vehicles.

Further content for class discussion:

It is the ideal moment for the teacher to conclude with this statement and open a broader discussion or elaboration about the impact of sustainability on business outcomes.

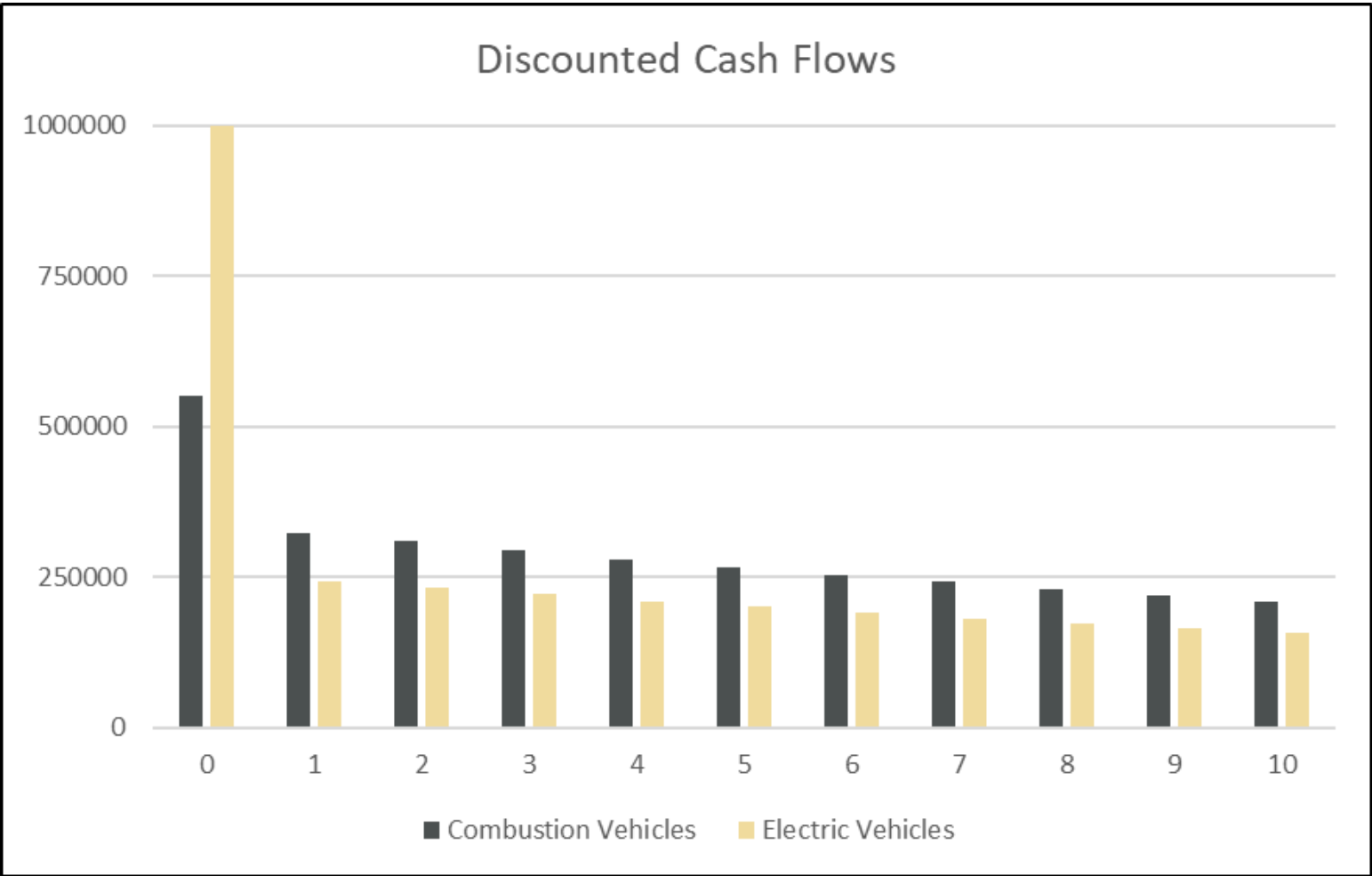
Two researches from Harvard, and one from London Business school (Eccles, Ioannou, and Serafeim (2014)) studied two matched groups of 90 companies with very similar characteristics in terms of sector, size, capital structures, operating performance, and growth opportunities. They found out that improved sustainability initiatives can have a very influential impact on financial performance. The main difference was that one group had created governance structures related to sustainability and made significant, long-term investments, while the other batch did not. Moreover, companies that are more efficient at using resources have a superior financial performance as well (McKinsey, 2014). There is plenty of evidence that sustainability initiatives can enhance the bottom line of companies. Hence, it is no coincidence that that investors are increasingly looking for socially responsible investments.

Exhibit 7: Net Present Value Calculations

Year		0	1	2	3	4	5	6	7	8	9	10
Annual Cash Flows												
Combustion Vehicles (€)	Leasing cost	0	-40000	-40000	-40000	-40000	-40000	-40000	-40000	-40000	-40000	-40000
	Operating	0	-300000	-300000	-300000	-300000	-300000	-300000	-300000	-300000	-300000	-300000
	Investment	-550000	0	0	0	0	0	0	0	0	0	0
	Total	-550000	-340000	-340000	-340000	-340000	-340000	-340000	-340000	-340000	-340000	-340000
Electric Vehicles (€)	Leasing cost	0	-55000	-55000	-55000	-55000	-55000	-55000	-55000	-55000	-55000	-55000
	Operating	0	-200000	-200000	-200000	-200000	-200000	-200000	-200000	-200000	-200000	-200000
	Investment	-1000000	0	0	0	0	0	0	0	0	0	0
	Total	-1000000	-255000	-255000	-255000	-255000	-255000	-255000	-255000	-255000	-255000	-255000
Discounted Cash flows												
Combustion Vehicles (€)		-550000,0	-323809,5	-308390,0	-293704,8	-279718,8	-266398,9	-253713,2	-241631,7	-230125,4	-219167,0	-208730,5
Electric Vehicles (€)		-1000000,0	-242857,1	-231292,5	-220278,6	-209789,1	-199799,2	-190284,9	-181223,7	-172594,0	-164375,3	-156547,9
Net Present Value												
Combustion Vehicles (€)		-3175389,9										
Electric Vehicles (€)		-2969042,4										

Source: Author's own calculations 2023

Exhibit 8: Comparison of Discounted Cash Flows



Source: Author's own calculations [2023](#)

Exhibit 9: Corporate Governance in BEL Group

The corporate governance structure described in the case study is fictional and used to enhance the learning experience. This section outlines what the actual structure at BEL Group looked like at the time of writing (November 2023). The governance structure at BEL Group is composed by diverse entities that are responsible for the strategic orientation and execution of the holding's policies, specifically structured to reflect on the company's orientation and to direct with a long-term value perspective.

The **Board of Directors** is responsible for defining the company's strategy, approving its policies, and monitoring the overall performance. The guiding philosophy adheres to the principle of "only with values, we can create value." The BoD is composed of executive and non-executive members with high levels of expertise. The nine-headed **Advisory and Supervisory Board** is an aggregate body of know-how and reflects on decision-making processes and assesses the implementation of management policies in their adaptation to the regulatory standards that were established within BEL Group. The members fulfill their tasks by providing expertise and insights from their respective backgrounds and experiences. An organic unit of three members of the BoD serves as the **Executive Committee**. Their main responsibility is to manage the day-to-day activities of BEL Group, such as implementing ESG policies, in conjunction with other structures within the organization. Furthermore, there is the **Ethics Committee** and the **Compliance Department**, which are tasked with the implementation and monitoring of compliance of the Code of Ethics and Conduct and with the assurance of compliance with all standards (legal, regulatory, and ethical) on top of performing risk identification, prevention, and management respectively. Lastly, the **ESG Committee** serves as an organizational hub and nerve center for all ESG-related matters.

BEL Group's strategic alignment is rooted in the concept of "Management for Sustainability", steering the group towards actively contributing to the SDGs. The overarching objective is to

find the areas within the group's business activities where they have the most relevant negative impact and develop solutions to mitigate the impacts effectively (Group BEL, 2021). Matters related to sustainability are under the direct supervision of the Board of Directors, supported by the Advisory and Supervisory Board. By positioning sustainability within the highest level of management, the corporation ensures that sustainability initiatives are accorded top priority.

In the context of sustainability decision-making, the corporate structure outlines a distinct pathway. The Advisory Board conducts initial evaluations of the decision-making process, serving as the foundation upon which the Board of Directors formulates strategic objectives. Execution of policies related to sustainability receives support from the Executive Committee. The Sustainability Committee, in turn, assumes the responsibility of supervising sustainability measures and remains engaged throughout the decision-making process commencing the preliminary phases of reflection (BEL Group. Sustainability Report 2021). Before the sustainability committee was established, initiatives were essentially managed by one of the members of the BoD in coordination with human resources. The structure ensures that the different organic units have specific but complementary competencies and duties, which constitutes a great asset in the definition and operationalization of ESG measures. This dynamic structure allows BEL Group to act swiftly in the implementation and monitoring of policies, and moreover, in the critical adaption of new procedures. Furthermore, the company operates with an integrated data management system, providing a comprehensive view of financial and operational metrics across all business units, enhancing corporate oversight.

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