The Impact of ESG on the Process Industries Sector and the Implications for Leadership

- The process industries need to look beyond sector-specific issues, such as biodiversity, to address broader sustainable development concerns like safety and health and diversity and inclusion.
- Cultural transformation needs to be promoted across all levels of the organization to enable companies to adapt systems and performance to meet leading ESG requirements.
- Committed leadership is vital; CEOs play a fundamental role by driving change and recruiting divisional heads with ESG experience.
- Boards must connect with the importance of sustainable development and approve investments in technology and R&D for companies to remain ahead of the game.

The stark “now or never” warning in the latest report by the UN’s International Panel on Climate Change is a cry for action by governments and businesses to tackle head-on the reduction of greenhouse gas (GHG) emissions.

Mounting concern about climate change over recent years has been accompanied by citizens’ demands for a more just society — magnified by social media — that covers ethical corporate behavior more broadly.

The process industries sector is not immune to these pressures. It must urgently wake up to environmental, social and governance (ESG) demands and adapt to a world in which leading sustainability performance is increasingly linked to financial success. Since sustainability and purpose are inextricably linked, each company needs to have a truly meaningful purpose that drives everything from decision-making to operations to talent acquisition and retention.

For this report we talked to board members, CEOs and senior management of process industry multinationals — mainly European paper and plastic packaging companies — on the main ESG pressure points for the sector.

Our interviewees, many with long careers covering different sectors and companies, gave their perspective on how process industries are addressing these challenges and provided illuminating insights on best practice in this area.

Main sustainability challenges

Traditionally, process industries have been focused on environmental performance and it remains a priority for many companies. Since the landmark 2015 Paris Agreement, the reduction of GHG emissions, biodiversity and, more recently, the reduction, reuse and recycling of waste have gained special prominence.

Today, however, our interviewees agree that companies cannot risk ignoring the social and governance aspects of ESG.

Social considerations encompass far more than previous notions of "corporate social responsibility" with its focus on the development of local communities. Companies must also demonstrate robust safety and health practices, respect for human rights and a diverse and inclusive corporate culture.

In the governance area, the onus is on greater transparency. Companies need to document their sustainability commitment with policies and audited data to rebut claims of "greenwashing" and, increasingly, to access financing. The close oversight and due diligence of supply chains is an emerging requisite.

Nowadays, successful companies need to look at the broadest definition of sustainability to build a corporate culture that ensures a long-term sustainable business, says Petra Einarsson, who is a director of several companies after a long career at Sweden's Sandvik and as CEO of Stockholm-based pulp and paper manufacturer BillerudKorsnäs.

"If you want to remain profitable and grow your company, you have the responsibility as a manager to do that without leaving negative footprints or destroying the possibility of success for the next generation," she says.

The packaging industry is exemplary in its efforts to create a circular economy with its focus on using resources efficiently through reuse, recycling and waste reduction. However, true sustainability starts well before the package arrives in the consumers' hands. Tilo Quink, global head of packaging adhesives at Henkel, says that the company has a dedicated team working on life-cycle analysis. "We believe our sustainability strategy is a real differentiator for us, but it means rethinking the whole design process," he says. "It can be a challenge to find the materials that will reduce footprint and support a truly circular approach." He points out that creating sustainable packaging solutions requires cross-industry cooperation, and Henkel has engaged in associations and initiatives to foster and support recyclable and sustainable packaging throughout the entire value chain.

Critical ESG stakeholders

"Three or four years ago, our customers told us our ESG strategy was hard to determine and our progress hard to see," says Trevor Russell, CEO of Infineum International, a UK-based global specialty chemical company. "Since then, we have made major changes with regard to our focus on sustainability and our transparency. Our customers now tell us that we are the leading supplier in the additive business. We have just published our second Annual Sustainability Report containing our strategy and its link to four of the UN Sustainable Development Goals, along with details and data on our progress towards our goals. This open approach has really helped us clarify and communicate what we want to do and what is important for our business and our customers."

In the case of publicly listed companies, investors are also applying notable pressure, leading the finance industry to strongly promote the annual reporting of ESG criteria, alongside companies' economic performance. "The financial sector's focus on ESG has made a tremendous difference over the last five years," says Annette Stube, executive vice president of sustainability at Stora Enso, a Scandinavian packaging, pulp and paper manufacturer.

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A company's sustainability standing also affects its ability to recruit and retain talent, feeding into employee satisfaction ratings and, ultimately, a company's performance. Potential employees often check companies' websites and sustainability reports when considering job openings and raise ESG matters in interviews.

"The purpose of a company or job content is more important to younger people than the pure paycheck at the end of a month," says Stefan Gutheil, former CEO of Germany's Janoschka Group, who has almost 30 years' experience in the packaging industry.

Sustainability goals

It is now common for process industries to set ESG targets and to report annually on the strategies, actions and progress to meet these goals. It is essential for targets to cover the broad scope of sustainability — such as zero fatal accidents and gender balance goals — and not only sector-specific ones associated with, for example, the use of recycled or decomposable materials in packaging products.

Companies also need to develop and invest resources into specific plans to meet these goals, otherwise efforts will stagnate, says Harald Biederbick, CEO of Precision Valve Corporation, a packaging company manufacturing dispensing solutions.

For example, specific gender-development programs may be necessary to prepare a talent pool of women to apply for promotion opportunities. Likewise, companies should prepare road maps to achieve near-term GHG emission reductions and start addressing how to become carbon neutral in the long term.

For Sumit Khatter, global vice president of brand and external communications at Tetra Pak, "Sustainability is not just part of the agenda. It is the agenda. To address the current sustainability challenges, we cannot have an 'either-or' mindset. It requires the 'and' approach, where companies need to take a holistic view of sustainability issues and balance multiple variables." We cannot fix one problem while creating another. "For instance, driving zero carbon and zero waste are essential, but we also need to ensure food safety and security for a growing population — where food processing and packaging plays a fundamental role. We need to ensure both healthy people and a healthy planet," he says.

Cultural change

Sustainability demands are forcing many companies to change their business models, requiring new design, production and behavioral skills across all functions from buying raw materials to selling products.

"Process changes cannot be executed if you do not change the culture behind it," says Manfred Stanek, CEO of Austrian multinational Greiner Packaging International. "You need to change the competencies, change the behaviors."

In addition to reskilling programs, it is important to integrate sustainability into a company's purpose and values to give employees — and other stakeholders — a clear sense of its vision.

For example, the BillerudKorsnäs corporate purpose is to "challenge conventional packaging for a sustainable future." In the case of French multinational Imerys, sustainability principles interconnect with its values of transparency, trust and teamwork, says Imerys CEO Alessandro Dazza.

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Corporate communications, campaigns, talks and training on ESG topics can all contribute to creating the right culture. “The process has the added benefit of helping employees understand how they can personally contribute to the company’s sustainability goals in their individual roles, for example from how plant operators complete their rounds, to how buyers make sourcing decisions, to how the finance team thinks about budget and financing practices,” says Michelle Fitzpatrick, vice president and chief sustainability officer at Graphic Packaging International.

Forward-looking companies may involve their employees in the definition and update of their corporate purpose and values, thus ensuring the company’s vision and conduct reflect the concerns of contemporary society as well as their workers.

Embedding sustainability

The challenge for companies is to embed sustainability considerations into decision-making, processes and outcomes across the organization to make meaningful and long-term change to ESG performance.

Many organizations are still unsure about the best way to do this. Should sustainability be a separate function or integrated into job descriptions across the organization? The answer, initially at least, is both.

When embarking on the sustainability journey, it is useful for organizations to create a senior sustainability role that reports directly to the CEO and is part of the executive team, to make sure that ESG matters are discussed at the highest level.

The function facilitates the drafting and setting of relevant policies and goals, respectively, and helps to ensure that standards are applied consistently and to align and educate the business behind a sustainable business proposition.

But to transform a company’s ESG culture and performance over the long term, ESG responsibilities must be clearly defined at the divisional level where decisions are made and implemented, says Einarsson. “It is not the corporate sustainability manager but the divisional head that drives sustainability and influences employees and customers.”

Once best ESG practice has become embedded across the business, the corporate sustainability function may no longer be necessary.

Leadership matters

Committed leadership from the top on ESG issues is crucial for companies to make sustainability considerations an integral part of decision-making across the organization.

The appointment of a CEO who is passionate about sustainability is a game changer. Employees in ESG roles no longer have to "push things up a hill," one interviewee commented, and it is essential for the cultural change that needs to take place.

In turn, the CEO's recruitment and appointment of divisional heads with an understanding and expertise of ESG matters. "If you don't have a CEO that drives sustainability issues, it is impossible to drive cultural change," points out Einarsson.

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> DIRECTOR, SSAB, ALIMAK GROUP AB, SCANDANAVIAN BIOGAS, SVENSKA AEROGEL AB AND NORSK HYDRO

International or natural resources companies that have been on the frontline of ESG issues are a good source of candidates with the relevant skills and experience. Likewise, our interviewees recommend focusing recruitment efforts on companies with a low carbon footprint, or a good ESG record, and not necessarily from within the process industries.

In the case of Switzerland's packaging group SIG Combibloc, the recruitment of a chemical engineer with broad experience, who understood the supply chains cradle to grave and how to anchor and implement changes to processes, as head of the broader responsibility area, was fundamental to the business's pioneering sustainability performance, according to Rolf Stangl, the company's former CEO.

Board engagement

Boards' engagement with sustainability is pivotal not least because of their role in approving investments that may involve higher-than-usual capital expenditures to achieve the best sustainability standards or to support R&D and innovation.

"Our board helps drive progress by making quick decisions and being willing to dedicate resources and invest in important product innovations," says Jacob A. Mosser, CEO of Coveris, a packaging company headquartered in Vienna.

Ideally, directors should lead by their actions, not only their words, and incorporate behaviors that reflect ESG concerns into all their interactions with the company and its stakeholders.

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> CEO OF COVERIS

In their oversight role, boards need to be well-informed about ESG matters to adequately exercise their oversight of effective risk management with ESG risks ranking high among those with potentially serious consequences for businesses.

Boards must "keep their finger on the pulse" to ensure the company is keeping pace with rapidly changing times and not playing catch up, says Stube. It is an advantage to have at least one independent director with expertise on the matter.

In practice, boards' understanding of the importance of sustainability varies in the process industries and some "need nudging" on ESG issues, according to a few of the executives we spoke to.

In particular, the boards of private companies are more likely to rely on "window dressing." In these cases, a strong executive team can compensate but may be held back from implementing real change due to limits placed on green investment.

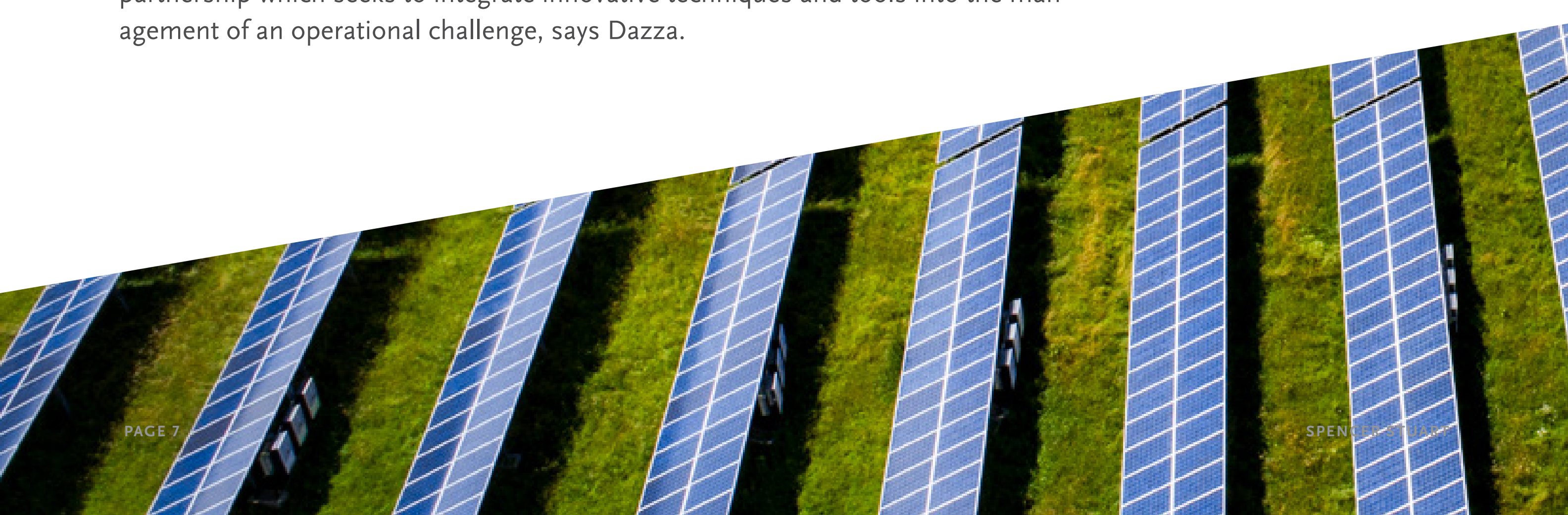
Beyond compliance

The regulatory environment and societal expectations regarding sustainability varies considerably by geography, with Europe standing out as the most demanding.

Global companies need to pay close attention to the specific requirements of different jurisdictions but, for reputational reasons, it is advisable to have a group-wide approach. "If you really take sustainability seriously, you should not differentiate between regions," says Gutheil.

The most successful companies are forward looking and go beyond compliance. Investing in innovation is vital to keep ahead of the game and to address the increasing demand for products with a lower social and environmental footprint, says Rüdiger Kuhn, vice president of materials for Central Europe of Mexico's CEMEX, a building materials company. Partnerships with start-ups, scientific or academic organizations, as well as collaboration with companies in other industries, help to spread the financial burden and accelerate solutions, he says.

The focus should not just be on technological progress but also on helping employees to think innovatively. For example, Imerys has formed a multi-year scientific partnership which seeks to integrate innovative techniques and tools into the management of an operational challenge, says Dazza.



Financial imperative

Consumers are increasingly choosing goods that demonstrate responsible production practices. This is leading the retail sector to put pressure on brand owners that, subsequently, are turning up the heat on the process industries to improve sustainability performance.

"The threat is that we don't achieve our ESG targets and our products are replaced by our competitors," warns Stanek.

Moreover, a corporate culture that is focused on the efficient use of resources is also likely to deliver better economic returns. "Companies with high ESG standards normally have good financial results — there's a pretty strong correlation," says Gutheil.

The failure of companies to keep pace with today's more stringent standards and to meet ESG targets will ultimately make them less competitive and less likely to hit their bottom line.

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> **STEFAN GUTHEIL**
> DIRECTOR, SGMS AND FORMER CEO, JANOSCHKA GROUP

We interviewed the following for this report:

- **Harald Biederbick**, director, THIMM and CEO, Precision Valve Corporation
- **Alessandro Dazza**, CEO, Imerys
- **Petra Einarsson**, director, SSAB, Alimak Group AB, Scandanavian Biogas, Svenska Aerogel AB and Norsk Hydro
- **Michelle Fitzpatrick**, vice president and chief sustainability officer, Graphic Packaging International
- **Stefan Gutheil**, director, SGMS and former CEO, Janoschka Group
- **Sumit Khatter**, global vice president, brand and external communications, Tetra Pak
- **Rüdiger Kuhn**, vice president, materials, Central Europe, CEMEX
- **Jakob Mosser**, CEO, Coveris Group
- **Tilo Quink**, global head of packaging adhesives, Henkel
- **Trevor Russell**, CEO, Infineum International
- **Manfred Stanek**, CEO, Greiner Packaging International
- **Rolf Stangl**, former CEO, SIG Combibloc Group AG
- **Annette Stube**, executive vice president of sustainability, Stora Enso

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