

IoD Ireland Statement to the Joint Committee on Enterprise, Trade and Employment on the EU Legislative Directive on Corporate Sustainability and Due Diligence

IoD Ireland Statement will be read out by Caroline Spillane CDir, Chief Executive Officer, IoD Ireland

IoD Ireland representatives at the committee: Caroline Spillane CDir, Chief Executive Officer, IoD Ireland; Karen Hennessy CDir, IoD Ireland Member, and Chief Executive, Real Leaf Farm; and Anne Mannion, Head of Marketing and Communications, IoD Ireland.

Introduction

The Institute of Directors (IoD) in Ireland is the leading membership body for directors and business leaders. Our purpose is to instil stakeholder trust and confidence in organisations by educating, informing, and supporting directors and business leaders to lead successfully. Our vision is for Ireland to be an exemplar of corporate governance.

The EU Legislative Directive on Corporate Sustainability and Due Diligence Directive sets out requirements that will be complex for directors, but are essential and the right thing to do. It is important that directors and boards lead from the top on this issue and fulfil their moral and ethical commitments to maintain human rights. Our aim today, is to outline our latest research titled, 'The State of ESG Strategy in Irish Boardrooms' and its findings, with the goal of asking for more Government and Departments supports, which can in turn be used to help our members and directors meet the requirements of this directive, as well as other pieces of ESG legislation.

IoD Ireland is a not-for-profit institution, with education and training at its core. We are committed to both the concept and practice of Environmental, Sustainable and Governance (ESG) practices and facilitating a platform whereby our members and company directors can develop their understanding and knowledge on this key area.

The Role of IoD Ireland

Director Training and Professional Development

IoD is a leading provider of director and board training. Our training includes the Chartered Director Programme, our IoD Essentials Workshop Series, and other Courses. We also run in-house training programmes for Boards.

ESG has become a key element of our training portfolio. It is embedded within our Chartered Director Programme, and we have established a stand-alone course titled, '**Leading Sustainability: What Directors Need to Know and How to Do It**'. This course includes four sessions designed to equip directors with the knowledge and skills to strengthen their organisations' orientation towards sustainability. It is based on a director's sustainability checklist and provides a practical approach to this critically important issue, with a focus on immediate takeaways, and it includes an opportunity to apply learnings to the participant's own organisation.

We also support our members with access to expert insights through content on our website, including Director Factsheets, webcasts, blogs and more. Information on this particular Directive has been made available to our members with a specific focus on what directors need to be aware of and what action they need to take.

Research and Advocacy

IoD Ireland's advocacy remit is to act on behalf of our members and to engage with Government and other stakeholders so our members can continue to lead their businesses in a compliant and informed way.

In respect of ESG I will highlight just two activities which the Committee may find of interest.

1. Firstly, we undertake research among our members to understand their needs and to reflect their views. In regard to this committee meeting, I will be addressing the substance of the recent ESG research, undertaken in partnership with the Diligent Institute, later in this statement. However, in the past year we have also conducted research on members views regarding hybrid working, future skills and training, and diversity and inclusion. I would be happy to share electronic copies of these reports with the Committee.
2. Secondly, we are a founding body of Chapter Zero in Ireland - the Irish Chapter of the Climate Governance Initiative (CGI). The purpose of Chapter Zero is to build a community of non-executive directors and equip them to lead crucial boardroom discussions on the impacts of climate change. This is facilitated through knowledge sharing activities and events. For example, the next event, which IoD Ireland is co-leading with HSBC Ireland, will focus on Scope 3 Emissions and specifically what directors need to understand. Membership of this body is restricted to non-executive directors and is free to join. If any member of the Committee is interested in attending this event, I would be happy to facilitate this.

IoD Research and the Corporate Sustainability Due Diligence Directive (CSDDD)

IoD Ireland is pleased to have the opportunity today to share the findings of **'The State of ESG Strategy in Irish Boardrooms'** with the Joint Committee on Enterprise, Trade and Employment.

This research is a collaboration between IoD Ireland and the Diligent Institute. It was published on Tuesday last, 29th November 2022. The research involved a survey that was issued to IoD Ireland members between the time period of 27th September-24th October 2022.

IoD Ireland membership is individual and not corporate, and for this reason this research reflects individual member views. The survey respondents, like IoD Ireland membership, were composed of chief executives/managing directors; chairpersons; non-executive directors; senior executives; and entrepreneurs.

It is important to note, that the majority of the research survey respondents were from organisations that had under 249+ employees, with 62% members working for SMEs. Furthermore, 11% of our respondents are in the charity/not for profit sector.

Because of the profile of respondents this statement will reflect on the aspects regarding SME supports in the initial proposal published by the European Commission on 23rd February 2022 and the Council of the European Unions negotiating position published on 1st December 2022.

We note that the Council of the European Union has just adopted its negotiating position ('general approach') on the CSDDD. The next step will be to start the negotiations with the European Parliament.

With this in mind, the most relevant report findings are as follows:

- Lack of clarity around EU legislation
 - Only 21% of respondents rate their understanding of the EU Corporate Sustainability Due Diligence Directive as good/excellent, 39% rated their understanding as weak.
 - 24% of respondents rated their understanding of the EU Corporate Sustainability Reporting Directive as good/excellent, with 33% rating their understanding as weak.
 - 20% of respondents rated their understanding of the EU Taxonomy for Sustainable Activities as good/excellent, with 44% rating their understanding as weak.
- More government support is needed around Ireland's Circular Economy Act
 - o There is almost an even split between those respondents who are aware (49%) of Ireland's Circular Economy Act (passed in August 2022) and those who are not (51%).
- There is a desire for education around ESG
 - One-third (34%) of respondents say they have undertaken ESG Director training in the last 12 months, while 63% have not.
- Full Board oversight of ESG has increased:
 - o 58% of respondents indicate their full board has primary responsibility for ESG oversight.
- ESG is being discussed more frequently:
 - o (23%) say ESG is discussed at every board meeting.
- Boards find it challenging to implement KPIs around ESG:
 - o There is an equal split (47%) between boards that have ESG KPIs in place and those who do not.
 - o Of the 47% who have KPIs in place, 6 out of 10 find it difficult to apply ESG-related KPIs/metrics. This may in part be due to the level of awareness and understanding of current and upcoming legislation.
- The majority of boards are not integrating ESG KPIs with compensation.
- Most boards do not incorporate ESG experience into their organisations' skills matrix to identify new board candidates.

IoD Recommendations to the Joint Committee on Enterprise, Trade and Employment on the EU Legislative Directive on Corporate Sustainability and Due Diligence

While this Directive is specifically for larger businesses, SMEs due to the nature of supply chains and tendering processes, will also be impacted. As a result, more information and support will be needed to help directors of SMEs on this area. Our recommendations below are on this basis.

1. Further Stakeholder Engagement with Business Groups and Consumer Groups

As previously noted, we welcome the invitation from the Committee to outline the findings from our report, as well as some of the concerns we found from this new research. This level of engagement should continue with further business and consumer groups, to ensure a deeper understanding on Government and Department level of any potential business concerns around issues with compliance. For example, the unintended consequences of burden sharing on SMEs, who will have limited resources and budgets.

We would also ask for more information and an update on the status of the European Network of Supervisory Authorities, and how this will bring representatives from national bodies to ensure a coordinated approach and the enabling of knowledge and experience sharing on this Directive. We would recommend that this information is shared widely, so all relevant stakeholders are aware.

2. Guidance Note for SMEs

As noted, this Directive is for larger businesses, however, we do feel that many requirements will get pushed down to SMEs through supply chains and tendering processes, so it will be essential that this information takes this into consideration.

In the specific remit to the discussions of this Committee today, the finding that only one in 5 of our respondents rated their understanding of the EU Corporate Sustainability Due Diligence Directive as good/excellent is to be noted, with nearly twice that number (39%) rating their understanding as weak.

Further information and detail around this Directive and all ESG directives, as noted earlier from our research findings, is needed. We would recommend the Department of Enterprise, Innovation and Trade, create a briefing guidance note outlining key legislation pieces by sector and company size and outlining in turn the obligations of businesses. This level of detail will be essential for SMEs who may have limited resources and budgets to fully grapple with all of the obligations of the EU ESG Directives, and their impact on their business.

The European Commission proposal does foresee this happening, and notes that there would be specific SME supports, such as guidance and other tools to help SMEs gradually integrate sustainability considerations into their business operations. Early clarity and information around what these proposed EU supports will be essential. In addition, it will also be important to highlight relevant state supports, and how SMEs may be able to avail of them.

IoD Ireland would be happy to act as conduit of this information between Government and our members to help spread the messaging and understanding.

3. Financial Support for SMEs

The European Commission Directive Proposal and the Council of the European Union negotiating position include references to member states providing technical support, and also financial support to SMEs to facilitate adaptation. More information and clarity around what these financial supports may be are needed by SMEs. More support is needed to help directors and business leaders increase the learning and understanding on the Directive and what actions in turn they need to take

for their business. In addition, it will also be important to highlight relevant state supports, and how SME's maybe able to avail of them.

Conclusion

Thank you once again for the invitation to today's committee session. IoD Ireland members take their roles and responsibilities seriously. By becoming a member of IoD Ireland they acknowledge and sign our own Code of Conduct, which includes two of the below key remits which are relevant to this particular Directive. They include, that a member shall:

- Exercise responsibilities to employees, customers, suppliers and other relevant stakeholders, including the wider community.
- Comply with relevant laws, regulations and codes of practice, refrain from anti-competitive practices, and honour obligations and commitments.

This new directive is an important milestone for ESG.

We believe that embracing ESG is not just about targets and legislation requirements, but also values. It is crucial that all directors get up to speed on the essentials of ESG and what this means for their business, their sector and, indeed, wider society. This new research reveals the importance with which ESG is being regarded in boardrooms. Setting realistic and accurate KPIs to measure ESG successes or failures will be crucial in leading to real traction and change in reaching ESG targets.

Thank you for your time.