Belgian Companies Use ESG to Create Value and Differentiate

Corporate leaders in Belgium reveal five lessons to successfully leverage ESG and realize the significant opportunities for growth.

By Jean-Charles van den Branden, Piet de Paepe, Magali Deryckere, and Jelle Dhaen

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At a Glance

- Increasing numbers of executives are reshaping how companies operate to benefit from ESG's financial and societal value.
- Tremendous progress is being made; however, Belgian executives recognize they should go faster and act more boldly.
- Barriers to greater and faster action remain, currently intensified by short-term headwinds such as the war in Ukraine.
- Emerging ESG leaders are wasting no time, acting decisively now to capture both short-term and long-term value.
- These ESG leaders share best practices, showing the way for others to create a more sustainable society.

Companies have made a fundamental change in their approach to environmental, social, and governance (ESG) issues. Once regarded as a risk to be mitigated, ESG is now appreciated as one of the biggest value-creation opportunities and industry shifts of our time.

Of the 29 executives from top Belgian companies interviewed for this report, one of a global series, 62% said they have quantified their ESG ambitions and 95% recognize they can or should do more. This ambition—and the resulting goals—is being fueled by the opportunities at hand: 86% told us they believe taking action on ESG issues creates additional commercial and societal value over and above reinforcing their license to operate.

The respondents told us that ESG creates value in many ways: helping them to cut costs, to sell more and increase prices, to attract and retain talent, and to increase their company value. Importantly, more than half (54%) see ESG as a way to develop new businesses beyond their core—an Engine 2. This might be achieved by reinventing the core, such as serving their existing customer base with an alternative product; launching new products in an adjacent market; and/or launching a new business aimed at different customers while drawing on existing knowledge from within the original one.

ESG ambition does not automatically generate value, and there are significant challenges to overcome. Key issues identified were company culture limiting ESG progress; immaturity of ESG in terms of regulation, standards, and data; and finding the right ecosystem partners. Trade-offs between short-term profits and long-term goals are also considered a challenge. All this is further intensified by short-term headwinds including the war in Ukraine, inflation, and supply-chain constraints.

Even within this current context, ESG leaders continue to invest in bold actions, capturing short-term value through ESG to reach their immediate financial goals while investing in projects that create long-term societal and financial value.

Across all sectors, those most successfully pursuing ESG draw on five key strategies:

- **Clearly articulating their position:** Defining their ESG goals and ambition by identifying their shields—typically "table stakes" ESG topics that are important to stakeholders and must therefore be addressed—and spikes, such as ESG topics that are their differentiators.
- **Delivering a sustainability business case with value creation:** Accelerating an ESG agenda with a value-creation approach going beyond risk mitigation.
- **Treating ESG in a dynamic way:** Many "green" solutions will go through accelerated experience curves in the coming years—reaching cost parity with incumbent solutions. Leaders can therefore become market makers, leveraging first-mover advantage to gain experience and increase market penetration and enabling them to develop a sustained competitive advantage.
- **Embedding sustainability at every level of the operating model:** Integrating sustainability across the organization, in business processes, incentives, and within training programs, is key to delivering results.
- **Creating partnerships:** Partnerships across the value chain can create scale, accelerate progress, combine investments and resources, and improve data gathering and protocols.

The push for faster ESG adoption

Growing stakeholder pressure is making ESG central to management discussions across all sectors. This is reflected in the 62% of respondents quantifying ESG goals *(see Figure 1)*. As Vandemoortele's Chief of HR, Sustainability and Communication Marc Croonen said: "We have quantified our ESG ambitions for each area, whether it's for carbon, food waste reduction, packaging recycling, or renewable energy use, each one has a specific KPI formalizing our commitments."

Furthermore, ESG is seen by some as a way to differentiate. As Filip Ferrante, general manager, corporate sustainability at KBC, noted: "Our ambition is to be the best among our peers on international ESG ratings. On climate, we believe we are no longer just fast followers anymore; we try to lead the pack."

Pascal Chalvon Demersay, chief sustainability and government affairs officer at chemicals company Solvay, shares: "We constantly try to raise the bar on ESG as an integrated part of our business strategy. We want to continue to be at the forefront across environmental, social, and governance topics—and inspire our customers, competitors, and suppliers to do more. We cannot stand still."

Figure 1: Sustainability is rising higher on the executive agenda

Source: Bain & Company interviews with CEOs in Belgium, summer 2022 (n=29)

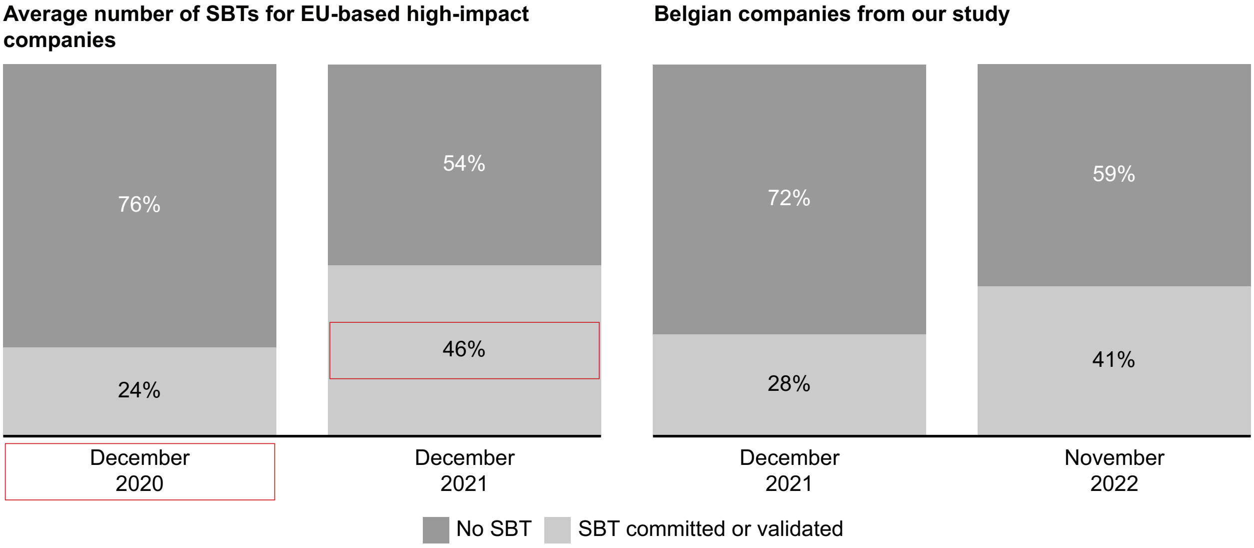
Although ESG ambition is already high, 95% of Belgian executives we spoke to believe they should do even more. As Harold Boël, CEO of investment company Sofina, said: “We are already moving fast and making lots of progress, and we need to continue going as fast as we can.”

The growing understanding of the need to increase and speed up action on ESG is reflected by the number of Belgian companies adopting science-based targets (SBTs).

SBTs help companies quantify by how much and how quickly they need to reduce their greenhouse gas emissions in accordance with the 2015 Paris Agreement. According to research by the Science Based Targets initiative, 46% of sampled companies across Europe had committed to or validated SBTs as of December 2021; for Belgian companies in our study, that number was only 28%. However, by November 2022, 41% companies we spoke to had committed to or validated SBTs, indicating the country is closing the gap with the rest of Europe *(see Figure 2)*. Ann-Françoise Versele, vice president sustainability at Bekaert, commented: “We have been making rapid progress including SBTs approved in H2 2022. We know where we can improve and are committed to deliver on our increasingly ambitious ESG targets.”

Figure 2: Belgian companies are increasingly setting SBT targets and catching up vs. the European average

Percentage of companies with SBT targets



Note: The SBTi defines high-impact companies based on market capitalization and emissions
Sources: SBTi data; Bain analysis

Acting on ESG offers significant value-creation opportunities

Cultivating good ESG policies is increasingly seen as a substantial opportunity to increase value as industries shift in response to customer, employee, and shareholder demand for action. Although ESG is rapidly becoming a fundamental aspect of doing business, companies can also create value by lifting sales volumes and charging price premiums, retaining and attracting talented staff, improving efficiency in ways that deliver cost savings, and increasing company valuation.

Indeed, real-life examples analyzed by Bain suggest ESG-driven value creation can add between 3 and 5 percentage points to EBITDA, and 86% of respondents see one or more additional value-creation opportunities over and above reinforcing their license to operate *(see Figure 3)*.

Pieter Lambrecht, partner at Ergon Capital, said: “ESG has become a central pillar in our portfolio companies, where we clearly see a positive influence on growth, customer relationships, and talent attraction.”

Acting on ESG is not just about creating value within the core business; just over half of those surveyed view ESG as a way to enable growth beyond their core—an Engine 2.

Figure 3: Improving ESG can increase volumes and prices, reduce costs, attract and retain employees, and improve company value

Volume increase and price premium | **Employee retention attraction** | **Cost savings** | **Valuation**

Percentage of companies mentioning specific ways to drive value creation upside from sustainability

"More and more customers want to do business with you if you are strong on ESG (or reject you if you're not good enough on ESG)."

Nils van Dam,
CEO at Milcobel

"We understand moving towards sustainability is a differentiator for top talent attraction. Young hires check ESG ratings and companies' purpose."

Catherine Deltenre,
Audit, risk & reputation lead at Proximus

"We are working heavily on all of our systems to reduce our energy and water consumption. It is both a crucial challenge for us and a way to reduce costs."

Gabrielle Kalkwijk,
CEO at Ardo

"ESG has always been part of the evaluation when we look at a company, but it is now carrying a much heavier weight."

Tomas Simons,
Partner at Waterland

Note: Interview question was "How are you looking to drive value creation upside from sustainability?"
Source: Bain & Company interviews with CEOs in Belgium, summer 2022 (n=29)

Gains come when the company can mimic the speed and entrepreneurial energy of a start-up and combine these with the benefits of being a large, well-established organization. An Engine 2 can take one of three forms: reinventing the core; moving into a distantly adjacent area; and/or launching a totally new business.

Luminus provides a good illustration of reinventing the core business, as it has committed to carbon dioxide equivalent (CO2e)-neutral electricity production. As Grégoire Dallemagne, CEO of Luminus, stated: "This has created great economic value for us, as well as having a systemic impact on society around us."

Lotus Bakeries is a great example of expanding into adjacencies and serving a similar consumer need in a way that plays to a greater focus on ESG values. Lotus expanded its focus from its well-known Biscoff biscuits toward healthier snacking, acquiring Natural Balance Foods, maker of Nakd and Trek snack bars, and then BEAR and Kiddylicious, which make nutritious snacks for babies and children. Today, its business unit Lotus Natural Foods owns a number of natural and healthy snacking brands and has outpaced the overall group in terms of growth.

Umicore has also driven growth by moving into an expanding market where it can build on its core capabilities. The materials technology company is rapidly scaling its battery-recycling technologies, enabling it to help make the fast-growing electric vehicle (EV) market more sustainable while drawing on its deep recycling expertise.

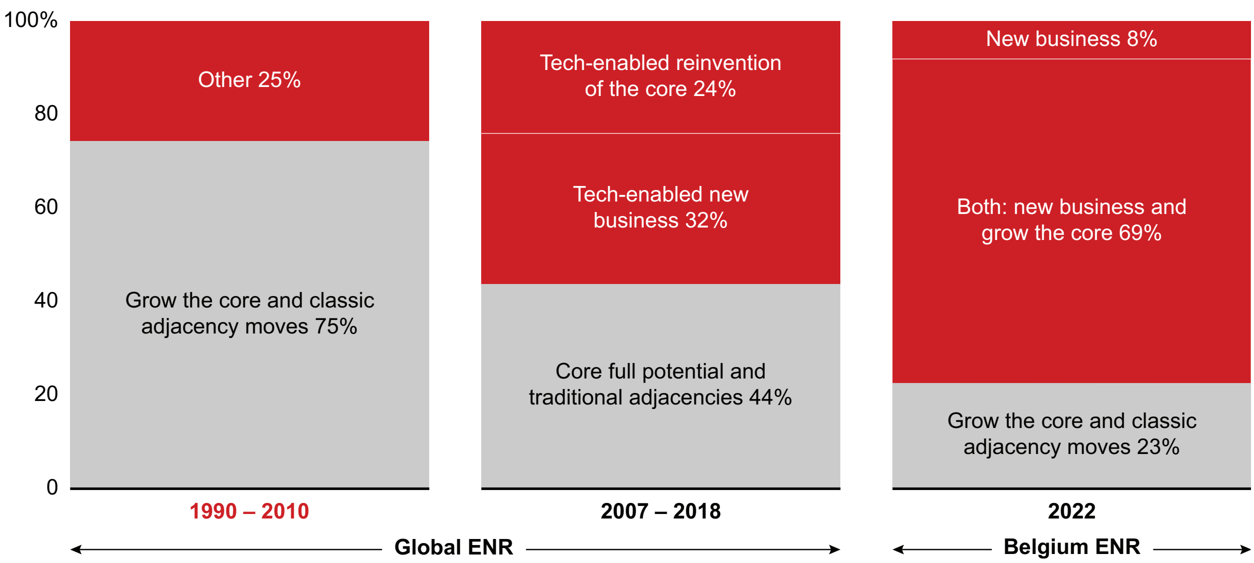
Bekaert has launched a product line of porous transport layers made of metallic fibers for use in electrolysis for green hydrogen production—a high-growth sector as society transitions to clean energy. Bekaert has done this by drawing on existing membrane-technology expertise as well as its industrial scale.

Bernard Gustin, chairman of the supervisory board at Elia Group, said: "The development of renewable energies has been a major change for our company. We use ESG efforts to launch and expand new businesses and to tap into the emerging needs for renewable energy via the development of offshore grids, energy islands, and parks interconnections."

Indeed, Belgian energy and natural resources companies are more ambitious than the global average in using Engine 2 as a source of growth. Three-quarters (75%) of the companies we spoke to are using sustainability as an enabler to set up an Engine 2 to help counter disruption and meet changing demand *(see Figure 4)*.

Figure 4: How companies are using an Engine 2 to create new value

ENR sources of value creation



Sources: Sustained Value Creators database; Bain analysis

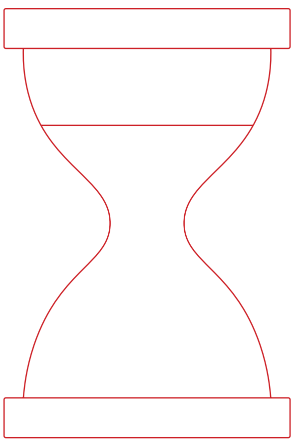
Complex challenges and barriers to greater action remain

While ESG goals are an important starting point, value does not automatically flow, and our interviewees highlighted four significant challenges preventing them from doing more:

- Company culture not set up to act on ESG (68% of respondents)
- Immaturity of ESG in terms of regulations, frameworks and standards, and data availability (54%)
- Trade-offs between short-term profit and long-term sustainability, currently further intensified by short-term headwinds like the war in Ukraine (39%)
- The need to establish the right ecosystem of partners to help share costs and accelerate progress (36%)

Challenges of company culture range from lacking the right mindset and skills throughout the organization to the need for leadership alignment on key issues. The hourglass effect is also observed, where both executive leaders and new talent see sustainability as a key priority, but middle management is less engaged *(see Figure 5)*. This often stems from middle-management unease over changing ways of doing business, concern about the impact of ESG on financial targets, and the absence of ESG-linked incentives.

Figure 5: Middle-management priorities can mean they are not as engaged on sustainability as executives and new talent



100% of executive leaders see sustainability as a key priority and are spending more time on this area compared to previous years

Difficulties of getting middle-management engaged:

- Different ways of doing business than they are used to
- Don't know how to make their numbers and targets
- The right incentives are not (yet) in place

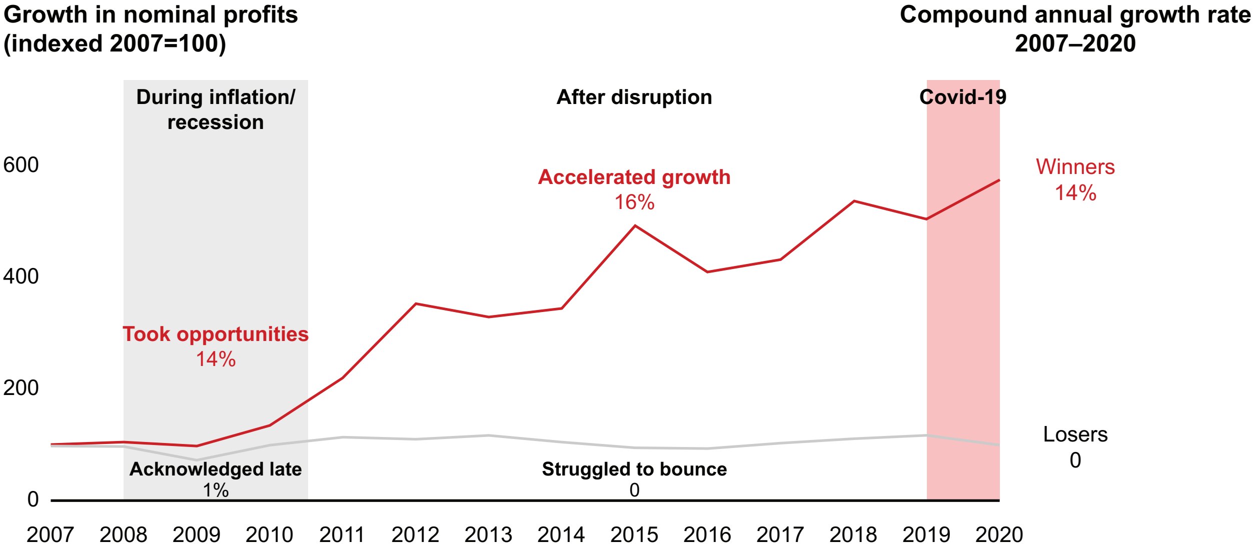
Sustainability is key to attract new talent and motivate younger generations

Source: Bain & Company interviews with CEOs in Belgium, summer 2022 (n=29)

For some, immaturity of the ESG sector is holding them back. This includes unpredictable and ever-changing regulations, a lack of universal standards or frameworks, and incomplete data along value chains, all of which make it hard to plan, set targets, or measure progress. As Ineke Rampart, director CEO office and sustainability at Telenet, said: "Regulations are very complex, are changing all the time, and are different across regions. At times it can be challenging to keep track." And Gilke Eeckhoudt, chief development and sustainability officer at insurer Ageas, noted: "Global standards would be a catalyst to go faster and to generate more impact on ESG, while it would create a level playing field."

Many admit to a trade-off between delivering short-term financial value and making long-term sustainability investments, further intensified by short-term headwinds. However, as companies reimagine their supply chains for greater resiliency to disruption caused by the above and also the pandemic, winners will consider physical climate risks, too. According to our long-term research, making bold moves in times of disruption yields significant benefits. There is more growth post-disruption for companies that take risks during a downturn *(see Figure 6)*. As Sergio Sandoval, group head of sustainability at Etex, told us: "In these challenging times, companies that will double down on sustainable products and portfolios will emerge stronger."

Figure 6: Recessions are often inflection points for sharp divergence in company performance



Notes: Global analysis of 3,927 companies, with 216 winners and 3,711 losers; winners defined as companies that double the industry average in revenue, profit, and total shareholder return growth over a 13-year period (2007–2020); compound annual growth rates calculated for periods 2008–2010, 2010–2020, and 2007–2020; chart shows a comparison of indexed weighted average profits (weight=revenue of companies in 2020) for sustained value creators and non-sustained value creators (as per a 2020 analysis) over the past decade; profits are earnings before taxes for banking companies and earnings before interest and taxes for all other industries; insurance companies have been excluded from this analysis
Source: S&P Capital IQ, Bain Sustained Value Creators analysis

Finally, companies find it challenging to set up the right ecosystem of partners. But Belgian executives like Line De Decker, global HR and sustainability executive at Aliaxis, thinks it's worth pursuing, saying: "We are building more collaborative relationships with our customers, to help them decarbonize and drive value."

Five winning ESG strategies

Even given these barriers, our survey shows that ESG leaders are wasting no time, acting now to capture both short-term and long-term financial and societal value. From our conversations with top executives, five key strategies emerged for ESG success.

First, leaders clearly define their ESG goals. Given there are many aspects to ESG, they clearly articulate their position on the topics where they want to differentiate and proactively engage their customers—their spikes. At the same time, they work on other ESG topics that are important to stakeholders and must therefore be addressed but that are, to some degree, already table stakes—their shields.

For Bekaert, its positions on community relations; diversity, equity and inclusion; fair sourcing; and governance act as shields—ensuring these topics are addressed and that stakeholders know its core values on and targets for these key issues. However, Bekaert has also identified decarbonization, water stewardship, and sustainable solutions as clear spikes, differentiating it from competitors and proactively engaging with its customers on these topics *(see Figure 7)*.

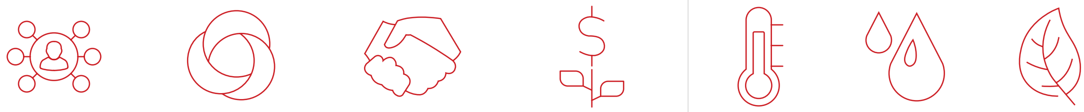
Second, ESG leaders create value by staying ahead of change, improving efficiency, winning and retaining customers, and attracting and retaining the best talent. This includes cutting costs, increasing revenues by selling more or by charging a premium, and offering special terms to partners or customers who can add value. Olivier Chapelle, CEO of industrials company Recticel, is clear: "More and more customers question the carbon footprint and are ready to pay a premium. They can [also] save from a total cost of ownership perspective."

Third, ESG leaders think about the subject in a dynamic rather than a static way, understanding that many green solutions will follow a steep curve in the coming years to reach cost parity with existing solutions, with or without the help of subsidies and taxation changes. Therefore, ESG strategy is no different than any other strategy. Given this, there is significant first-mover advantage to becoming market makers, creating demand and gaining a sustainable competitive advantage over time.

The key is to gain experience early, even when demand is insufficient to offer economies of scale, then use this experience to increase market penetration and drive down costs. These early adopters can subsequently scale when adoption increases. ESG leaders proactively navigate these experience curves (E-curves) and adoption curves (S-curves) as they scale a sustainable solution *(see Figure 8)*.

Figure 7: Spikes and shields can be used to articulate company positions on important and differentiating topics

	Shields				**Spikes**		
	A number of areas important to your broad stakeholders where you want to achieve benefits				Areas where you want to be truly distinctive with compelling commercial differentiation used to actively engage with stakeholders		
Bekaert	Community relations	Diversity, equity, and inclusion	Fair sourcing	Governance	Decarbon-ization	Water stewardship	Sustainable solutions



Source: Bain & Company interview with Bekaert

Figure 8: Scaling sustainable solutions can be done successfully by proactively navigating the experience and adoption curves

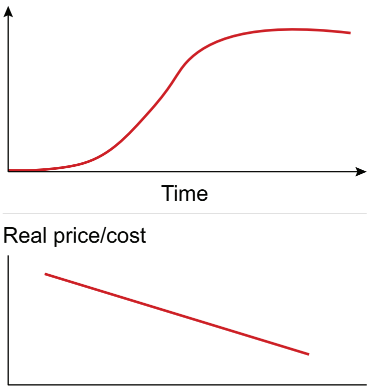
Journey over time …

What's holding you back

Missing demand—consumer base is not large enough to justify scaling

Low profits—scaling solutions is too costly, and investments required are not offset

What you need to do
Proactively drive both S- and E-curve



>> Monitor signposts <<

What you can achieve
Attain scale leadership position

Become the early entrant/market maker and lead an ESG shift in your industry

(Re-)create margins over time as cost advantages materialize and scale leadership is achieved

Source: Bain analysis

Leading ESG companies such as Umicore have successfully followed this path. In 2007, it was one of the first to move into EV rechargeable batteries, offering competitive pricing to win early contracts and accumulate volumes faster, while bringing down the cost curve. Once more, favorable conditions—including those brought about by changes to regulations—enabled the EV market to scale more quickly, and Umicore leveraged the improved economics and its strategic M&A and partnership position to further increase customer penetration and accelerate growth.

Fourth, ESG leaders ensure sustainability is embedded across the whole organization. As Pascal Juéry, CEO at Agfa-Gevaert, stated "Sustainability cannot be a boardroom issue only. We try to embed ESG in our company story and not only speak about it, but integrate it across the layers of the organization."

Companies can avoid middle-management bottlenecks by including sustainability in their decision-making, incentives, training, and business processes. Vandemoortele, for example, has embedded sustainability key performance indicators (KPIs) in the incentives and objectives of more than 600 managers. Meanwhile Pol Deturck, CEO of Beaulieu International Group, said: "Mobilizing the entire team is not easy, but we are gaining rapid traction."

However, getting everyone on board with ESG is far from simple, and accountability is key. One way companies can demonstrate the importance of ESG is by having the employee who oversees ESG strategy report directly to the CEO and ensuring they have the support of other members of leadership.

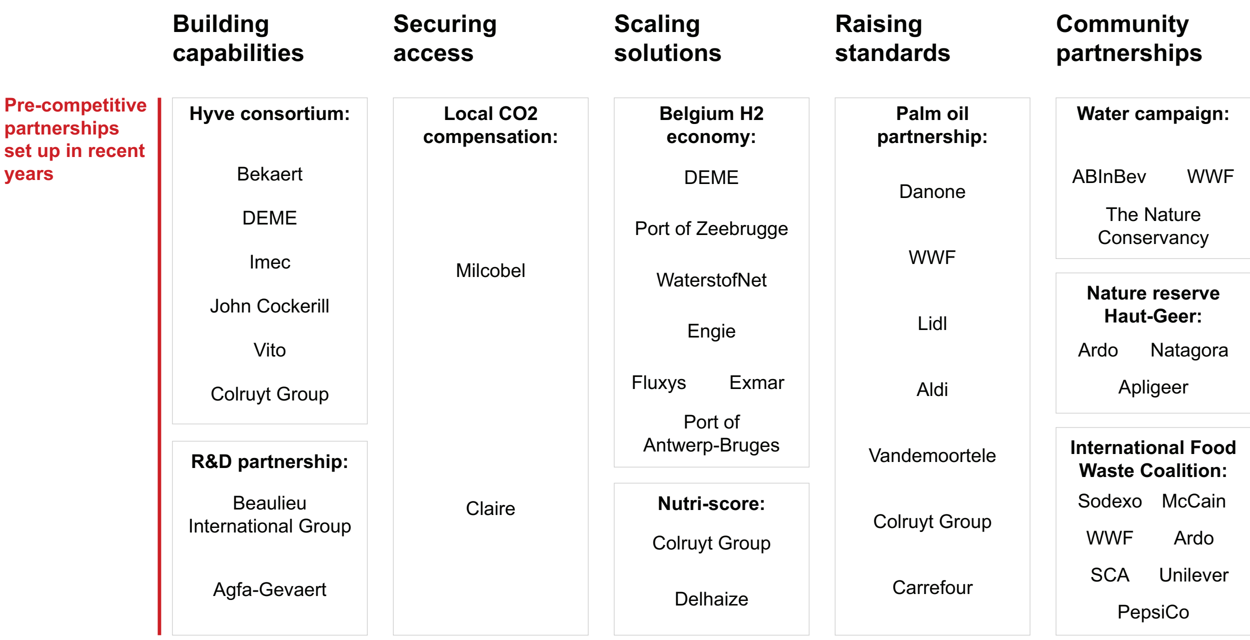
"It is crucial to identify the most material ESG topics to overall value creation together with the broader leadership team and to have their support in strategy execution. For example, our CFO is a key partner and a driving force behind ESG, and this has had an enormous influence in the progress we are making," explained Ezgi Barcenas, chief sustainability officer at Anheuser-Busch InBev.

Similarly, an ESG committee at both the executive and board levels should develop and oversee governance, and decisions and commitments should be made with the involvement and under-standing of the full leadership team.

Finally, those at the forefront of the ESG revolution understand this is a collective challenge and work with partners along the value chain to be more effective. This helps accelerate progress, cut costs, and improve the gathering and flow of data, gain scale, and/or develop new capabilities.

Collective action or partnerships can be made in a competitive way—where partners can differentiate themselves by jointly building capabilities, scaling solutions, and/or benefiting from unique access. Partners can also collaborate in a pre-competitive way, in which working together with the industry/competitors levels the playing field for competing on other elements *(see Figure 9)*. The Belgian

Figure 9: Building pre-competitive partnerships can be a solution to overcoming barriers linked to ESG



Source: Bain & Company research

consortium, Hyve, is an example of a pre-competitive partnership. Hyve consists of six companies and research institutes that invest in the production and expansion of green hydrogen to make it cost-competitive.

An example of a competitive partnership is the one between Solvay, carmaker Groupe Renault, and water, waste, and energy management company Veolia. They work together to ensure secure and sustainable supplies of strategic battery metals such as cobalt, nickel, and lithium through closed-loop recycling. This provides each company with unique advantages.

Building a greener tomorrow

It is highly encouraging to see so many Belgian companies making progress in sustainability and accelerating their efforts, with many viewing ESG as an assured way to create value.

Ultimately, tackling ESG is complex and will require a multiyear transformation. By integrating the five winning strategies of ESG leaders, more companies can become the winners of tomorrow.

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