A New Reality for CFOs – ESG is the Top Priority

Environmental, social and governance (ESG) metrics and measurement rate as the top priority for CFOs, other finance leaders and their teams for the next 12 months, according to our latest Global Finance Trends Survey. Three out of five organizations (60%) report a substantial increase in the focus and frequency of their reporting related to ESG issues in the past year (on top of similar findings in prior surveys), and there is a notable jump in finance groups in which measuring and reporting on ESG risks and issues is becoming part of their role. Just as noteworthy, there is little difference in ESG perspectives and priorities among publicly and privately held organizations, even though public companies increasingly are required to address a greater number of ESG-related regulatory requirements around the world. Clearly, stakeholder demands and interests regarding ESG are affecting entities of all kinds.

These findings are remarkable. They are also consistent with results from our other recent surveys – and perfectly fitting given the central role CFOs play in curating corporate data in general, and in ESG reporting, in particular.

That era began in earnest in January 2023 when the European Union's (EU) groundbreaking Corporate Sustainability Reporting Directive (CSRD) took effect, joining an expanding collection of global ESG compliance rules that require, or will soon require, standardized and, in most cases, verifiable and auditable reporting on ESG performance.

As organizations build on foundational ESG strategies and reporting capabilities to address new compliance requirements and evolving stakeholder expectations, leading CFOs are focusing on a broad set of topics and to-do items.

Embracing and advancing their ESG role

CSRD compliance and other global ESG 2.0 requirements demand the CFO's and finance organization's core expertise. Since many of these compliance requirements become part of in-country statutory filings once they are mandated, CFOs have additional motivation to assert and advance their ESG reporting role. These responsibilities currently center on elevating sustainability reporting to achieve the level of rigor associated with financial reporting from a reliability, accuracy, accountability and auditability perspective. As new compliance requirements emerge and stakeholder interests in data expand, the CFO's ESG role will evolve. Beyond compliance, CFOs are scrutinizing the rising cost of capital when evaluating and prioritizing ESG initiatives and investments. At the same time, finance leaders should remain mindful of changing stakeholder interests (e.g., customer purchasing preferences, recruiting and retention, and the employee experience) regarding the company's ESG strategy and actions.

Prioritizing data collection, governance and management

The need for quality ESG metrics will increase as new regulations come online and stakeholders' appetite for reliable measures intensifies. The data feeding into new ESG regulatory reporting must be trusted, accurate, complete and well-defined. This is no small task given that ESG data is pulled from numerous systems, applications and sources throughout the enterprise and its third parties. Not only is the range of data sources required for ESG reporting considerably broader than the collection of data used in financial reporting, but little of this data is structured or uniform in format. This marks a major departure from how finance data flows from tidy rows and columns in the general ledger and related accounting systems buffered by proven internal controls and governance oversight. Despite these obstacles, ESG disclosures ultimately must be auditable and attested. In many organizations, ESG-related data governance and management processes require major improvements to approach the sophistication of existing financial data governance and management activities. Plus, as new compulsory ESG disclosure requirements emerge, organizations with robust ESG data management and regimented ESG reporting processes in place will be able to achieve compliance faster and more cost effectively.

Recognizing the scope and reach of ESG data demands and compliance requirements

More than 50,000 EU-based companies and some 10,400 non-EU enterprises (nearly a third of which are based in the U.S.) are, or will likely be, subject to CSRD compliance. Some companies will need to disclose as many as 1,000 discrete data points, depending on their CSRD materiality determinations. The U.S. Securities and Exchange Commission (SEC) is expected to release its final climate impact reporting requirements for U.S. public reporting companies by the end of the year. In addition to those companies for which compliance is mandatory, both sets of comprehensive requirements will indirectly affect tens of thousands of companies, including private enterprises, without direct compliance mandates. That's because larger, publicly listed companies subject to reporting requirements will make new, and potentially substantial, requests for ESG data and reporting from their vendors, customers and other trading partners. In fact, such requirements are already in place at a number of major multinational organizations. And in the meantime, the marketplace is speaking as well, with stakeholders including employees, customers, vendors, partners and others all seeking ESG data from companies, and with CFOs having a strong interest in that data being consistent, accurate and timely.

Preparing for more to come

Beyond CSRD and SEC climate disclosures, CFOs will need to address numerous other ESG-related regulatory requirements and rules, including the Fit for 55 package and the Carbon Border Adjustment Mechanism in the EU, as well as the U.S. Inflation Reduction Act (IRA). The IRA contains a combination of environmental taxes and fees combined with a lucrative collection of tax credits and related incentives.

Addressing ESG threats and opportunities in the supply chain

Without effective ESG considerations and capabilities within the sourcing, procurement and supply chain functions, an organization's overall ESG efficacy can deteriorate quickly. ESG-savvy CFOs assist chief operating officers with the development of sustainable sourcing strategies and support chief human resources officers in their monitoring of ethical labor and social practices throughout the supply chain.

Expanding and strengthening ESG partnerships

Given the scope and complexity of new ESG regulatory requirements and the evolving nature of stakeholder data requests, CFOs should tap internal and external partnerships when establishing and improving an ESG reporting function. These networks include external service providers, data vendors and research groups to assist with data gathering, as well as internal collaborations among finance, tax, legal, HR, ESG, supply chain, operations, internal audit, and other groups. These relationships enhance data-gathering activities and keep CFOs abreast of leading practices while helping them meet comprehensive reporting requirements. Such collaborations are crucial given that so much ESG data and risk resides outside the CFO's direct control.

Interested in learning more? Read our research report, *Accelerate: Assessing CFO and finance leader perspectives and priorities for the coming year*, available at www.protiviti.com/financesurvey.

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