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The evolving role of Finance in Sustainability

Report
February 2023

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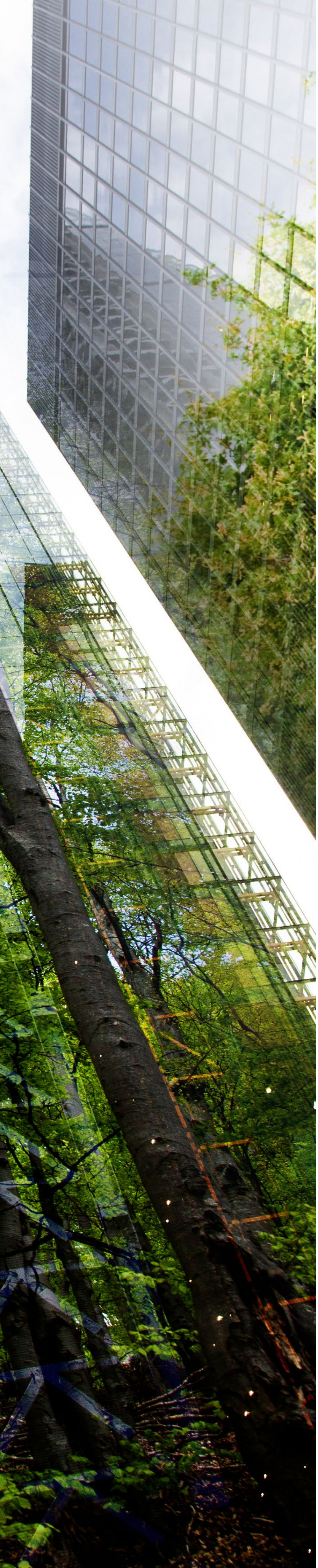


Foreword

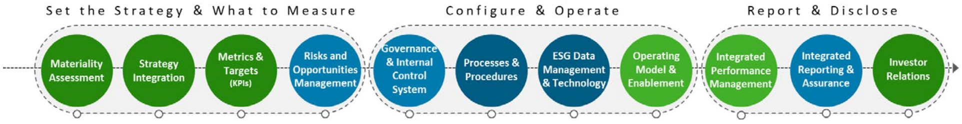
Over the past 12 to 18 months we have been witnessing finance functions taking on sustainability and broader ESG functions. There is an undeniable shift from a happy few that were busy with sustainability to everyone within an organisation realising its importance, from Strategy to Legal, from Risk to Internal Audit, from Human Resources to Quality...

Many chief financial officers are being charged with creating structures for measuring, reporting, and monitoring the impact of ESG risk, as well as the advancement of social and diversity initiatives. Also, as guardians and architects of long-term sustainable value creation, finance chiefs can extend leadership, stewardship and control and have a transformative impact.

Our purpose—through this survey—is to shed light on the current and future role of the finance function in relation to sustainability, as well as the current ESG reporting preparedness and challenges.

In today's climate of sustainability awareness, companies strive for better ESG disclosure that reflects a firm's daily operations without being called out for greenwashing, and meets rising stakeholder expectations and increased regulatory requirements. Regulations are being improved at present and the efforts to come up with harmonised guidelines for companies to follow are in the works. Companies are working toward more reliable data, better technology, and additional sustainability-savvy financial professionals to communicate high-quality ESG performance information in a trusted, consistent, and timely way.

Reporting is only the tip of the iceberg. To be able to report according to higher standards, companies first need to outline sustainability commitments and establish appropriate governance and oversight. The second step is to set very clear ESG goals with KPIs that can be measured easily. The third step is to build rock solid data governance and processes within the company. Only with these prerequisites met will companies be able to report and drive reliable performance and business resiliency. Deloitte is committed to helping you throughout your end-to-end "ESG transformation journey," illustrated below:



We hope this report provides you with insights that will help you to deal with the challenges and increasing demands posed by sustainability. We look forward to continuing the dialogue with you.

Tom Van Ctauwenberge
CFO Platform Leader

Reinout De Clercq
Climate and Sustainability Partner

Laurent Van Melckebeke
Finance & Sustainability Director

Key findings

We gathered those answers among Belgian public and privates companies, from SME's to large companies of over €10 billion turnover, across the Belgian industries in order to obtain a sample that best represents the national economic landscape.
We observed a concurrence of overall results with similar studies conducted in the US and Switzerland which demonstrates a common trend on the future role of financial executives within the organization.

- **For almost all surveyed firms (96%) sustainability is becoming an important part of Finance.** However, its structure in organisations is still not fully delineated. Only a **minority of the surveyed companies has already defined a clear split of responsibilities when it comes to sustainability**, while more than half of the surveyed companies still have **no structured responsibilities** for sustainability in finance or barely involve sustainability in financial operations.

- In order to integrate ESG considerations, companies need to deal with **several challenges**. The main ones identified in our survey are **the lack of accessibility to relevant and consistent information** acknowledged by three quarters of the respondents, **and the majority recognised a lack of knowledge** when it comes **to reporting standards**. We also observe a feeling that they **lack the skills/capabilities** and the **adequate technology** to effectively steer, report and disclose.

- Nevertheless, we note that **change is underway** as almost **8 of 10** (79% of surveyed organisations) are **willing to leverage the use of digital technology in the coming years**. Forty-six percent of the respondents have **already either identified tech-savvy finance professionals** or a dedicated group of finance professionals that deal with ESG reporting.

- Regarding the reporting standards and framework used, companies may disclose their ESG results following multiple reporting standards or frameworks. There is **no consensus on a harmonised framework** which implies that **half of the organisations allocate resources to meet two or more reporting standards or frameworks**.

Detailed research findings

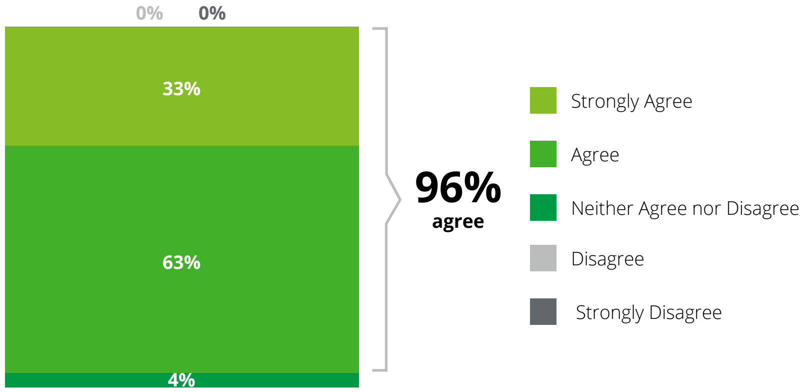
Sustainability and ESG have grown in importance and will keep growing in the coming years. Through this survey, we aim to understand CFOs' vision, expectations and challenges related to sustainability and ESG in order to accompany them and help them meet their expectations and overcome those challenges.

Role of Finance in ESG

Importance of Finance in sustainability

Sustainability plays an increasingly important role in Finance, that is a fact. Almost all of the respondents (96%) agreed with the statement, confirming sustainability is becoming a significant topic in finance functions. A minority of 4% have a neutral feeling regarding the current trend of sustainability in Finance but none of the companies deny its importance.

Sustainability plays an increasingly important role for Finance[4]



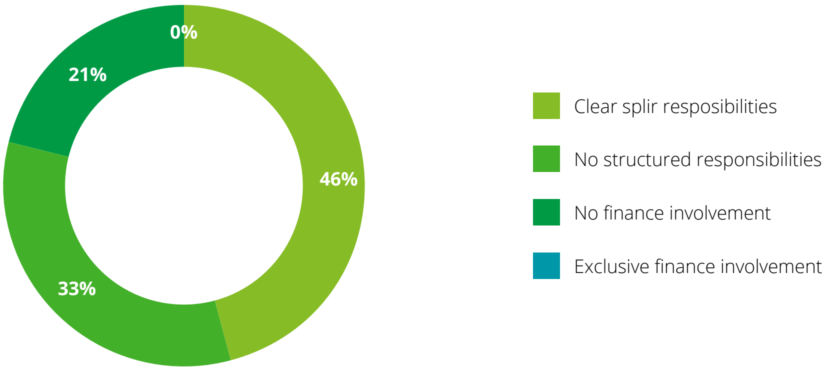
How is sustainability structured in the organisation?

The concept of sustainability may still be recent for companies and the resulting impact on their operating model may vary within organisations.

Over three quarters of the respondents confirm an involvement of Finance today in some shape or form in the underlying sustainability-related activities. For about 60%, this involvement is defined with clear roles and responsibilities between Sustainability and Finance.

Twenty-one percent of the respondents have a dedicated sustainability function barely involving Finance. It is interesting to note that none of the respondents make Finance the sole responsible for sustainability emphasising that it is a company-level topic.

% of organizations including Finance in their Sustainability Operating Model[5]

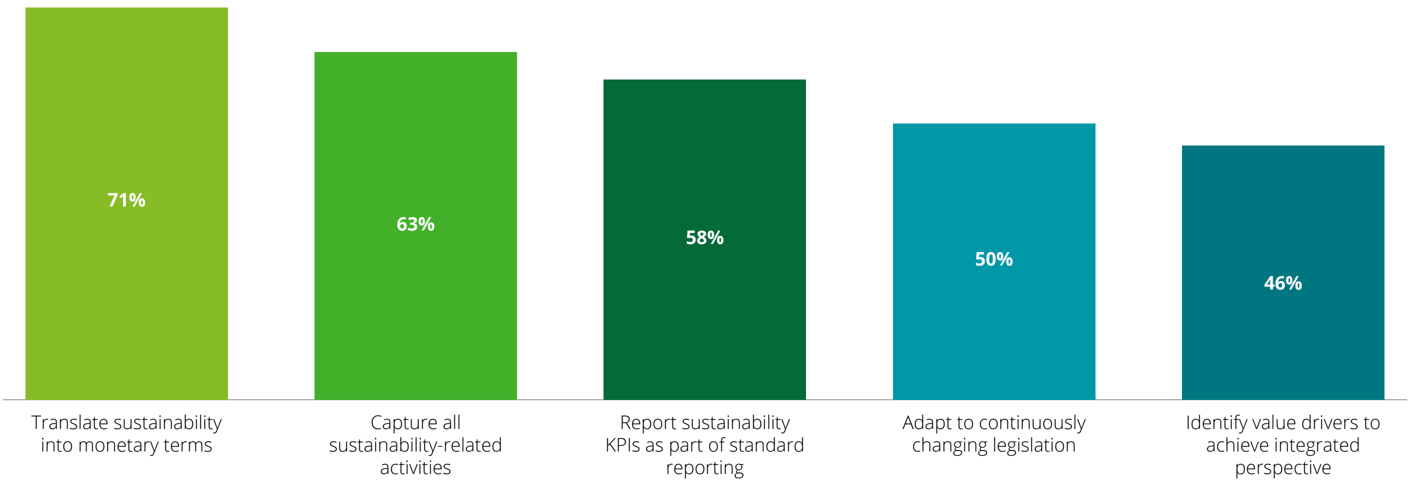


What role does your finance organisation aspire to play in the sustainability domain?

The current link between Finance and Sustainability is still being explored by organisations. Among the numerous and various roles Finance intends to play going forward, finance executives emphasise major tasks to take on.

The translation of sustainability into monetary terms appears to be the main role (71%) in order to align with business strategy and manage conflicting goals. CFOs also aim to capture all sustainability-related activities that may impact financial statements and to report the sustainability KPIs as part of the standard reporting cycle. Half of the respondents plan to monitor the continuously changing sustainability regulatory requirements and adapt to them, while 46% will identify their firm's value drivers in order to reassess the performance model to achieve an integrated perspective.

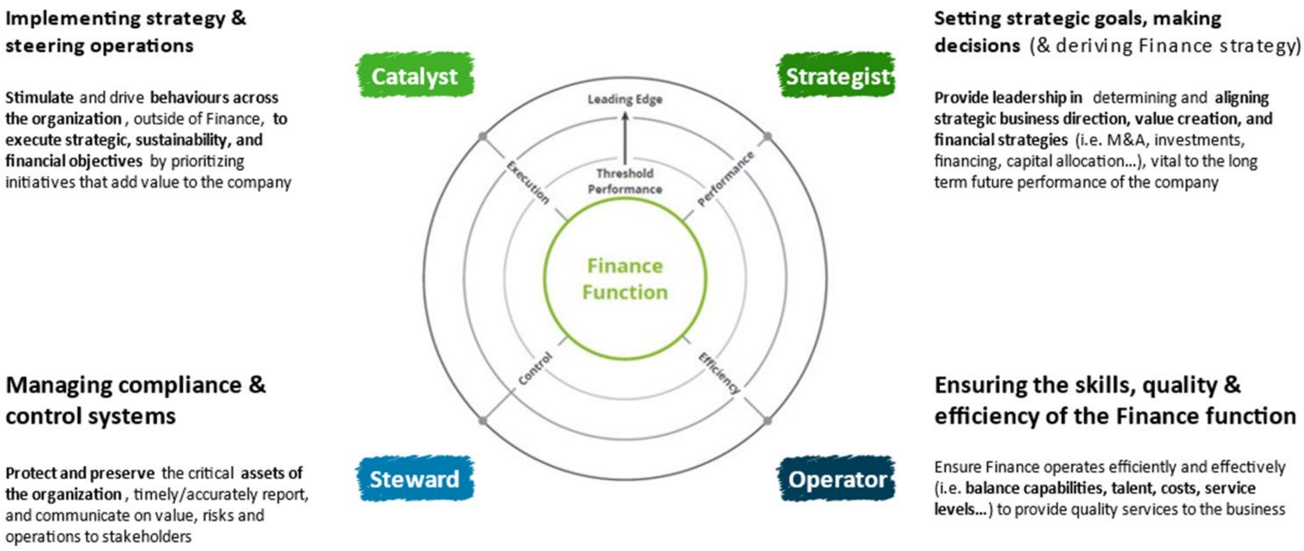
What role does your finance organization aspire to play in the sustainability domain?[6]



The Four Faces of Finance

Considering the before-mentioned roles, we can relate them to the Four Faces of Finance model which helps financial executives allocate their time, attention and resources in a more efficient way to succeed in their role and meet the expectations of all stakeholders involved.

The Four Faces of Finance is structured as follow:



Through the survey results, no role stands out compared to the others.

Yet naturally, the first in sequence is the steward. Financial executives need to identify the most relevant ESG issues and metrics in order to safeguard their company for the long run. They ensure ESG data quality for compelling external and internal reporting, accurately reflecting financial and non-financial performance, and translate the impact of ESG on accounting.

As catalysts, financial executives are responsible for evaluating efforts and outcomes to ensure that the company stays on track. They understand the company's value drivers, drive ESG improvements throughout the organisation, set adequate KPIs, track and monitor progress, integrate ESG into budget setting, internal pricing and forecasting. Sustainable performance management is going to enable organisations to communicate in a way that stakeholders in the market can consume and actually act on the information provided.

They also have a responsibility in allocating resources to projects with a positive impact on the triple bottom line. As an example we can mention ring-fencing funding for low carbon and renewable energy projects to finance commercially viable low carbon and renewable energy projects with high environmental impact. Finally, catalysts can anchor ESG measures within the compensation and incentive system of the company, for instance linking variable pay of the executive committee to carbon reduction targets, energy efficiency, safety performance, employee engagement indexes…

Strategists help embed sustainability in the corporate strategy. They leverage data and technology to integrate ESG into strategic decision making such as capital allocation, tax optimisation, capital raising, M&A, and investment strategies. As an example, finance executives can include the financial impact of GHG emissions through internal carbon pricing in the valuations of large capex projects to redirect and scale up investments in low carbon technologies.

Finally, all of the before-mentioned need to run smoothly. As operators, finance executives need to create an optimal operating model for their organisation with the right governance structures, skills, control environment, and digital infrastructure for new ESG requirements.

Sustainability reporting

Sustainability KPIs and reporting occurrence

Sustainability reporting in Finance allows firms to report on the environmental impacts of their financial activities and track the improvements to meet their goals. Already 67% of the respondents have a clear view and definition of their sustainability goals and KPIs. More than half of them (56%) report once per year to external stakeholders while the remaining 44% do not communicate externally. Within the population that reports for external purposes, one fifth also leverages the reports for internal steering purposes.

Yet, one third of the respondents (33%) do not have clearly defined sustainability goals and KPIs.

Reporting of sustainability-related goals and KPIs[7]

Reporting standards and frameworks used

There are several reporting frameworks available to companies eager to disclose ESG performance. Since there is no single path to follow, each of the sustainability reporting frameworks or standards has its own level of disclosure. Among the organisations that report, half of the companies (50%) use two or more reporting frameworks or standards and more than one fifth (21%) use three or more. It is important to mention that 42% of companies surveyed do not know what sustainability reporting frameworks or standards they follow or if they do so. Among the answers, Sustainable Development Goals (SDG) and Global Reporting Initiative (GRI) stand out as the main tools to disclose sustainability performance. Those results must be interpreted cautiously as they represent the reporting standards and frameworks used by those who know the answer (48%).

Sustainability reporting frameworks and standards[8]

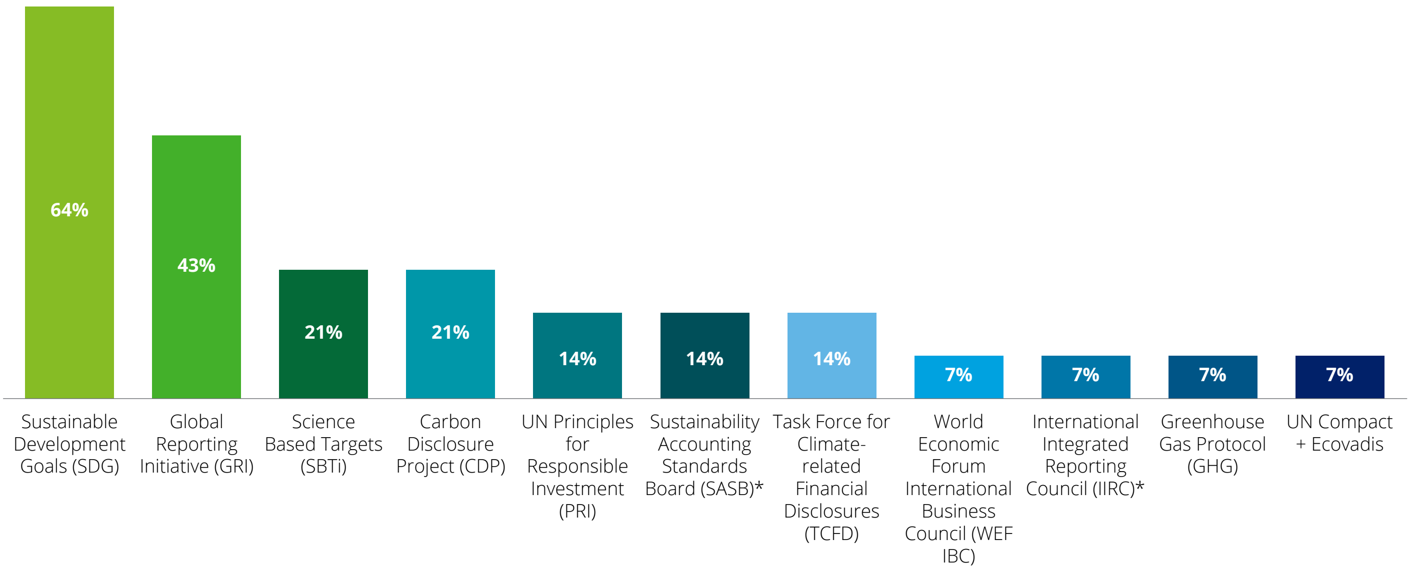


Illustration 8: Which sustainability reporting framework or standard (e.g., KPIs according to ESG) does your Finance organisation follow?

Global Reporting Initiative (GRI)

Sustainable Development Goals (SDG)

UN Principles for Responsible Investment

International Integrated Reporting Council (IIRC)

Sustainability Accounting Standards Board (SASB)

Task Force for Climate-related Financial Disclosures (TCFD)

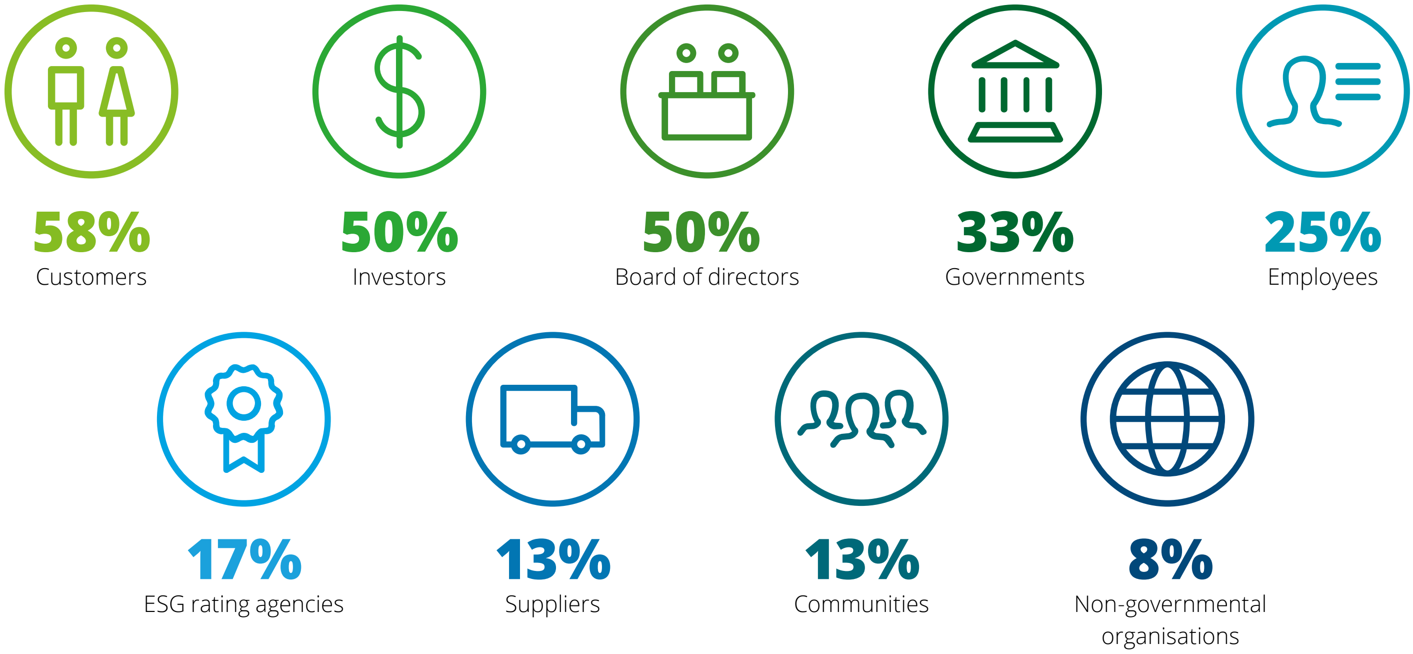
World Economic Forum International Business Council (WEF IBC)

Science Based Targets initiative (SBTI)

The audience for reporting

All surveyed companies disclose ESG performance to external stakeholders, confirming that the image the companies want to reflect in society is key in the implementation of ESG reporting and disclosure policy. Nevertheless, 63% of the respondents are also influenced by internal stakeholders (boards of directors and employees) in this reporting process. Within those stakeholders we distinguish multiple groups with greater or lesser influence over the organisation's ESG reporting and disclosure policy. The major influencers are customers, investors and the board of directors for half or more of the respondents. One quarter of the surveyed companies highlight the influence of employees which means that they take seriously their role in the process of ESG reporting and disclosure and its significance.

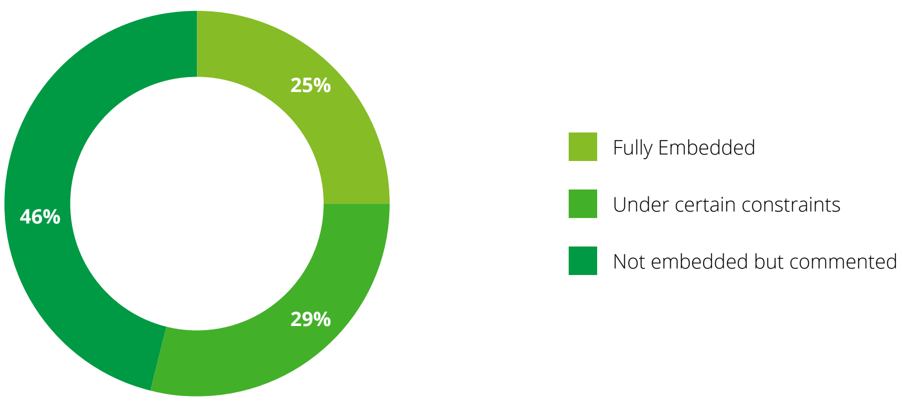
Influent stakeholders in ESG reporting and disclosure policy[9]

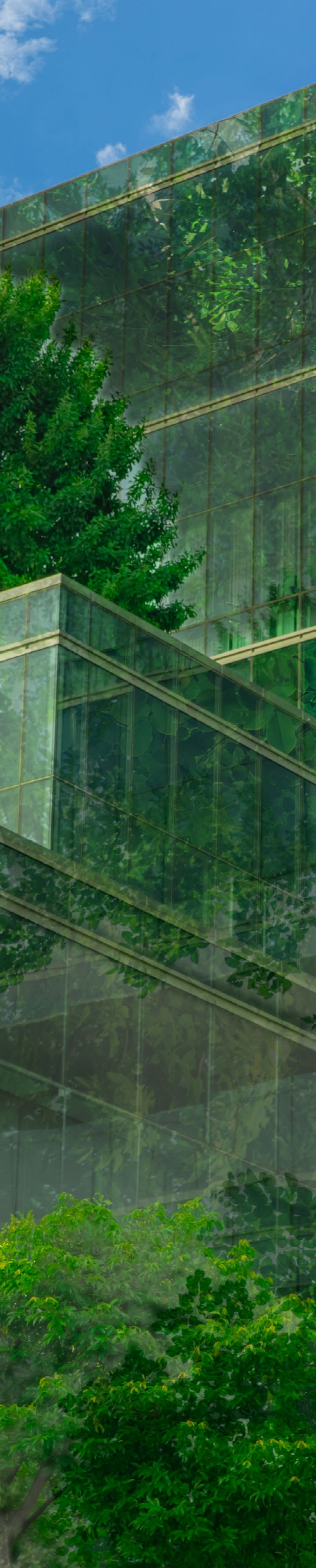


Evaluation of non-financial aspects

Non-financial details such as resilience against climate risks, for instance, are taken into consideration by financial executives when evaluating business cases. Of all the respondents, 25% fully embed non-financial domains in the business case evaluation process or templates. The remaining 75% have not formally integrated non-financial aspects but allow ad-hoc inclusion in case deemed relevant or under certain constraints (e.g., selected business areas, thresholds).

Integration of non-financial aspects in business cases evaluation[10]



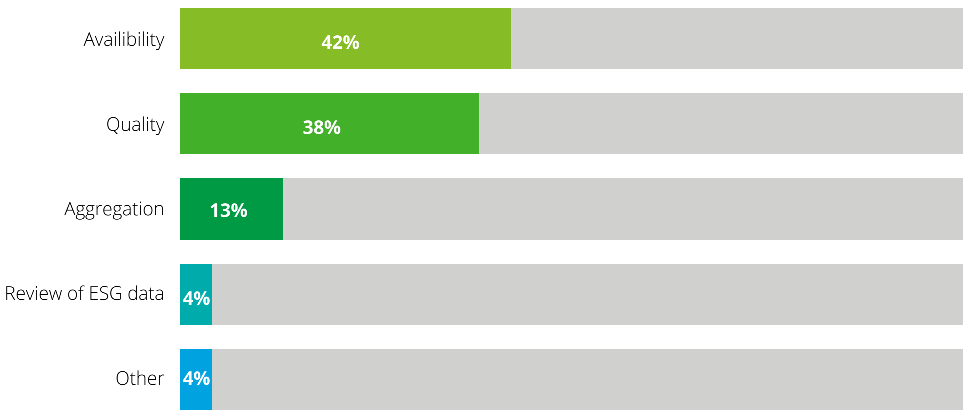


Processes, systems and data

ESG challenges within organisations

Being an ESG company means being committed to capturing non-financial risks and opportunities in a company's daily operations. With respect to ESG data for an organisation, availability (42%) and quality (38%) are pointed out as the greatest challenges, followed by the aggregation of the data (13%). Review is also cited as one of the challenges denoting the documentation and sign-off of ESG data. It is important to highlight that 4% of respondents note that they are still in the process of achieving these KPIs.

Main challenges with respect to ESG data[11]



Concerns with the appropriateness of the tools

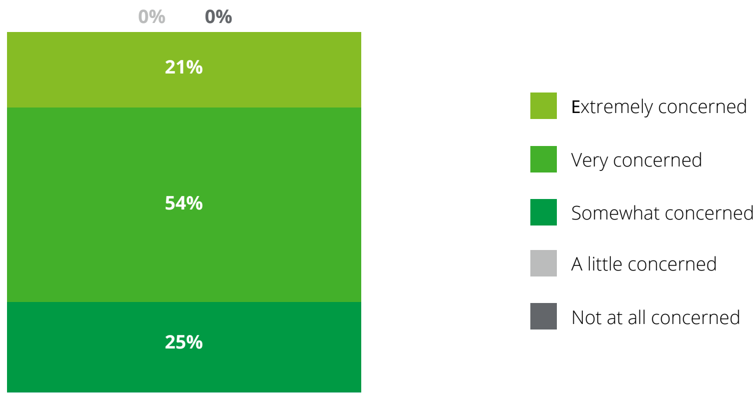
Technology in ESG reporting and disclosure is fundamental. The companies need to deploy a toolkit which:

- Fits with their IT environment and existing capabilities
- Allows them to monitor their strategic KPIs
- Complies with the standards and regulations and is auditable
- Provides them with relevant information for their decision making to reach their strategic goals

Finance actors express concerns when it comes to access to adequate technology tools required to facilitate new ESG disclosure requirements. Those concerns however vary across organisations and are heavily correlated to their willingness to adapt.

We noted that 21% are very concerned by the fact of not having the right technologies in place. The rest of the respondents are at least “somewhat” or “a little” concerned.

Technology tool conerns[12]

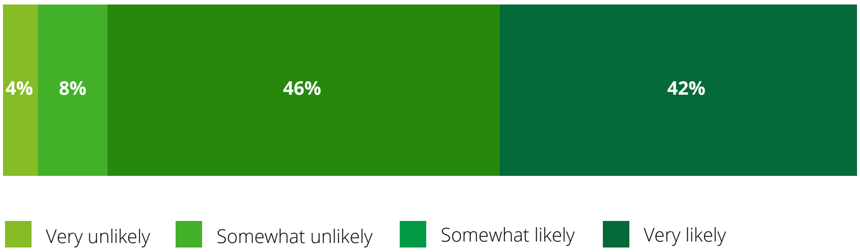


Enhancement of control environment

Sustainability reporting has been expanding significantly in the EU with the goal of facilitating sustainable investments. The huge majority (88%) of the surveyed companies indicate that their organisation will enhance the control environment in place for ESG data. While only one in eight financial executives says otherwise.

A sound internal control system (over financial and non-financial reporting) will help companies in issuing investor grade quality disclosures and mitigate material ESG risks.

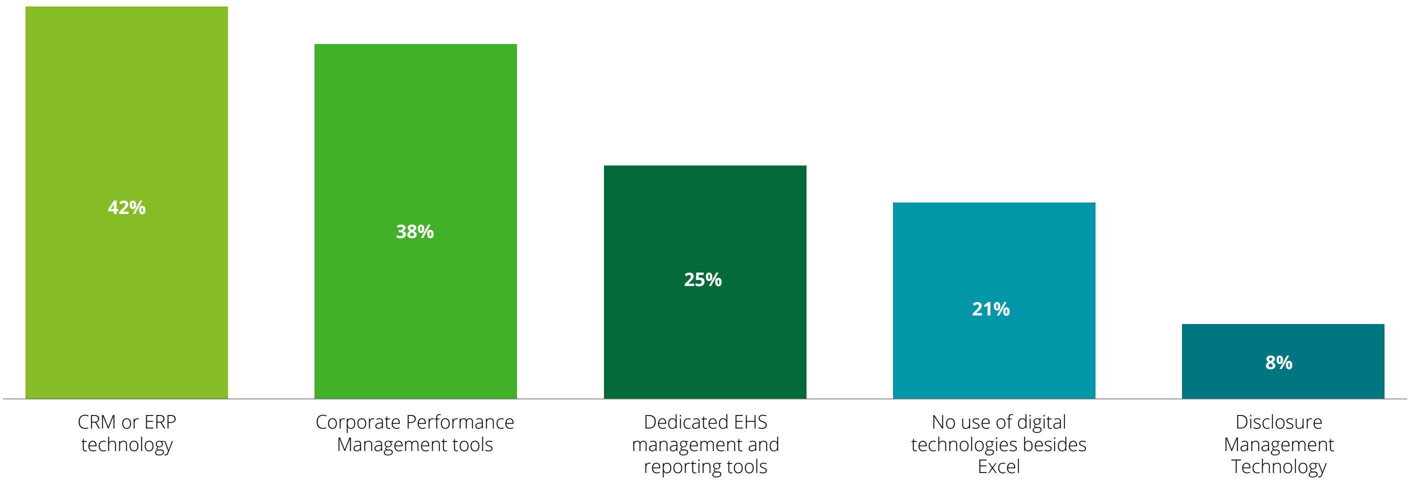
Likelihood control environment enhancement for ESG data[13]



Digital technology for ESG

The continuous progress of digital technologies keeps helping finance, and the corporate world in general, in their reporting, dashboarding and decisions making process. The surveyed companies already rely on digital technologies and will going forward as almost four fifths (79%) intend to deploy at least one technology within the next 24 months. A CRM tool or ERP technology (42%) is the most attractive solution for the respondents, followed by the use of performance management tools (38%), Environment Health & Safety (25%), and a dedicated disclosure management technology (8%). However, one fifth (21%) does not intend to rely on technologies other than spreadsheets which may be contradictory with regard to the digital world we are turning into. We do not observe a specific common pattern within this population composed of smaller as well as larger organisations, clearly structured or not.

Future leveraged digital technologies[14]

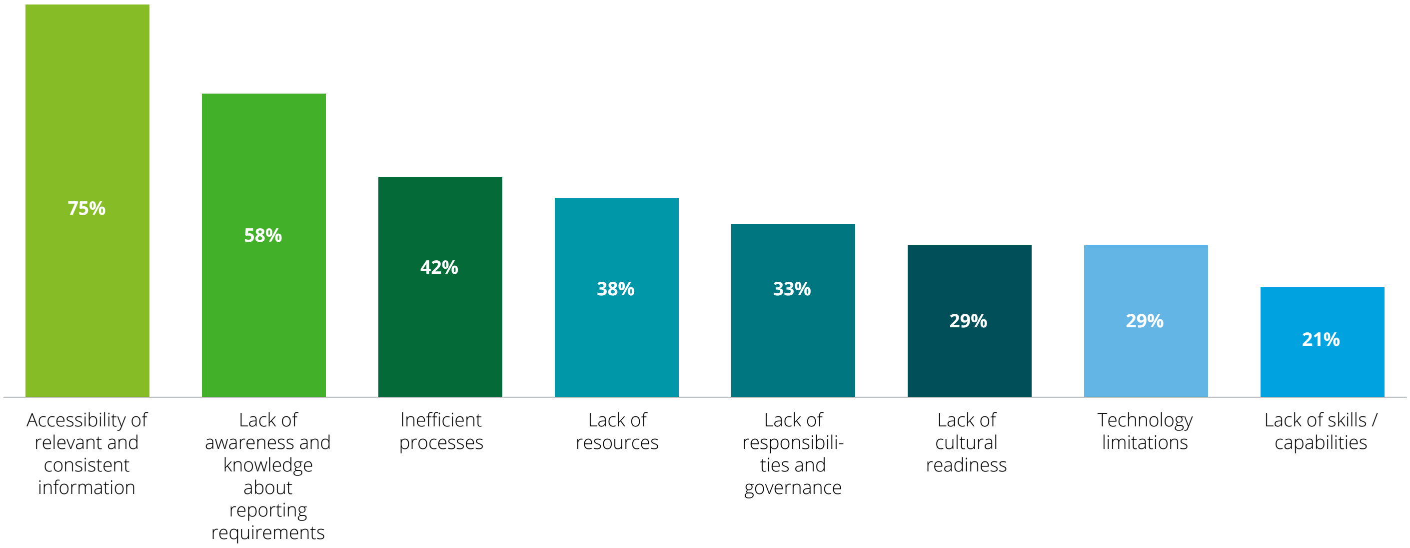


Capabilities

Gaps to meet requirements

Some major gaps remain in order to efficiently fulfil the reporting requirements related to sustainability. The main recurrent gap faced by the respondents is access to relevant and consistent information as the availability and quality of data remain a barrier. Other gaps are the lack of awareness and knowledge about reporting requirements for more than half of the respondents (58%) and the inefficiency of processes (42%). Almost all respondents emphasise two or more gaps (92%) which indicates that there are still some challenges to address.

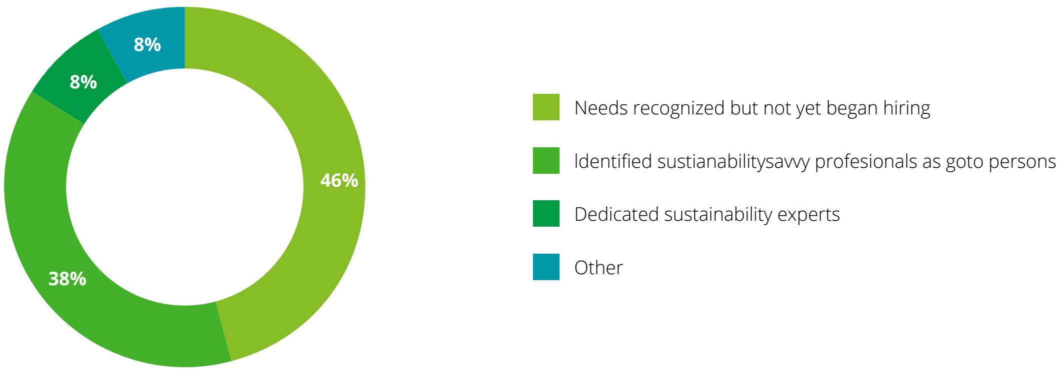
Main gaps to meet requirements[15]



Identification of the necessary skills

To be able to report ESG in Finance, necessary skills must first be met. Companies are aware of this as it is the least-mentioned gap and we can see from the survey results that 46% of the respondents have already either identified tech-savvy finance professionals or a dedicated group of finance professionals that deal with ESG reporting. However, the remaining 46% have recognised their needs but have not yet started hiring and/or training finance professionals to take on the role. One in twelve companies has either not started hiring sustainability-savvy financial professionals or has no opinion on the matter.

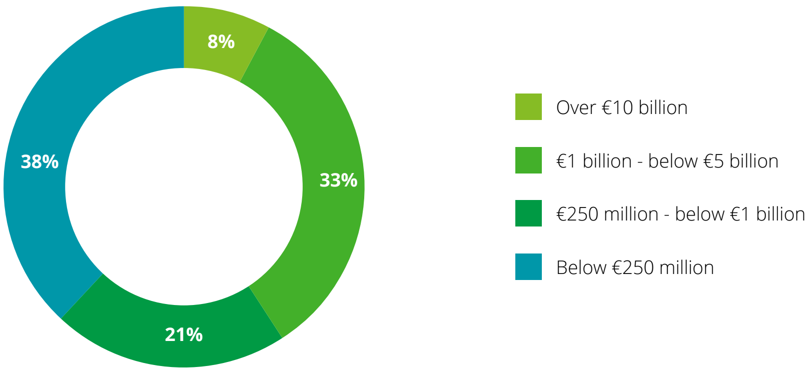
Current skills in the organization[16]



Research objective, methodology and demographics

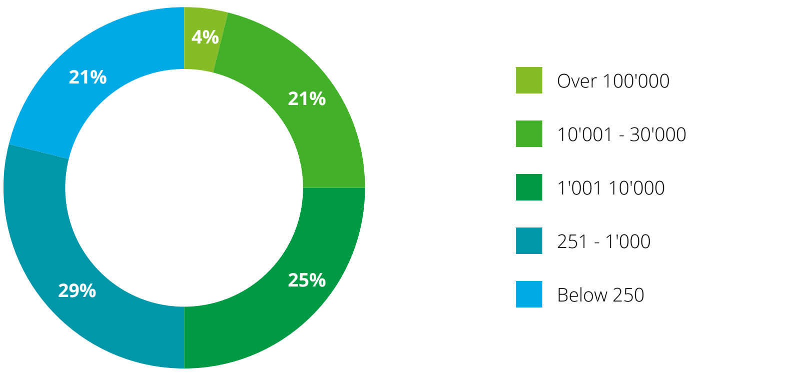
Deloitte conducted an online survey of finance executives in the fourth quarter of 2022. The objective was to dive into finance executives' perception of the role of Finance in relation to sustainability as well as the current ESG reporting preparedness and challenges. Respondents reflect a cross-industry representation of Belgian public and private companies.

Turnover[2]



Thirty-eight percent of companies surveyed have an annual turnover of less than €250 million. Twenty-one percent have revenues between €250 million and €1 billion, 33% have revenues between €1 billion and €5 billion, while the remaining have over €10 billion in turnover.

Workforce[3]



Half of the respondents work for companies with less than 1,000 employees, 25% for companies with between 1,001 and 10,000 employees, 21% for companies with between 10,001 and 30,000 employees, and 4% in companies with more than 100,000 employees.

Annex

Survey questions

01. Industry

02. Company turnover (in EUR)

03. Company workforce (FTE)

04. To what extent do you agree with the following statement: "Sustainability plays an increasingly important role for Finance?"

05. How is the responsibility for sustainability structured in your organisation?

06. What role does your finance organisation aspire to play in the sustainability domain? Select all that apply.

07. How often do you report on your sustainability-related KPIs?

08. What sustainability reporting frameworks or standards does your finance organisation follow? Select all that apply.

09. Which stakeholders have the greatest influence over your organisation's ESG reporting and disclosure policy? Select all that apply.

10. How does your organisation evaluate business cases with non-financial aspects (e.g., improvement of resilience against climate risks)?

11. Of the following, what is your greatest challenge with respect to ESG data for your company?

12. How concerned are you that your organisation does not have adequate technology tools needed to facilitate new ESG disclosure requirements?

13. What is the likelihood that your organisation will enhance the control environment in place for ESG data?

14. Please indicate which digital technologies you expect to be using within the next 24 months. Select all that apply.

15. What are the main gaps you see to efficiently fulfil regulatory reporting requirements related to sustainability? Select all that apply.

16. Do you already have the necessary skills in your finance organisation to meet the challenges of sustainability reporting?

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