

Today, environmental, social, and governance (ESG) factors are gaining immense traction in the corporate world. What was once seen merely as a compliance exercise has evolved into integral components shaping business strategies and investment choices.

Regulators are pushing for change, evident in the Corporate Sustainability Reporting Directive (CSRD). This directive aims to intertwine non-financial elements with strategy and financial performance, emphasising the importance of resilience and double-materiality in a company's approach.

Companies inevitably encounter the demand and complexity of overhauling their ESG operational model due to expanded disclosure requirements, surpassing 1,000 data points in environmental, social, and governance areas under the new European Sustainability Reporting Standards (ESRS). In this evolving landscape, companies are at a pivotal juncture. The need to modernise and digitalise ESG reporting and management practices is both pressing and complex.

Businesses have long invested in ESG reporting, developing extensive practices for data collection. Despite this, reliance on manual processes, undocumented procedures, and individual knowledge persists, coupled with a lack of governance and technologies in place.

Relying on manual processes creates inefficiencies and lacks the agility, robustness, and reliability needed to meet regulatory disclosure and excel in ESG performance management and decision-making.

Driven by regulatory demands and stakeholder expectations, companies are advancing their ESG reporting capabilities. However, the drawbacks of unstructured manual data collection are becoming more evident, compelling a digital transformation in ESG practices as a strategic imperative, rather than a choice.

In our experience, we have noted three pillars crucial for ESG digital transformation: a solid ESG data foundation, proper governance, and suitable technologies.

1 Building an ESG data foundation

ESG's effectiveness in reporting and driving performance relies on the availability, adequacy and accuracy of dispersed data from within the organisation and external sources (like supplier data, risk and social media data, climate scenarios).

From our experience with clients, we consistently encounter two major challenges: data quality and traceability. Data undergoes numerous transformations through Excel files before reaching an ESG report, making it difficult to trace back to the source and validate.

To address these challenges companies should consider:

- A thorough mapping and cataloguing of data across systems and data sources
- Bringing external data sources for data enrichment and contextualisation
- Building data architecture that is scalable and adaptable to new reporting requirements and internal use cases
- Building an ESG data warehouse as a single source of truth and auditability
- Building BI solutions for advanced analytics and self-service capabilities

2 Establishing the right governance

ESG reporting spans the entire value chain, requiring collaboration among various stakeholders. However, sustainability teams face a paradox—they require substantial data for ESG reporting but lack direct ownership, relying on existing governance structures.

This dilemma is compounded by undefined roles and responsibilities, exacerbated by limited engagement from C-level executives and challenges in obtaining their mandate.

To establish a resilient ESG data governance framework, consider these best practices:

- Clear ownership of data with central oversight of master/reference data, methodologies and frameworks
- Defining organizational structure with roles and responsibilities
- Thorough controls and integration into finance process
- Data quality rules and rigorous assurance

3 Deploying a fit-for-purpose technology

Deciding on the right technology architecture is essential to simplify data gathering, democratise information, supercharge analytics abilities, and foster cross-functional collaboration within organizations. Navigating numerous options, including specialized ESG solutions and enterprise performance management (EPM) systems, proves challenging.

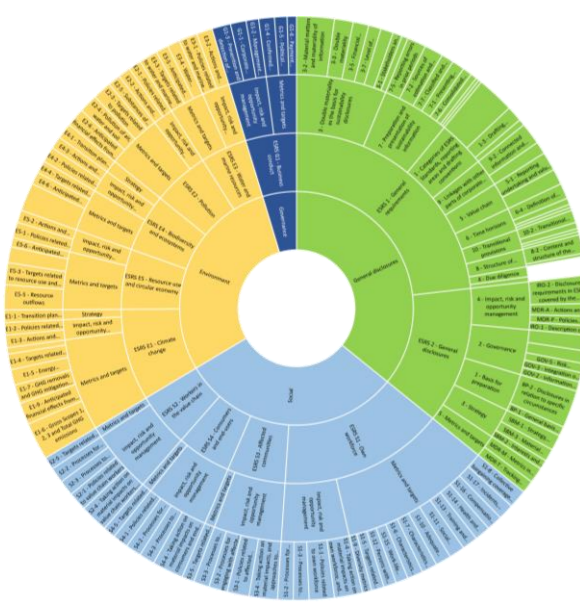
Due to the diverse and rapidly expanding landscape of sustainability challenges, the market presents a multitude of both established and emerging solutions. However, it is crucial to recognize that there is no singular solution capable of addressing all needs comprehensively. Instead, companies should strategically contemplate a constellation of solutions tailored to their specific requirements.

Making the correct choice is pivotal in addressing present issues and building a solid foundation for future reporting needs. Articulating and prioritising business requirements and understanding constraints posed by existing market solutions are key steps in this technology selection process. Some of the key aspects to consider when selecting technology are:

- Existing IT landscape compatibility and scalability
- Technology's built-in know how and calculation engines
- Customisation flexibility and modularity
- Complexity of implementation and user experience
- Total cost of ownership

Effective ESG data management is a complex challenge, yet it is **crucial for meeting regulations and gaining a competitive edge**. When done right, it **drives positive impacts** on society, business and the environment. Integrating non-financial disclosures transparently into financial metrics is an ongoing necessity, urging companies to act promptly.

Three key components drive success in developing digital capabilities for ESG data management. Addressing these challenges helps establish a strong base for successful ESG endeavours and top-notch performance. This leads to accurate reporting, well-informed decision-making, and transparent ESG activities.



Data

- Quality:** significant reliance on manual data collection, lack of data traceability due to multiple undocumented transformations, incomplete data entries, or even the lack of data itself are common pain points regarding ESG data.
- Multiple sources:** data is sourced from various distinct systems, with multiple formats and require customised approach for each.
- Lack of standardisation:** absence of standardised data across systems makes it challenging to compare ESG performance or accurately track progress towards the defined targets.

Governance

- No data and controls ownership:** different data stakeholders, with no clear accountability and lack of controls, create less robust data practices.
- Unclear project ownership:** roles and responsibilities are often ambiguous or not well-defined, leading to confusion, inefficiencies, and challenges in project execution.
- Short-term focus:** governance structures prioritising short-term goals have negative impacts on the overall performance and credibility.

Technology

There isn't a single best technology choice to achieve high quality and meaningful ESG data deliverables. It depends on the specific clients' situation and on what they need and want to look for when it comes to choosing technologies:

- Business requirements and use cases**
- Scalability and pace of innovation**
- Business case and cost-benefits analysis**

Inadequate tools for data analysis limit the ability to derive meaningful insights, trends, and patterns.

Success stories

1 We helped a Swiss insurance company to decarbonise their real estate portfolio by implementing an end-to-end data collection process with standardised templates, automated data quality review, and portfolio-level consolidation. This improved efficiency and delivered interactive reporting via PowerBI, greatly benefiting the client.

2 In the context of the ESG transformation programme, we supported a Swiss-based consumer product company in definition of end-to-end ESG data gathering and reporting process, bringing clarity and robust governance into the processes.

3 We supported a Swiss-based international company in their transformation journey and implementation of ESG data management solutions. As part of the programme, we brought our deep expertise in selecting and deploying new technologies, including data warehousing, data model design and solution implementation.

Designing the described architecture and establishing the necessary structure is complex. Collaborating with a knowledgeable implementation partner is key. We as SFX and Deloitte are prepared to support and guide our clients throughout their sustainability journey and would be happy to support the implementation of best market practices in your company.

Proactive ESG readiness is vital. Conducting gap assessments, establishing robust controls, and embracing best practices enable navigation of this intricate landscape. ESG must transcend regulations, fostering responsible, sustainable and resilient business practices. This commitment can be a competitive edge, enhancing brand image and fostering increased customer loyalty, and ultimately helping to shape a more sustainable future.



Strategic Finance & Analytics (SFX) Team is part of the Financial Advisory practice within Deloitte Switzerland, based in Zürich and Geneva offices. Our proven expertise addresses clients' strategic corporate processes and investment lifecycles, stemming from a strong blend of corporate finance and data analytics competencies. **Guiding companies through the ESG landscape is one of our strengths. We support companies in shifting from looking at ESG as a reactive compliance approach to an all-encompassing ESG strategy aligning with the business objectives of the organisation.**



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