Season 3 Episode 8
ESG reporting in the consumer industry

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**Guests:** Charles Carrington, partner with Deloitte’s Risk & Financial Advisory practice
Mandi McReynolds, global head of ESG at Workiva Inc

**Bobby:** Hi, everybody, I'm Bobby Stephens and welcome—or welcome back—to *That Makes Cents*. This is the podcast where we discuss consumer trends to explore their impact on both businesses and our everyday lives. Today, we are talking about measuring and reporting environmental, social, and corporate governance—better known as ESG. With an increasing focus on climate change and other ecological crises, companies face an influx of stakeholder demands.

More and more consumers demand products and services that are sourced ethically, or have a low-carbon footprint. Investors also want to put their money into companies where people and the planet are on equal footing to profit. So, to that end, several companies have made long-term commitments to eliminate or offset emissions; for example, as of May 2022, over a quarter of commitments to the climate pledge for net-zero carbon emissions by 2040 have been made by consumer industry companies.

Apart from just consumers and investors, there are also regulations. In March of this year, the SEC in the US proposed requiring some companies to disclose material sustainability data, or even their plans to meet reduction of public emission pledges. So, to satisfy all these various stakeholders, companies publish reports, which include a disclosure of ESG data, with a purpose to shed light on companies’ activities and improve transparency overall.

However, collecting ESG data may not be as easy as it sounds, even if that sounded easy. So, why is that? I mean, how hard is it really to collect accurate, valid, and trustworthy ESG data? Which elements are really essential to the different stakeholders? And how should companies approach ESG reporting, and how can it be made a little bit easier? To answer these questions, we have two amazing guests today. First, Mandi McReynolds, global head of ESG at Workiva. And Charles Carrington, a partner here at Deloitte in our Risk and Financial Advisory practice.
Thank you so much for joining us. I’ll turn it over to each of you to tell our listeners a little bit more about your background and your current role. Mandi, how about you first, and then Charles.

Mandi: Bobby, thank you for that warm introduction. Such a privilege to be here with you and Charles. As you said, I’m Mandi McReynolds; I work at Workiva, where we serve over 4,600 global customers on building technology and solutions to bring together their financial and nonfinancial data, which includes environment, social, and governance. Prior to joining Workiva I had a wonderful career—15-plus years working across environment, social, and governance in four different industries. So, an early adopter in the field, a seasoned practitioner, and it’s a joy every day to help our executive team think about ESG and how we integrate it into our corporate strategy and decision-making, to then helping solve problems for people just like me. We have a global podcast that’s called ESG Talk, and so it’s a little different today to be on the other side of the chair. And so, thank you. Hopefully it will go OK. Charles, I appreciate you being a partner as I sit on the other side of the table today.

Charles: Bobby, Charlie Carrington here. Longtime listener, first-time caller of That Makes Cents. I’ve spent all of my career helping companies get their financial reporting right, and I say that with a little bit of tongue-in-cheek, because the first 10 years of my career I actually worked in external audits; so, some might question whether I was really helping my clients to get their numbers right, or that was just a euphemism, let’s say.

But now I work in consulting, and I help companies work through challenges with their reporting, whether that’s internal reporting, external reporting, or whether it’s use of data for analytics, or any type of reporting. And of course, nowadays that includes nonfinancial, environmental reporting, or social reporting, or how we’re reporting our governance. So, that’s what I do today—try and apply my skills as a finance person to help clients get all of their reporting right.

Bobby: Excellent. Thank you both for the background. It’s pretty exciting to have experts, obviously in both the topic at hand—ESG—but also in podcasts.

So why don’t we just jump right into the discussion? As I was preparing for this, I did a little bit of reading. I want to start with something that I sort of alluded to in my intro and stood out in a recent report from Deloitte entitled, Driving accountable sustainability. What stood out to me was that only 3% of consumer companies said that they produce sustainability data that is as accurate and verifiable as their financial data. You know, I would expect it to not be on par yet; it’s a newer concept—it’s a newer thing—but that was still a surprise and a huge gap to me. So, I really want to just begin by asking, how difficult is it really to collect and validate ESG data? Charles, maybe you can weigh in since it’s a Deloitte report, and then Mandi, would love for you to add on.

Charles: So the first answer is rather a quick one. The first financial statements were audited by Deloitte in London over 170 years ago. So, there’s been quite a lot of practice of pulling together financial information and having controls over it, having processes over it, writing standards over it. That’s just a lot of collective experience. We don’t have that with ESG; yes, we’ve had companies republishing reports, probably for a decade, maybe, at tops. So, we don’t have that collective experience.

But when I look at the difficulties of it, let me try a little thought experiment, Bobby. Do you like to drink an occasional beer?

Bobby: Once in a while, why not?

Charles: One thing I noticed, on no bottle of beer do they either have the calories—which I think is a good thing probably that we don’t know that—or secondly, the environmental impact of the product. And when I went through this thought exercise, it was, well, how much energy is used to actually make glass versus aluminum? How much of that aluminum or glass, is actually recycled after the beer has been drunk? What is the energy used to recycle that container? How much does one of those weigh, and what’s the impact on my transportation and whether it’s going to be more costly in terms of energy to actually move that container around the country from brewery to my table?

So, you go through this, and just as a consumer, it becomes mind-bogglingly complex on making what I thought was quite a simple choice. That’s the analogy for a consumer product for us as a consumer; but now, Mandi, imagine that now you’re a beer manufacturer or brewey, how does that translate, and how does it make it difficult for them to actually pull this report together?

Mandi: You’ve touched on something very key, and that’s the fact that we’ve had over 100 years to get financial data right. So, Bobby, when you first started talking, when we did a global survey of ESG practitioners, 50% or more of your job responsibilities actually had to do with the work. So, like Charles, your question to me, we went out to all of them and
Consumer companies—just
asked, “What does this look like across
13 different markets, global markets,
different industries?” And what we found
was environment, social, and governance
reporting is a three-year practice on
average for companies.

So, it doesn’t surprise me that the level of
data that you talked about, Charles, isn’t
necessarily something that people can
readily grab within their first three years of
pulling this together—especially if they’ve
been a longer-standing consumer product
where they’ve had a longer time to collect
the data on the financial side.

The other part that I think is interesting
is I went back, as we were preparing for
this show, to look at was there anything
different with our consumer respondents?
And what we found was they see
environment, social, and governance
as more than a check-box exercise compared
to any other industry—yet, like all the
other industries, 72% lack the confidence
that the data going out the door is actually
going to meet the demands, as well as the
goals you articulated earlier, Bobby. So, we
have to first acknowledge where we are as a
group in this evolving practice; and second,
that there is truly a confidence crisis.

Charles: Consumer companies—just
by their very nature of being consumer
companies—have to be at the forefront
of this. When you see the number of
consumers, for example, who are now
changing their buying habits based on
sustainability, or more environmentally
earth-conscious products, or maybe
around the social aspects that brands
represent and their impact on people.
I think that the statistic that I read was
almost six in 10 consumers have changed
their buying habits to help address climate
change, and that’s a huge opportunity for
consumer companies.

So, whether you’re an airline, or whether
you’re a hotel, or whether you’re a
restaurant, your consumers are now really
starting to think about where they spend
their dollars and whether they want to
spend them in an organization that is—let’s
just call it—more green-friendly than others.

Bobby: That’s interesting that you kind of
turned the corner from the companies who
have to report it: the people creating and
having to trust and verify this information
to the audience and—so to speak—the
stakeholders. And if you think about the
stakeholders, consumers for instance,
product data, product features, and
price, that we’ve been doing forever. You
think about an investor with financial or
operational data—again, lots of experience
on how to make investment decisions on
that, and regulatory agencies on how to
audit financial statements.

Those are all similar audiences here; and
you can’t say the same that we have just
standards and systems in place for engaging
with that type of information, and engaging
with those audiences. So, Mandi—maybe
for you to start this—how should companies
determine what portions, what elements,
of ESG data is really most relevant to the
stakeholders? And furthermore, how do
they engage with their stakeholders using
that data?

Mandi: I think that when you look at the
consumer—and we asked this question:
“Who’s your most important stakeholder?”
When you think about environment, social,
and governance, that’s the number-one
question every company—regardless of
industry—needs to ask. And it’s a little bit
odd because most people just say, “Oh, I
don’t want to prioritize.” Well, if you have
nine stakeholders, how are you ever going to
meet all those demands at the same time of
an evolving practice?

So, the first step is focus. And what we
found from the consumer market is their
number-one stakeholder that they cared
most about is investors; so, then you need
to design what you’re releasing out for that.
The second was consumers. The third was
executives. All the way down to the bottom,
among all the other industries as well—
regardless of where they lived in the world—
was regulators. So, companies aren’t waking
up to do this for regulation. Companies are
waking up to really help move their business
forward from an investor-growth standpoint
to a consumer-growth standpoint.

What we’ve seen that most companies that
are unlocking business value—so thinking
about increase in brand, stakeholder
management, growing their investor base—
many of them have started to establish
a cross-company executive board that
reports into the nominating governance
or a larger organization of the board. And
more proactive companies, especially those
in the consumer industry, are starting to
establish external stakeholder engagement
boards that can pause on a regular
basis to give them insights to what they
should be looking at as material to their
company, as well as their ESG disclosures—
either on a product or in a report.

Charles: You know, as you were saying that
I just thought this is just the right time to
bring up some Keynesian economic theory.
How about it, right?

Basically, the theory is that companies
exist with one purpose, and that is to make
money for their owners. And I think you see
this across the board now that that idea is
evolving into multipurposed organizations
or multi-missioned organizations. They’re
not just thinking about profit, but now
they’re thinking about, how can they
integrate their mission towards the planet,
towards people, into their overall strategy?
And those things need to be measured;
if you want to be successful, you’ve got to
measure what matters. And it’s not just the
question of measuring the financial gains of
the organization, but if you want employees
to flock to your company during this war
talent, because they see you as being
more sustainable or more responsible for
the planet, absolutely, that’s going to be an
output. But that’s something that you’ve
got to be able to put your hand on your
heart and report accurately.

Bobby: Got it. We talked in the first couple
sections here around how it’s new, it’s hard,
and there’s some challenges to it, but you
You've got to start with the
And those teachers—I think
your stakeholders. So, I think strategy,
be some really good engagement with all
people, that needs to be accountable to
towards the planet and purpose towards
your company is going to have a purpose
and you've built into that strategy how
accountability. If you have a good strategy
Then I would say it comes down to
box compliance exercise just to keep a few
or are they only doing it as a check-the-
that they're doing this for the right reason,
think, “Does this organization really believe
or bolted-on because I think that's when
equity; it cannot be seen as an add-on
that's the same, obviously, for social
in a positive manner outside of just profit,
ESG for it to really be impactful, right?
Not just accurate, but actually have an
impact on the planet, on their overall
sustainability, on carbon footprint, on
whatever it is that they’re trying to impact
in a positive manner outside of just profit,
as you mentioned there, Charles.
You know, what are the solutions they
should focus on? Maybe we go back to you,
Charles, since you kind of teed it up.
Let's start with you—and then Mandi,
we’d love to hear from you on some of the
solutions you’re seeing, or you think we’ll
see soon, for this.

Charles: You've got to start with the
strategy of the organization. You've got to
start with the strategy and think, is this
strategy of sustainability really embedded
into the overall direction of the company
that we want to drive it towards? And
that’s the same, obviously, for social
equity; it cannot be seen as an add-on
or bolted-on because I think that’s when
the consumers will become skeptical and
think, “Does this organization really believe
that they’re doing this for the right reason,
or are they only doing it as a check-the-
box compliance exercise just to keep a few
people happy?” So, I would say, start with
the strategy.

Then I would say it comes down to
accountability. If you have a good strategy
and you’ve built into that strategy how
your company is going to have a purpose
towards the planet and purpose towards
people, that needs to be accountable to
your leadership and cascaded throughout
your organization. And then there's got to
be some really good engagement with all
your stakeholders and transparency with
your stakeholders. So, I think strategy,
accountability, and transparency.

Mandi: As I look out and look at data to help
derive decisions both for our company, and
the work I do with our executive team and
others, people are going to attack this with
three T's: with talent, with technology, and
with teachers. And no one's going at this
alone—and they're not just picking one of
those elements to help them; they're picking
from either two or more of those. And I think
we just have to be honest that as this field
is evolving, you're going to need tools to
help you move forward. One in five of those
companies that we surveyed talked about
their using technology or planning to buy
technology to help them add the financial
controls, to help them streamline a process,
buid efficiencies, and move forward. And I
think we're only going to see that as we head
into an economic recession.

On the teacher side—this is where the team
is really key—when we talk about bringing
together an executive team. Finance teams,
ESG teams, operations teams need to come
together and tackle these topics of “What's
most important?”, like Charles said, to the
strategy. How are we going to tell this story
to our consumers and our stakeholders?
And then, what are the considerations
financially, legally, and operationally that we
as a team need to attack together? Because
there will be a time for every company
where values versus value will collide, or the
stakeholders won't agree. And so that team
being able to dialogue and debate together
is critically important, and often, that's
where we’re seeing teachers come in and
help guide—like a Deloitte, a partner that is
trusted in finance, come in and help guide—
some of those executive conversations.

And tech is just one of those pieces that
we talked about. Talent: There is a shortage
of ESG talent; there were over 7,000 jobs
last year on the market for ESG talent. So,
companies are going to have to decide, are
you going to invest in internal talent to help
grow? Are you going to assign somebody
a short-term assignment? Is this going to
be a part of someone's job responsibility,
and we choose to invest in their growth? Or
are we going to go out into the market and
compete as business schools are starting to
link sustainability and business curriculum
together over the next several years?

Charles: And those teachers—I think
that is absolutely essential—that this is
an evolving area, and teachers need good
students to be able to learn that. So, for
example, today, the big focus is on carbon
dioxide. Carbon dioxide emissions and
reporting your carbon dioxide emissions
together with other greenhouse gases.
Well, coming soon, my guess will be that
the companies will soon have to report out,
for example, how they're using water. Or
maybe they'll be reporting out accurately
what is their gender mix at management,
and is there a wage disparity between their
male and female employees?

So, these areas are going to keep evolving,
and it's not like financial reporting where
we just report how much money we've
made and how much is left in the bank
account at the end of the year; it’s a much
wider area, which is going to continue to
evolve—which needs a lot more learning
and a lot more teachers to be able to get
there with it.

Bobby: It’s really interesting. There’s tons
of topics that it actually brought up—as
you guys were just talking around—the
three T’s or how this differs, frankly,
even by geography or country, and the
expectations of the consumers and
investors, and even events in those
countries which can be flashpoints to
drive momentum into different types of
measurements.

So, what I want to do really quickly—just
because I think we’ve covered a lot of
ground very quickly on an important and
complex topic that you have collectively
spent decades working on, crammed into
25 minutes here—before we close, I do
want to try to wrap it up in a little bit of a
bowl for our listeners. At least give them
something to really take away, to kind of
spur their own curiosity and learning, and
find a teacher, maybe, on the subject. So
what is that one thing? Either from the conversation we just had or something that we haven't got to yet that you want to leave our listeners with on this topic? Mandi, maybe we'll start with you.

Mandi: I think it’s a piece where oftentimes people come in, and the biggest mistake I see them do is to try to tackle everything at once. So, the key is your prioritization; it’s really coming in and setting that governance structure of that executive team and then working through materiality assessment and stakeholder engagement prioritization, because once you’ve established that as a team, everything else can follow. So, let’s take supply chain as an example. I see people trying to just attack their entire supply chain of all the issues that Charles started our conversation with—with beer—and maybe the best bet for you would be to start with a pilot of your top three suppliers who are the largest and after you’ve prioritized, and you see where that supply chain falls, maybe that’s where you begin, instead of just trying to attack everything at once to catch up with everyone else. The second part that I always leave people with—I know you said one, but I’m going to squeeze in two—is that it’s really important for you to remember that financial data—like, think of tax, right, a global topic. We don’t agree globally on how tax should be. We don’t even agree at the state level on how tax should be. We don’t even agree at the state level on how tax should be, and how many years have we been dealing with tax?

Charles: Quite a few.

Mandi: Quite a few.

Charles: Yeah.

Mandi: Going back to maybe where Charles and I—our ancestors disagreed potentially.

But if you think about it, we don’t agree, and ESG as a three-year practice evolving, like we first started talking about; we have to get away from this idea that there’s going to be an overall standardization. There will be some alignment, but locally it will be different, and so, having a team prepared to handle that diversity is going to be key.

Charles: My one thing is very simply, measure what matters. Measure what matters to your consumer company. And that obviously means step one would be to understand who your stakeholders are, and understand what really matters to them—and that’s going to change depending on the nature of your business. So, let me give you an example. I was in the UK recently and I was out at a fast-casual restaurant. I was amazed by how many different vegetarian options there were on the menu—probably half of the items—and this was what I would call like, a “regular for everyone” chain. And so, my thought was, “What matters to their stakeholders is the availability of, for example, non-meat products.” So, if I was looking at your ESG, I would say, “Well, that’s absolutely got to be, as an organization, something that really matters to you.” Yes, carbon dioxide will matter to everyone, but let’s re-measure what matters to my company such that, when we come up with our strategy and drive our strategy, we can make more money through addressing that.

Bobby: Well, before we wrap, there’s a few things I heard that I thought were interesting, so I won’t try to opine on my thing, but what I want to do is repeat a few things I heard from you that I thought were interesting. One is that companies know they aren’t there yet on this topic in terms of reporting it—there’s some awareness that we’re not there yet, but we want to be. But it’s not because they have to be because of regulators; it’s because they have to be because they are consumer-facing companies, and their consumers vote with their wallets if they don’t. And so I think that’s a really important kind of dynamic that drives the advancement of this topic. You know, Mandi, I love the three T’s. I think that’s a great way to sort of frame up how you can address this and use the combination of those things, and I just think that’s really an important thing for us to think through. So, thank you both for joining me. I learned a lot today in a short period of time, so we really appreciate your thoughts on the topic—your expertise.

For our listeners, if you’d like to learn more about ESG in general, or ESG in reporting in particular, you should definitely connect with Mandi on LinkedIn and tune in to her podcast, ESG Talk, for the latest trends, topics, and tips.

You can find my colleague, Charles, and myself, on LinkedIn, and you can always visit Deloitte.com to learn more about Deloitte’s sustainability and ESG services. Again, thank you both so much for your time. It was wonderful, and we’ll see you all next time on That Makes Cents.