Season 3 Episode 8
ESG reporting in the consumer industry

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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, Charles 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: Once in a while. Well, we're talking consumer products, so lots of people have this as their favorite consumer product.

Bobby: Yeah.

Charles: So I did a little experiment a few years ago to try and work out whether it was greener to drink my beer out of a bottle or out of an aluminum can. So, Bobby, which do you think is more environmentally friendly and why? Drinking the beer from a can or from a bottle?

Bobby: I'm going to guess bottle—and I'm going to guess because it's more environmentally friendly to produce a bottle—but I have no idea if that's the case.

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-boggingly 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 brewer, 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 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 they 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 of 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 wouldn't be in this space if there wasn't some excitement and some opportunity there as well. So, maybe we turn the corner and talk a little bit about some optimism and some solutions—like how either are, or can companies approach 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, build 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 bow 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, so right now there's state debates around environment, social, and governance. We don't 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 remeasure 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.*

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