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How CFOs can use sustainability data to earn investor trust

It's not just rising global temperatures[1] that have CFOs feeling the heat regarding producing reliable sustainability data. An increasing number of institutional investors now incorporate information about sustainability into their due diligence processes. Their demands have led to a heightened challenge for CFOs and their companies: ensuring that sustainability data meets investors' standards for trustworthiness and transparency.

A new study, conducted jointly by Deloitte Transactions and Business Analytics LLP (DTBA) and The Fletcher School at Tufts University, found that 83% of US institutional investors use sustainability information in making fundamental investment decisions.[2] The research is based on a survey of more than 1,000 investors, including asset owners, asset managers, and investment advisers in North America, Europe, and Asia. It also encompassed 10 interviews with sustainability investors.

Incorporating sustainability into portfolio decisions boosts the pressure on CFOs and finance teams. After all, the trustworthiness of publicly released sustainability information is paramount. If an organization's sustainability data is ill-substantiated or poorly communicated, investors could judge the organization's commitment to sustainability as falling short. That, in turn, could hamstring corporate attempts to strengthen connections with large investors or, worse, see the investors turn elsewhere to invest their capital. Organizational trust, or lack thereof, can also have a ripple effect, potentially affecting customer loyalty, employee engagement, and financial results.[3]

As simple as it may be for some companies to trumpet their sustainability efforts, defining and measuring steps toward objectives such as net zero can be monumental. To be fair, many companies have already begun developing sophisticated reporting capabilities to get ahead of impending regulatory requirements. Most relevant regulations—whether on a country, state, provincial, or even municipal level—impose deadlines that go into effect in the next few years. Investors, however, want clear and trustworthy sustainability data now.

Another challenge: unlike financial data, which usually sits in an ERP system, sustainability data may be scattered over multiple systems and functions. Data management can be especially complex given its potentially overwhelming abundance, many users, and the growing need for speed, transparency, and accuracy.

In this edition of *CFO Insights*, we'll explore how companies can report on sustainability in a manner that builds trust—and why failing to visibly and vigilantly do so could lead to rising operating expenses and borrowing costs, as well as denting a company's brand and reputation.

Green genes

As companies navigate a welter of changing global regulations and requirements—including the SEC's climate disclosure rules, adopted in March,[4] which have been paused due to pending litigation[5]—they could be tempted to engage in "greenhushing." As opposed to greenwashing, in which organizations make misleading claims about their greenhouse gas (GHG) reductions, greenhushing involves downplaying or even hiding sustainability information. In doing so, such businesses seek to avoid errors and sidestep any embarrassment.

The strategy could easily backfire. Some ratings agencies issue comparative tables that publish different companies' sustainability information side by side. The absence of a specific data point—in an area where others are showing progress—could stand out, risking reputational damage.[6]

In Deloitte & Touche LLP's 2024 *Sustainability Action Report*, 45% of 300 executives at publicly held companies cited pressure from ratings agencies as influencing their choices around preparing for evolving regulatory reporting requirements. Investor pressure was close behind, cited by 42% of respondents. In that same report, about three-quarters (76%) of participants ranked data quality as one of their top two ESG data challenges (see Figure 1). The vast majority of surveyed executives, 81%, also reported challenges related to documentation and certification of such data—key processes and internal controls that have yet to become well-established in sustainability reporting.[7]

For CFOs, reliable sustainability data can be integrated into existing business processes, including capital allocation and financial planning, as well as factored into business cases.

But many companies, it seems, are stymied at a much more foundational level. In Deloitte Global's *2023 CxO Sustainability Report*, more than 2,000 executives across 24 countries most frequently cited the "difficulty of measuring environmental impact" as a key obstacle to their sustainability efforts.[8] Many large organizations continue to aggregate sustainability data on spreadsheets, which can make it difficult to trace individual chunks of information (e.g., at the asset or facility level) back to their sources. When sustainability data or its lineage is missing or incomplete, that isn't itself "untrustworthy"—but it doesn't contribute to trust either. Such grey areas can be challenging to navigate.

A lack of needed technology may pose an additional obstacle. To help solve the problems, CFOs might need to allocate resources toward automating workflows and executing such activities as quality control, validity, and approval of new data. Once the company has decided on goals (e.g., switching the company's fleet to electric vehicles by 2026), programs can

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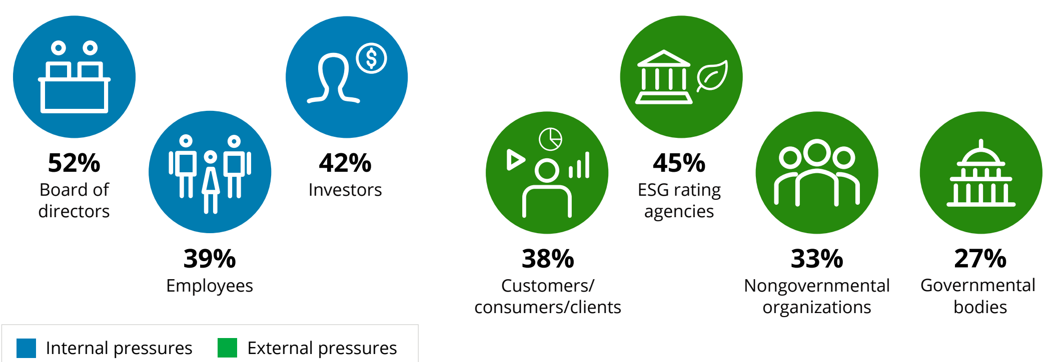
Figure 1. Identifying the high-pressure zones



Source: *2024 Sustainability Action Report*, Deloitte Development LLC, 2024.

track metrics, measure performance against plan, and benchmark progress against competitors. Using advanced analytics, CFOs and their teams may pinpoint lagging units or locations. The impact of switching to a green fleet will likely reach beyond sustainability objectives, affecting operations as well.

Similarly, embedding sustainability in a company's DNA may have consequences beyond reaching a carbon footprint target. Business value, after all, is no longer strictly measured by financial impact; environmental impact is also becoming a factor. As such, making it part of the company's core strategy could affect risks, growth, and even long-term value.[9] In a 2023 global survey of board directors, more than 60% of respondents said sustainability will be the top issue that affects trust over the next one to three years.[10]

Verify to trust

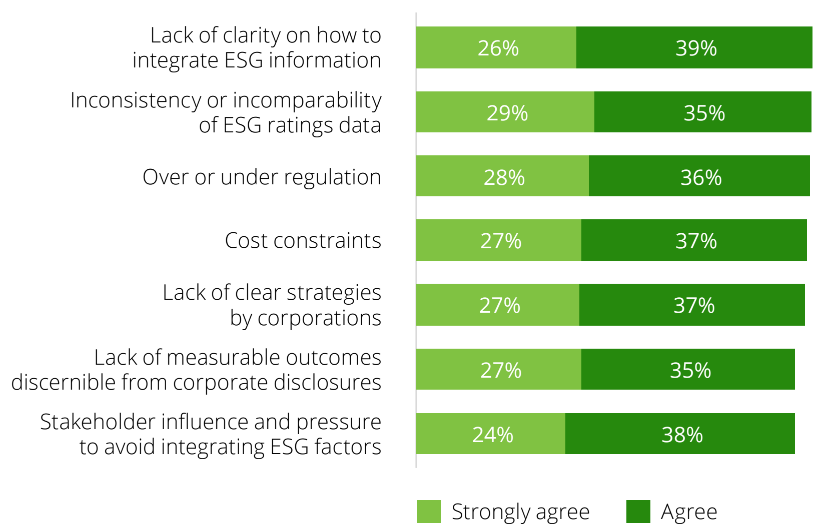
Earning investors' trust isn't solely about demonstrating data integrity. But companies that can provide these disclosures consistently—before they're required—may be seen favorably by both investors and customers. Moreover, businesses that reliably deliver on their sustainability commitments and transparently disclose progress can build trust equity with investors. This may present a sizable competitive advantage, particularly since many investors still see significant barriers in climate data's reliability, clarity, and consistency (see Figure 2).

The CFO's role in reporting out reliable ESG data extends beyond keeping investors informed. C-suite members and directors also need to be updated on whether an organization is on track to meet sustainability targets. In addition, those goals should be shared across the enterprise, ensuring that every participant understands the purpose behind the data they're collecting and passing up the chain.

As CFOs, finance teams, and organizations determine how to meet such needs, they will likely progress through stages of maturity and action. For finance leaders, taking the steps below may lead to meaningful—and measurable—progress:

1. **Establish goals, set commitments, and construct a timeline.** Even if the organization feels minimal regulatory pressure, now is the time to address

Figure 2. How investors see sustainability data as falling short



Source: "How can the enterprise earn investor trust through sustainability disclosures?" Deloitte Development LLC, March 12, 2024.

issues with sustainability data. In addition, companies need to figure out where to focus their efforts. How can the business be most effective in reducing its carbon footprint? The United Nations' Sustainable Development Goals (SDGs), adopted unanimously in 2015, include 17 global objectives that may help CFOs and others choose where the organization can have the most impact.[11]

2. **Create mechanisms for tracking progress on sustainability targets.** To ensure sustainability efforts don't fall by the wayside, CFOs and others should consider establishing regular meetings. To effectively identify barriers and gaps—are there pockets of the business that overlook leadership's mandate?—it may be necessary to rigorously analyze the structures and leaders in place. They might also establish the most effective management systems for collecting, maintaining, and reporting on the data. Stakeholders should be consistently updated.

3. **Make sure the data has been independently verified.** Having both a third-party and internal audit of sustainability data can convey a simple but powerful message to prospective investors: the company doesn't treat sustainability as merely a check-the-box exercise. Instead, senior management aims to provide comprehensive and transparent disclosures. Investors likely have internal models for verifying this kind of data—part of their effort to catch any attempts at greenwashing or making questionable claims about eco-friendliness. However, investors' internal models may not be aligned with all of the company's sustainability efforts, ignoring some and improperly valuing others. Presenting them with carefully considered, analyzed, and verified data makes it simpler for investors to decide on putting their dollars into it.

4. **Provide clear, transparent, and consistent reporting to stakeholders.** Beyond communicating your sustainability goals, it's essential to be transparent to all stakeholders (including the media) about the steps the company takes to meet its climate goals. The time to take this on is now, when trust is key and expectations are heightened—yet before additional regulations roll in. The reality is voluntary action can speak volumes about an organization's commitment to sustainability.

Climate business

The payoff for trustworthy sustainability data extends beyond investors (for more on investors' views, see the accompanying story, "Environmental protection: A growing investor priority"). Of course, they need to understand it well enough to model it, confidently incorporating it into their fundamental analyses. However, CFOs can also benefit from the upgraded data, which they can use to analyze and communicate the potential impact of climate scenarios—from a superstorm to a snowpocalypse—on business risk and performance.

In addition, the data captured for sustainability reporting can drive, among other things, margin improvement and product innovation. A recent study by Morgan Stanley Capital International (MSCI) found a sizable correlation between a company's MSCI rating and its cost of capital: As ESG scores rose, the cost of capital fell.[12] The research, which used a decade's worth of sustainability data (from August 2015 through May 2024) from more than 400 global companies, suggests that companies that prioritize sustainability may be seen as likely to apply its principles to other areas, such as in how it manages its workforce or its commitment to data security.

Conversely, a company whose approach to sustainability lacks diligence or transparency may take a different hit. Lack of trust in climate information can raise questions among stakeholders about a company's claims regarding other sensitive issues like cybersecurity. However, for CFOs who have helped their companies stock up on trust equity, missteps may be seen as blips on the radar screen rather than warnings of a coming storm.

Environmental protection: A growing investor priority

Investors' growing demand for sustainability data has created the atmospheric conditions for companies to proactively earn their trust.

Why the urgency? From an investor's point of view, the answer boils down to a single number: $43 trillion.[13] That's the projected heft of global economic growth between 2021 and 2070, assuming companies, countries and other institutions around the globe can achieve net-zero emissions. Eager to capitalize on the opportunity, as well as reduce their risk, investors are seeking sustainability data that is consistent, clear, and dependable.[14]

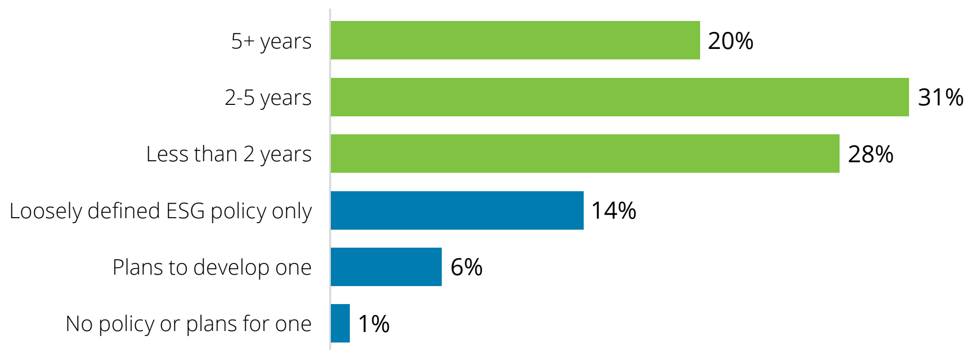
For their part, investors seem eager to integrate financially relevant sustainability criteria into their decision-making. Over the past five years, according to **the study** conducted jointly by DTBA and The Fletcher School at Tufts University, the proportion of investors with sustainability policies in place has grown from 20% to 79%. A meager 1% of respondents said they don't have plans to develop sustainable investment policies (see Figure 3).

Surveyed investors, the DTBA research found, believe that regulations will bring consistency and standardization to corporate sustainability data and disclosures. But such regulations have yet to be fully implemented, adopted, and standardized. For now, investors need to cope with ongoing issues related to sustainability data, including unclear corporate sustainability strategies, incomparable data from ratings agencies, and frequent lack of measurable outcomes from corporate reports.

In the meantime, companies have an opportunity to bolster their capabilities and proactively engage investors to earn trust. Companies that opt to remain on the sidelines risk playing catch-up later.

Given what's at stake, it's unsurprising that many corporations have already started developing sophisticated sustainability reporting capabilities. Sales of software that helps track and report sustainability metrics will likely surpass $1 billion this year.[15] And interest in the software—like investor interest in sustainability—is expected to keep on growing. One report estimates sales of the applications will rise 19% to 30% annually over the next five years. [16]

Figure 3. Most surveyed investors have a sustainability policy in place



Source: "How can the enterprise earn investor trust through sustainability disclosures?" Deloitte Development LLC, March 12, 2024.

End notes

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