Who's on first, what's on second: How can companies score on ESG reporting?

Everyone wants to know *who* is managing ESG and *what* falls within their purview. And with mandated ESG reporting on the horizon, *I don't know* is no longer a viable response.

"Who's on first?" Some commentators have said that companies need an environmental, social and governance (ESG) controller or chief sustainability reporting officer to contend with an increasingly scrupulous environment in which regulators and other stakeholders are demanding heightened transparency and accelerated progress around ESG-related risks.

In the past, we've seen SOX controllers stood up—some faded away, some became permanent fixtures in their organizations and still others remain but are siloed in the controllership with limited sight into internal audit, tax and the non-financial, strategic arm of ESG. Today, chief sustainability officers, chief financial officers, controllers and risk management and compliance officers each have a seat at the table for ESG strategy, operations and, soon enough, reporting.

And yet, the confusion inherent in Abbott and Costello's famous sketch is not too dissimilar to the challenges companies and their players are facing today. Everyone wants to know *who* is managing ESG and *what* falls within their purview. And with mandated ESG reporting on the horizon, *I don't know* is no longer a viable response.

Who leads today will depend on a company's specific circumstances. Some will embed ESG into existing organizational charts, while others may stand up a Center of Excellence to provide near-term structural support and/or long-term guidance. The destination is what's important as companies figure out who's on first today.

It's almost game time. Is your line-up ready?

We are at a pivotal moment for the ESG movement. Most companies now agree that ESG and business strategy are inextricably linked. And they recognize that reporting on ESG criteria enhances trust among stakeholders, drives value creation, promotes resiliency and helps build a competitive advantage. This understanding, coupled with mandated climate-related reporting in the near future, means that companies are no longer questioning the importance of ESG as a business objective.

In fact, according to the KPMG Global Survey of Sustainability Reporting, all of the top 100 U.S. companies by revenue already report on ESG or sustainability matters to some extent.[1] And 70% of U.S. CEOs believe their ESG programs improve their financial performance, per KPMG's 2022 CEO Outlook.[2] So, instead of questioning if they should embed ESG into strategy, companies are considering

[1] KPMG LLP, "Big shifts, small steps: KPMG Survey of Sustainability Reporting," October 2022, https://info.kpmg.us/news-perspectives/industry-insights-research/2022-sustainability-reporting.html.

[2] KPMG LLP, "KPMG 2022 U.S. CEO Outlook," August 2022, https://home.kpmg/us/en/home/insights/2022/08/us-ceo-outlook-2022.html.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP406282-2A

how to do so efficiently and effectively. And, importantly, they are deciding if they will lead on ESG or simply follow the pack.

In a textbook scenario, companies would start with a blank slate and have ample time to construct a well-thought-out ESG program.

- First, they would conduct a materiality assessment to identify and internalize the ESG factors most closely aligned with their business objectives.
- From there, they would develop an ESG strategy that would, over time, inform the establishment of a data collection and measurement program.
- And finally, with a robust ESG strategy and comprehensive data program in place, they would have the tactics, technology and talent they need to report on ESG with confidence.

Importantly, this is not a linear path, but rather a continuous feedback loop, as companies are always assessing materiality, enhancing strategy and striving to create efficiencies.

But…the regulatory clock is ticking. Generally, compliance should never dictate an ESG strategy, or any strategy for that matter. However, with potentially just two years until mandated SEC disclosures come due,[3] there needs to be flexibility in this process to meet accelerated timelines.

Who's on first?

Central to solving the ESG implementation puzzle is putting the right talent in place. Luckily for most companies, that talent already exists, and further upskilling is a very viable strategy. But while global conversation around ESG strategy and reporting is moving at full steam, the organizational chart has not had an opportunity to catch up. At some companies, sustainability roles are deeply integrated and have a direct line to the chief executive officer and the board, while at others these roles reside deep within compliance, risk management, finance or another department. Some companies have instituted an ESG controller responsible for reporting and controls, while others have opted for a sustainability CFO-like role with oversight of ESG targets, forecasting, impact measurement and valuation. Still, others are at the very beginning of their ESG journeys and have not yet formally created sustainability roles—instead, they are ad hoc responsibilities tacked on to existing functions.

Study the playbook, but deviate as needed

There is no one-size-fits-all solution to assembling an ESG team, and every company's organizational structure will look different. But in considering where to start, we view *maturity of ESG strategy* and *maturity of ESG reporting* as the key drivers.

What does this mean exactly? Let's take, for example, a company that has committed to becoming net zero by 2030. They have had their target validated by the Science Based Targets initiative (SBTi) and announced their roadmap to achieving their goal. Yet, greenhouse gas emissions are calculated annually, the data collection process is via email and calculations are performed in spreadsheets by one person with "all knowledge of the process in their head." In this instance, the company is mature on ESG strategy—it has well-informed targets and a comprehensive plan for achieving them—but is immature on ESG reporting due to insufficient infrastructure.

This is not uncommon. In fact, in a KPMG survey of professionals with either leadership or influence over ESG programs, less than 15% of respondents said their program has attained maturity in timely regulatory reporting compliance, controls on ESG data, integrated ESG risk analysis or clearly defined oversight. And only 9% said they are close to completion on implementing processes and controls to ensure the consistency of their ESG policies, activities and reporting.[4]

The company in our hypothetical scenario has different organizational needs than, say, a company with comprehensive ESG data processes and controls but a lack of clear and cohesive strategic direction.

---

[3] U.S. Securities and Exchange Commission, "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors," March 21, 2022, https://www.sec.gov/news/press-release/2022-46.

[4] KPMG LLP, "ESG governance: Why it's everyone's business at your company," October 2022, https://advisory.kpmg.us/articles/2022/esg-governance-why-everyones-business-your-company.html.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP406282-2A

If we delve deeper, we can think of ESG strategy maturity vs. ESG reporting maturity as a matrix:

While this matrix may serve as a good foundation for determining the skills an ESG controller or equivalent needs and where they slot in relative to strategy, more important than title, structure or reporting line is the ability to collaborate. ESG is a team sport and having a deep bench of professionals who are knowledgeable on ESG issues—both on the strategy and reporting side—is critical. After all, how can a company successfully execute an ESG strategy without its key players staying up to speed on accounting, tax and other regulation?

To that end, leaders across the C-suite must be aligned on operations to drive business model transformation and meet key ESG objectives. Respondents to a recent KPMG survey listed the ability to collaborate cross-functionally to drive action as the most important skill set in ESG governance.[5] Related to collaboration is the importance of training—every employee who engages with ESG must understand how ESG strategy and reporting interact, regardless of which function they serve.

Importantly, there is not an inherently "good" or "bad" starting point on this matrix. Every company is on its own ESG journey, and present-day maturity on strategy and reporting may be influenced by a multitude of variables like business size, existing industry standards, corporate structure, board priorities and so much more. Progressing across the matrix is what may ultimately unlock value.

Time out—Tax spotlight

For years, ESG-minded stakeholders—from customers to standard-setters to regulators—have called on companies to demonstrate greater tax transparency around ESG reporting. Whether it is paying their fair share of taxes or embracing "tax good governance," stakeholders want companies to show, through formalized, high-quality disclosures, their commitment to a sustainable approach to tax.[6] In the European Union, we're already seeing significant inroads on tax transparency, most notably through mandatory public country-by-country reporting.[7] While U.S. regulation on the matter is still in its early stages, the tax function must be embedded in the wider ESG organizational structure. This means regular communication between the chief tax officer and the ESG strategy and reporting leads, as well as continuous monitoring of the tax regulatory environment. With more and more requests for tax transparency making their way into proxy statements and annual shareholder meetings, a lack of coordination here can quickly compound risks across the company's entire ESG operations.

---

[5] KPMG LLP, "ESG governance: Why it's everyone's business at your company."

[6] KPMG LLP, "Chief Tax Officer Insights–Issue Spotlight," October 2022, https://tax.kpmg.us/content/dam/tax/en/pdfs/2022/cto-insights-esg-october-2022.pdf.

[7] KPMG LLP, "EU Public Country-by-Country Reporting Implementation – where we are," November 2022, https://home.kpmg/xx/en/home/insights/2022/11/etf-493-eu-public-country-by-country-reporting-implementation.html.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP406282-2A

Remember your ticketholders

ESG programs do not form in a vacuum. Stakeholders play a critical role in influencing companies' ESG priorities and objectives. The impetus for the SEC's proposed climate rule, and other sustainability-related reporting requirements, after all, is to meet investors' demands for high-quality, highly comparable ESG data. Stakeholder demands around ESG data can take on a variety of forms, including:

- Investors calling for SOX-like controls over certain data programs;
- Customers requesting DEI metrics when considering with whom to conduct business;
- Suppliers including contractual terms requiring setting and achieving emissions reductions and/or net zero targets;
- Business partners calling for better data governance with respect to cyber vulnerabilities; and
- Talent demanding action to reduce greenhouse gas emissions in-house and along the value chain.

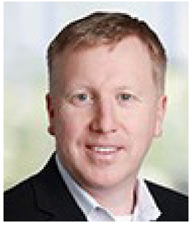
ESG strategy and reporting infrastructure must consider and evaluate the needs of all relevant players. That is not to say that every stakeholder demand—save for those required by law—must lead to corporate action, but the two must interact.

Your MVP is not a person, it's data

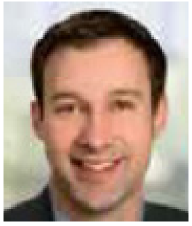
Ultimately, most companies have the talent to handle ESG reporting, even if it's not yet centralized within a neat organizational chart or with a designated ESG controller. And for those that don't, we are seeing a surge of external vendors offering their services to fill the gaps. The missing piece in the market, however, is reliably and efficiently sourced, repeatably procured, well-controlled data. We are in uncharted territory as companies and their third-party consultants try to inventory vast quantities of Scope 1, 2 and 3 greenhouse gas emissions, among other ESG data, synthesize it into digestible information and report on it with the reliability, timeliness and rigor of financial disclosures. A comprehensive data program starts with defining metrics aligned to material ESG topics and ends with third-party assurance—first limited, then reasonable. Currently, there is no silver bullet to address these challenges so it will take considerable time and resources and may require some outside help. Yet, constructing and implementing this data piece is imperative in the long run. And with the right team in place and a healthy sense of urgency, companies can win on ESG.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP406282-2A

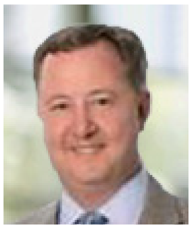
Authors



Rob Fisher
ESG Leader
T: 804-306-4201
E: rpfisher@kpmg.com



Eric Tresino
Advisory Managing Director
T: 704-968-3999
E: etresino@kpmg.com



Steven Estes
Advisory Partner
T: 972-896-9476
E: sestes@kpmg.com

Anu Varadharajan
Tax Director
T: 646-982-9899
E: avaradharajan@kpmg.com

Maura Hodge
ESG Audit Leader
T: 617-988-5959
E: mhodge@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. NDP406282-2A