Designing a sustainability organization that's ready for reporting

Create an internal structure built for evolving global regulations

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Introduction

Most companies are preparing to meet mandated sustainability disclosure requirements. And despite the recent stay by the Securities and Exchange Commission (SEC) of its Climate Disclosure Rule,[1] their preparations are ongoing.

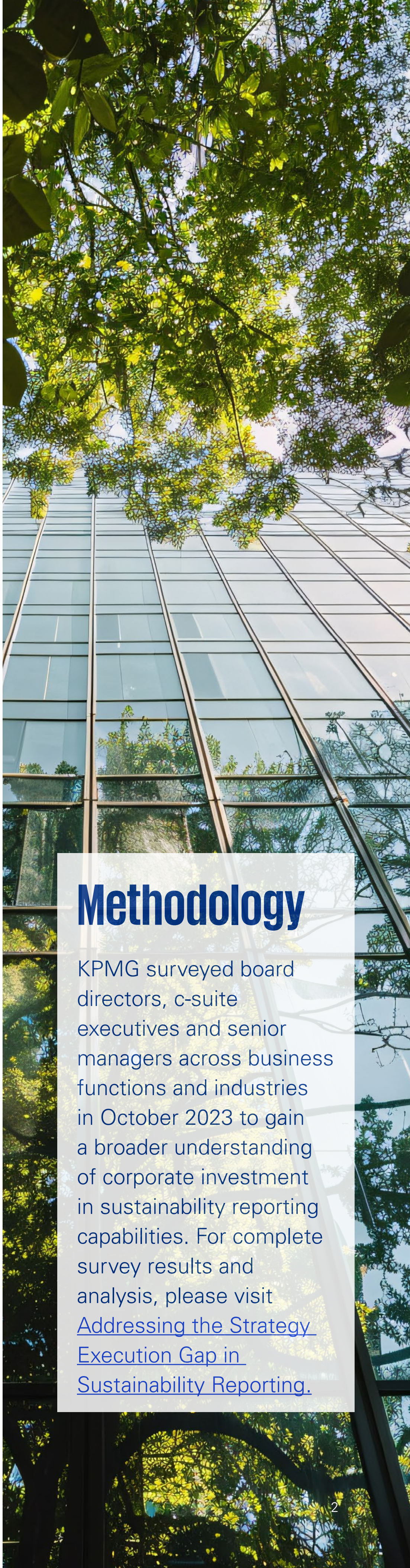
The task is formidable. They know they need to ready their people and their processes to provide data-driven disclosures around climate-related impacts, risks, and opportunities. In fact, 90 percent of companies surveyed by KPMG LLP (KPMG) will increase their investments in environmental, social, and governance (ESG) reporting capabilities over the next three years. Unfortunately, many companies still aren't ready. That's not a surprise, given that many organizations are making a first run at such detailed reports and aren't sure how to use their limited budgets to the greatest effect. Most are missing a key element to support accelerated, detailed reporting: a formal sustainability governance structure that aligns with the business's overall strategy and goals. This structure—the people, processes, and technology involved in setting, monitoring, and reporting against sustainability priorities—needs to be established before they can meet newly-rigorous and extensive requirements. Multinational organizations face an added challenge: The new SEC rules are separate and apart from the myriad global requirements they will likely contend with in the future.

90% of companies are increasing their investment in ESG reporting capabilities over the next three years.

KPMG survey

For companies, remaining in compliance is more than a disclosure exercise. When done strategically, sustainability reporting reflects a company's business priorities and its ability to mitigate risks and enhance value. For stakeholders, it's a peek into how well a company is managed.

Most companies have a lot to do before they can report accurately and efficiently on their sustainability strategies and results. In this paper, we discuss how the whole-company effort to prepare for disclosure is feasible when organizations design their internal sustainability structure with intention.



Methodology

KPMG surveyed board directors, c-suite executives and senior managers across business functions and industries in October 2023 to gain a broader understanding of corporate investment in sustainability reporting capabilities. For complete survey results and analysis, please visit Addressing the Strategy Execution Gap in Sustainability Reporting.

[1] Source: "SEC stays its climate rule pending judicial review," KPMG LLP, April 2024

Ready or not? Probably not

Capacity constraints, internal silos, and conflicting priorities are the top challenges to cross-functional support for sustainability reporting

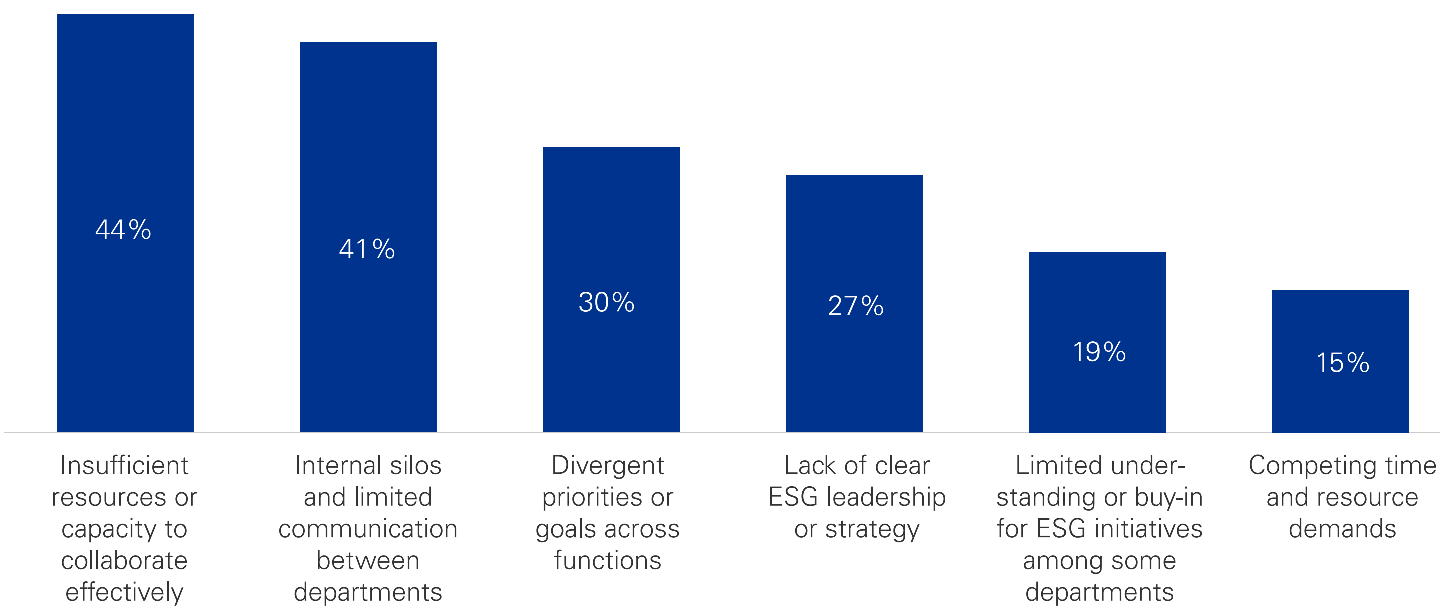
Many companies have been working very hard to establish sustainability goals and communicate their ambitions to stakeholders. However, those goals and ambitions may not be supported by an internal structure that adequately tracks and reports on progress. With the proposed rules poised to require additional rigor, companies are beginning to retrofit their voluntary sustainability reporting efforts. But to meet evolving regulatory and financial requirements, they'll need to clear some internal roadblocks first.

Silos, poor collaboration, and divergent priorities are just a few of the challenges that companies need to overcome. To better align sustainability strategy with regulatory reporting efforts, most companies surveyed are rethinking their sustainability reporting frameworks, countering resource restraints with restructuring, or outsourcing.

> **76%** of companies plan organizational changes to better align ESG goals with business strategy, including **1 in 3** who are planning a major restructuring.

We also found a widespread lack of understanding about what is necessary to meet the new requirements. Some confusion stems from misconceptions within companies that they believe they're in good shape because they have a lot of activity around related topics. But doing isn't reporting, and it's not always tracked rigorously.

Exhibit 1. Impediments to collaboration on sustainability matters



Note: Sums are greater than 100% where questions were multi-select

Source: ESG survey, October 2023

Ambition, in part, may drive this overconfidence. Some companies have announced aggressive goals to address sustainability and related topics, incorporating their ideals into strategy and brand. Now that they must measure against those goals, they're finding that their reporting structure isn't organized, or their process isn't rigorous enough, to satisfy regulators.

Among our most revealing survey findings is that most companies believe they are more prepared than their peers to handle climate disclosure requirements—despite nearly half acknowledging that they manage sustainability data with spreadsheets. To meet accelerated timelines, the sustainability data collection and reporting process must become more controlled and efficient. Spreadsheets make that difficult to accomplish due to the sheer volume of data collected from multiple sources, including third parties. Couple that with evolving calculation methodologies and it becomes extremely cumbersome to ensure that inputs are complete, accurate, and calculated correctly. In contrast, sustainability data management tools allow organizations to efficiently track, analyze, and calculate data points on a nearly real-time basis. That enables more informed decision making and reporting preparedness.

Reimagining the sustainability regulatory reporting effort from a tactical perspective makes it easier to understand and implement. Companies should start with the end goal in mind: timely, rigorous, assurance-ready reporting. Then they can work backwards to ensure they've put the necessary components in place to meet the new requirements.

The disconnect between perception and preparedness

83% of companies believe they are more prepared than their peers to handle climate disclosure requirements

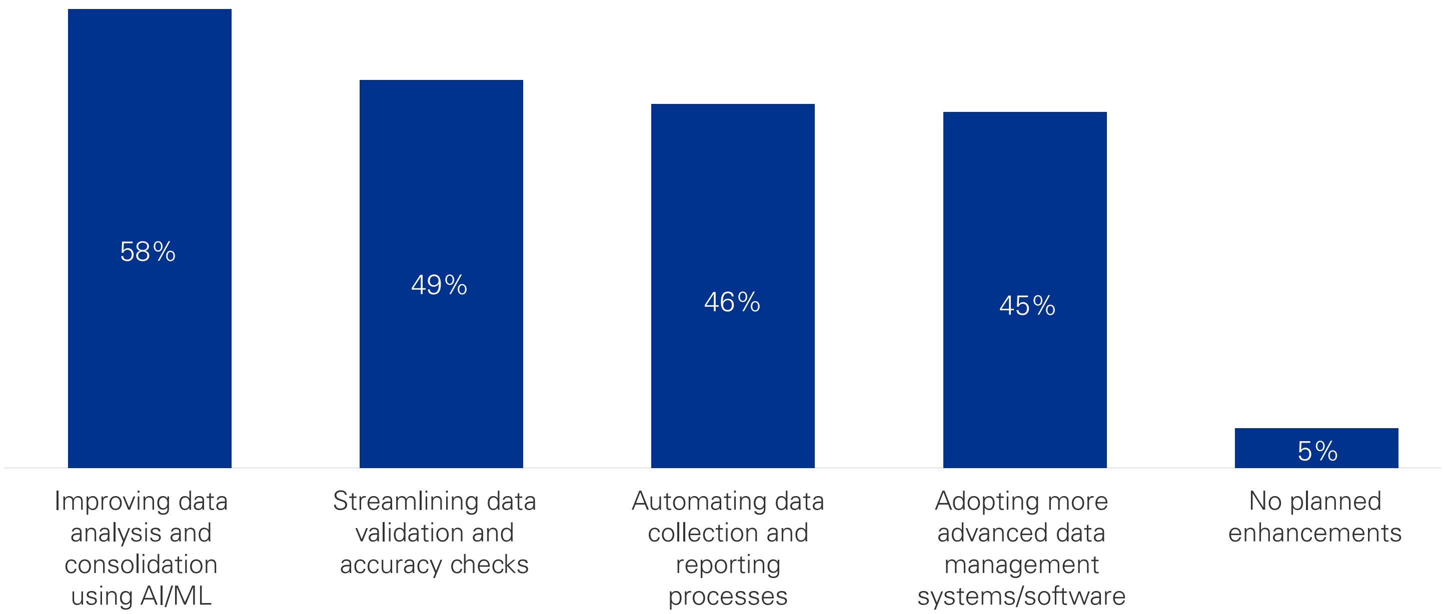
47% are still using spreadsheets to manage their ESG data

—*KPMG survey*

Technology alone isn't the solution

58% More than half (58%) of companies surveyed say they plan to improve their ESG data analysis and consolidation with artificial intelligence (AI) and machine learning. These technologies, which include generative AI, hold tremendous promise. However, further technology development is needed to capture, calculate, and report the required information, so in the short term will not be the silver bullet companies may be hoping for. To take advantage of the capabilities and efficiencies these technologies will bring in the future, companies need the right sustainability organizational structure in addition to the necessary technology and data infrastructure. And right now, many companies may not be spending enough or in the right places as part of their reporting readiness efforts.

Exhibit 2. Upcoming enhancements to sustainability data collection and management systems in the next three years



Source: ESG survey, October 2023

The elements of good design

To establish an assurance-ready sustainability reporting structure with well-defined roles and responsibilities, we have seen many of the leading multinational organizations take the following practical steps:

1 Anticipate the ripple effect caused by the patchwork of global sustainability reporting regulations

For multinationals, designing a reporting strategy and structure starts with gaining a deep understanding of the global regulatory landscape. This includes the European Union's Corporate Sustainability Reporting Directive (CSRD), jurisdictional adoption of the International Sustainability Standards Board (ISSB) standards, the US SEC's Climate Disclosure Rule, and the California climate regulations—a complex undertaking, since application will look different across country borders. And although the largest companies are well into preparation due to their size, many don't realize how managing to multiple sets of rules will affect the processes and players. Specifically, this will change what data they need, where they'll collect it, how they'll calculate it, and the documentation they'll be required to maintain.

Once the company has identified all the relevant reporting regulations, it can perform a materiality assessment, following the rules required by the standards. This exercise will define the scope of the information collection effort. For example, the company may need to collect water consumption or greenhouse gas emissions data from a previously excluded joint venture. And in other cases, information and data required by one standard may not be deemed material under another.

Next, the company must decide whether a centralized or decentralized reporting structure is most effective. For example, can the US parent company collect all the information from the subsidiaries and issue one global report? Or will the company appoint regional or country leads to oversee sub-consolidations, enabling the company to meet jurisdictional requirements now while consolidating at the parent level later?

By evaluating which reporting requirements affect the company today and in the future, companies can determine what needs activating and when. Many organizations are playing it safe and defaulting to a global consolidation model, complying with CSRD as a baseline and determining incremental disclosure requirements from there.

2 Set up formal governance over ESG disclosures

Companies addressing the entirety of sustainability disclosures may appoint leaders to collect information by the E, S, or G pillar or by each European Sustainability Reporting Standard topic, depending on company size, industry, complexity of operations, or technical knowledge. This might look like designating separate leads for water and pollution under the Environment pillar or workforce and affected communities under the Social pillar.

Once the company has shifted resources into place, it then must ensure their people and operations are moving in lock step toward their goals. The challenge is that ESG vertical experts may not have the experience or knowledge they need when it comes to regulatory disclosures, broader business strategy, technology platforms, or processes and controls. So, to oversee the effort and ensure accuracy and compliance, companies often create an ESG controller role.

This matrix format provides working groups with a structure for performing sustainability reporting-related duties. Here is where a control center, program management office (PMO), steering committee, or similar entity comes into play (where that entity fits in the overall organization varies, but legal, compliance, finance, or a dedicated sustainability office are all possibilities).

With guidance and support from group leads and a control center or PMO, the working group can standardize data quality reporting, integrate efforts across brands and subsidiaries, and coordinate materiality assessment buy-in.

Exhibit 3. Sample ESG organization workstream

Program Management Office	Project Leads									
	Environmental					**Social**				**Governance**
	E1	E2	E3	E4	E5	S1	S2	S3	S4	G1
Legal and financial reporting (General counsel/controllership)	■	■	■	■	■	■	■	■	■	■
Tools and data management (IT)	■	■	■	■	■	■	■	■	■	■
Risk managment and nonfinancial internal controls (Enterprise risk management/internal audit)	■	■	■	■	■	■	■	■	■	■
ESG strategy (Strategy/operations/sustainability)	■	■	■	■	■	■	■	■	■	■
Segments/subsidiaries/brands	■	■	■	■	■	■	■	■	■	■

Limited assurance by auditor

3 Develop a detailed project plan to achieve compliance

A clear project plan with defined actions, timelines, and responsibilities is critical to success as companies assess, design, implement, and report. This project plan may include strategic goal posts and check-ins, specific steps for collecting missing disclosure information, documents that need preparation, or necessary technology implementations. Getting this project plan at the right level of granularity is tricky and may take several iterations.

Prioritization is key. Establish an order of operations based on need to have versus nice to have, whether the information is needed for voluntary or regulatory reporting, risk level, dependencies (e.g., results of the double materiality assessment), and the availability of people with the right skills to do the work.

Even though deadlines are looming, exercise caution when it comes to committing resources. Although some workflows can run in parallel, too many irons in the fire can create distractions that result in poor outcomes. Work backward from your due date to ensure you can fit everything in.

Companies outsourcing or planning to outsource sustainability reporting processes

77% sustainability data collection and management

74% ESG data management and software solutions

73% training and capacity building for staff on ESG issues

70% ESG-related risk assessment and mitigation

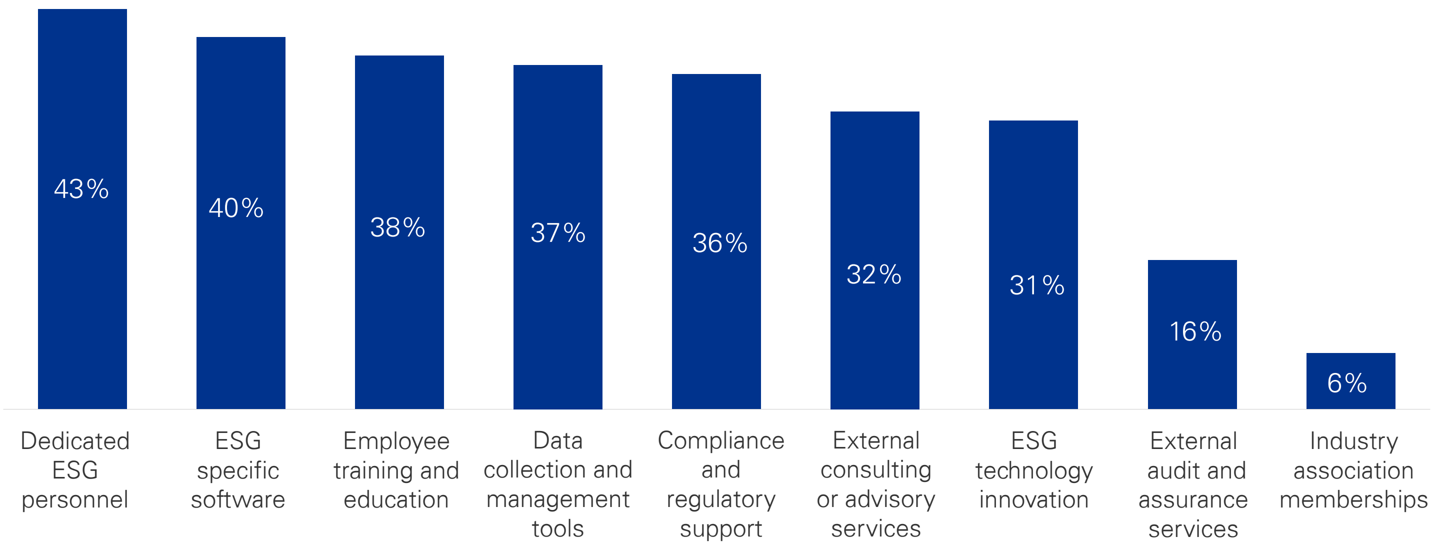
4 Evaluate talent needs

Companies anticipate sustainability will become part of many employees' job responsibilities in the future: 83 percent of companies surveyed anticipate an increase in sustainability integration across roles, including nearly one in four that expect significant change.

Because of this, companies are investing in their personnel: staffing and training are among the most frequently cited areas of investment. However, that means different things to different organizations. We see many companies moving people around internally to fill new roles, but an ongoing question remains whether sustainability reporting is better served by training current employees, onboarding specialists, or outsourcing.

Many companies are rolling out ESG schools or training programs to enhance the skills of their available staff. These trainings can be structured for employees to take at their own pace and customized for specific skills.

Exhibit 4. Significant areas of investment by sustainability reporting activity



How KPMG can help

KPMG is prepared to assist you no matter where you are in your sustainability reporting journey. Our practical approach to assess, design, and implement a compliant sustainability reporting program is underpinned by our depth of technical knowledge and experience across five areas.

01

Clear path to auditor alignment

We provide a clear path to align with your auditor by understanding when their involvement is necessary, what needs to be aligned on, and the level of documentation required.

02

Advanced technology tools and alliances

Our advanced tools, accelerators, flagship alliances, and utilization of generative AI enable you to collect and analyze sustainability information efficiently and accurately.

03

Global network of SMEs

We leverage the strengths and expertise of our global firm, utilizing subject matter experts who understand the intricacies of your operations affected by various reporting requirements, such as the SEC Climate Rule, CSRD, and ISSB.

04

Deep sector focus

With our deep sector knowledge and experience, we help you stay competitive, strategic, and benchmark your CSRD response against your peers.

05

Strategic decarbonization and climate risk mitigation

We create custom decarbonization strategies that empower you to effectively achieve targets and navigate uncertain climate futures while actively mitigating climate risks.

KPMG is a leading authority in sustainability reporting services, recognized for our ability to help break down silos, drive efficiencies by building with the end in mind, and provide thorough, AI-driven solutions.

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