KPMG

Addressing the Strategy Execution Gap in Sustainability Reporting

2024 Sustainability Organization Survey

—

February 2024

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Executive Summary

Addressing the Strategy Execution Gap in Sustainability Reporting

As global organizations face increasing regulatory pressure to disclose information about environmental, social and governance impacts, risks and opportunities, organizations are set to spend more on sustainability initiatives over the next three years. However, most organizations view this engagement not only as a compliance issue but also as a valuable tool for enhancing financial performance both now and in the future. Despite this realization, organizations are facing real challenges in delivering against this objective.

KPMG conducted a deep dive on where organizations are investing in the coming years with an eye towards maximizing financial value, while complying with disclosure requirements. Key findings include a focus on investing in new sustainability talent, prioritizing sustainability data and analytics, managing supply chain, and completing an sustainability risk assessment. Enhancing data management is seen as the top way to integrate sustainability goals with overall business objectives, but organizations still face challenges integrating a sustainability strategy into their broader business structure due to resourcing constraints and internal silos between departments.

Maura Hodge
Sustainability Reporting and Assurance Leader

"Timely and accurate reporting of sustainability information is key for businesses to make strategic business decisions and meet regulatory reporting guidelines, which lead to preservation and growth of financial value."

Findings

Executive Summary

Organizations are going to spend more on sustainability in the next three years as reporting requirements ramp up. Today, most organizations have centralized their sustainability reporting approach, but rather than a focus solely on compliance, they see the biggest benefit of improved reporting capabilities as enhancing financial value.

Rapid investment in sustainability capabilities is top priority

90% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. Dedicated ESG personnel (43%)
2. ESG-specific software (40%)
3. Employee training and education (38%)

There is a disconnect between perception and preparedness…

83% v. 47%

Many organizations believe they are ahead of peers regarding ESG reporting (83%), but almost half (47%) still use **spreadsheets** to manage their ESG data.

KPMG Insight

Regulatory reporting is driving the need for more transparency and accountability over sustainability information. To meet accelerated reporting timelines, the Sustainability Reporting process must become more controlled and efficient, which is difficult to accomplish in spreadsheets.

Data management is critical to integrate sustainability goals with overall business objectives

Innovative tech is growing in popularity, as:

59% of leading organizations use **advanced data systems** for ESG reporting

58% of organizations plan to improve ESG data collection with **artificial intelligence**

45% see improving **data management and reporting capabilities** as helpful in integrating ESG goals with business objectives

With access to better information,

83% anticipate an increase in **ESG integration** across roles

KPMG Insight

Sustainability data management software and advanced tech like AI enables organizations to efficiently track, analyze and report on sustainability-related data, which is crucial for making informed decisions and meeting regulatory requirements.

Structural challenges hinder ability to integrate a sustainability strategy into broader business goals

Top challenges:

- Insufficient resources or capacity to collaborate effectively
- Internal silos and limited communication between departments
- Divergent priorities or goals across functions
- Difficulty measuring the return on investment
- Budget constraints or competing priorities

To combat this:

76% are planning to **restructure** teams to better align ESG goals with business strategy

71% of core ESG reporting activities are currently or are planned to be **outsourced** in the next 3 years

KPMG Insight

Defining clear roles and responsibilities, including identifying leaders and subject matter experts, and deciding when to outsource or supplement existing resources is crucial for effective implementation and efficient reporting.

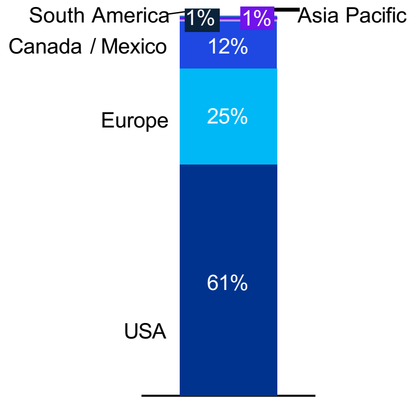
02

Respondents' demographics

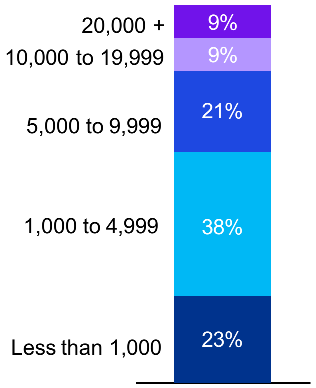
Respondents' demographics

Organization structure

Region in which respondents' organization is headquartered

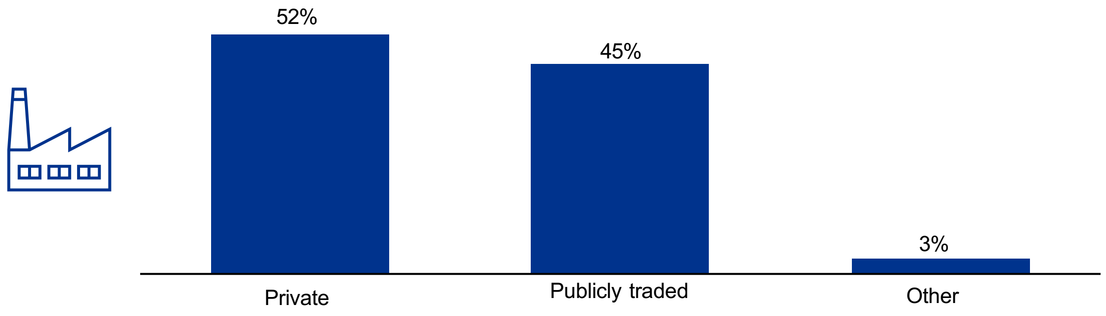


Number of full-time employees in respondents' organizations

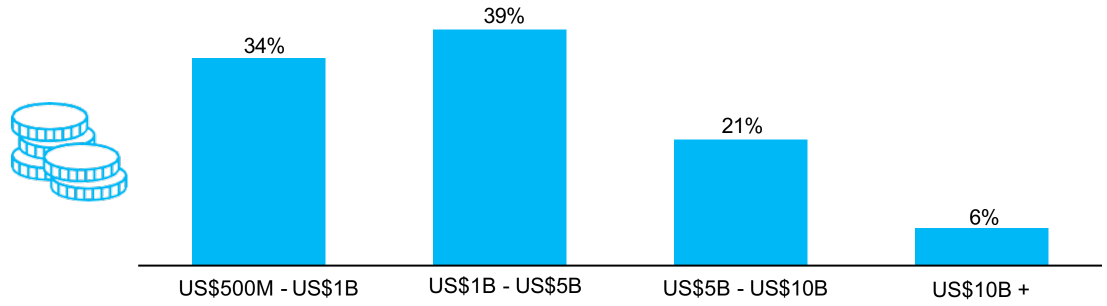


Ownership structure and revenue

Type of organization



Annual revenue of the organization for the last fiscal year

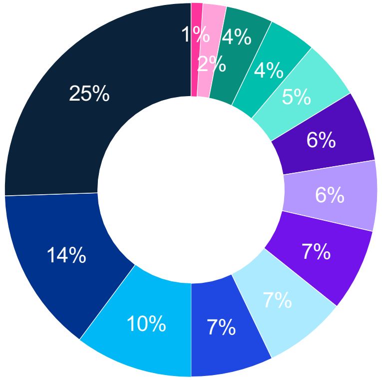


Source: Sustainability Organization Survey, Oct 2023

Respondents' demographics

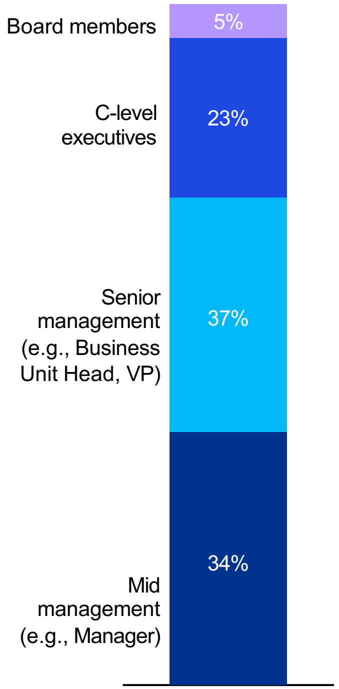
Role in the organization

Function/business division that respondents represent

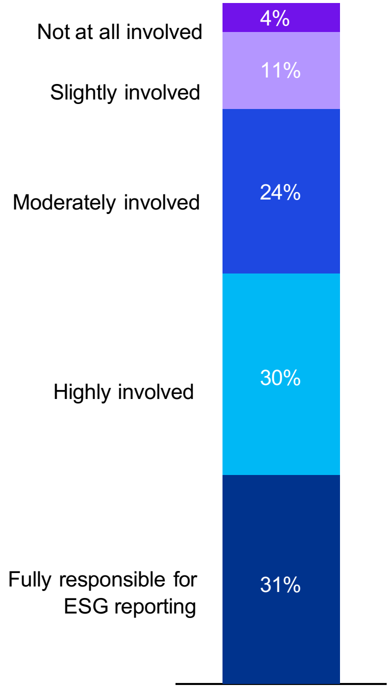


Tax, Research & Development, Strategy	1%
Legal and Risk	2%
Procurement and Supply Chain	4%
Marketing and Communications	4%
Investment management	5%
Finance and accounting	6%
Sales	6%
Customer Service	7%
HR	7%
Executive leadership	7%
IT	10%
Operations	14%
Environmental, Social Governance (ESG) / Corporate Social Responsibility (CSR)	25%

Respondents' level in the organization



Degree in which respondent is involved in development and operations of ESG reporting



Industry representation

Approximately equal distribution across the following sectors

- Consumer & Retail
- Education
- Energy & Natural Resources: Chemicals
- Energy & Natural Resources: Oil & Gas
- Energy & Natural Resources: Power & Utilities
- Financial Services: Asset Management
- Financial Services: Banking & Capital Markets
- Financial Services: Insurance
- Government
- Healthcare
- Industrial Manufacturing
- Life Sciences
- Not-for-profit
- Technology
- Telecommunication & Media
- Transportation

Note(s): (a) No representation was available for Junior management, Entry Level or similar, Self-employed and Not sure / cannot share
Source: Sustainability Organization Survey, Oct 2023
Total (N) of US and Global Respondents: 550

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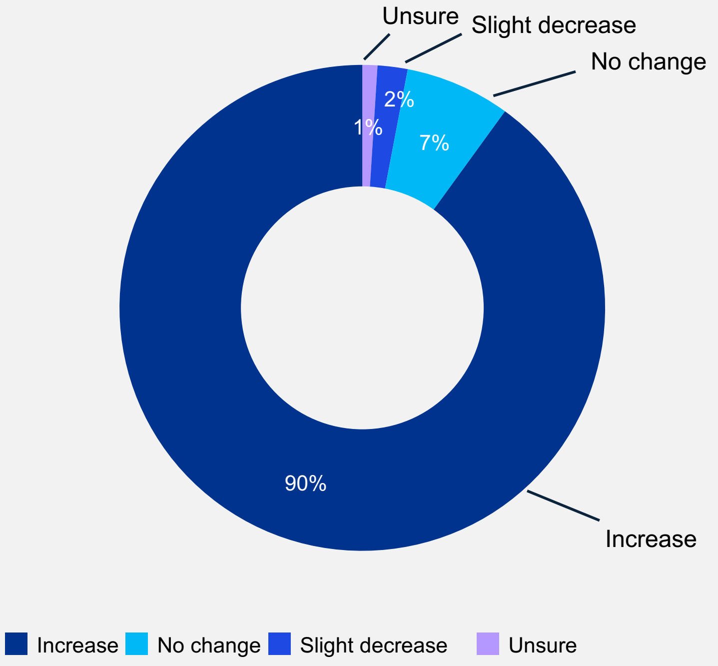
Key Insights

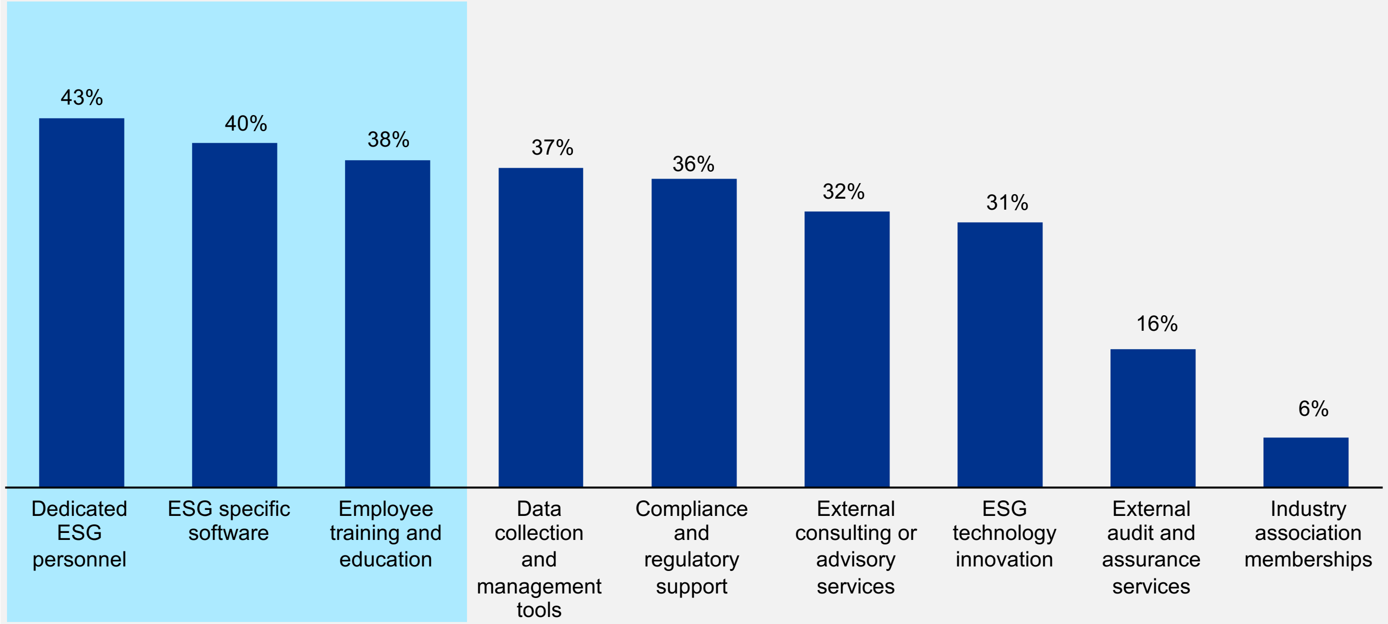
Rapid investment in sustainability capabilities is a top priority

With impending regulatory reporting requirements, organizations are increasing investments in many areas of the sustainability reporting process

Change in investment in ESG reporting in the next 3 years



Significant areas of investment by ESG reporting activity

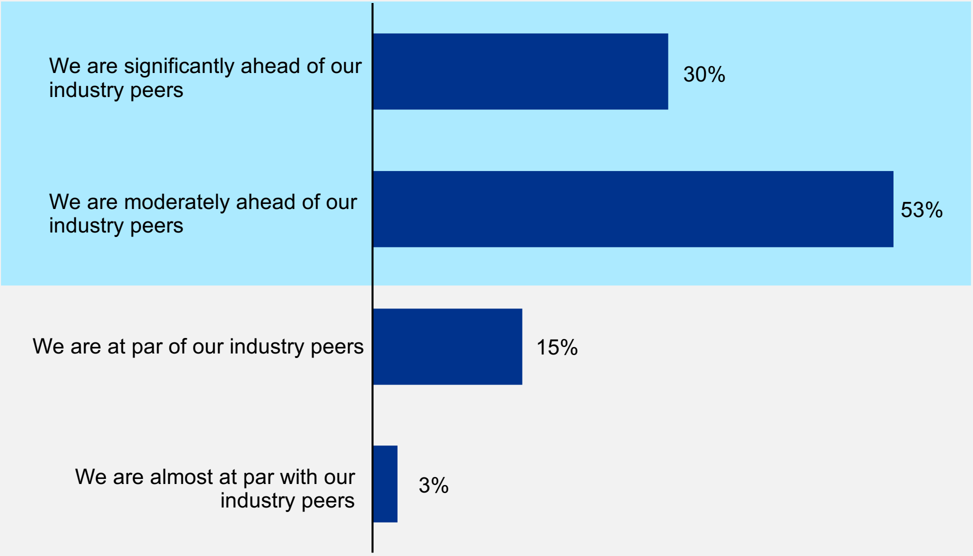


Note(s): Sums are greater than 100% where questions were multi-select
Source(s): Sustainability Organization Survey, Oct 2023

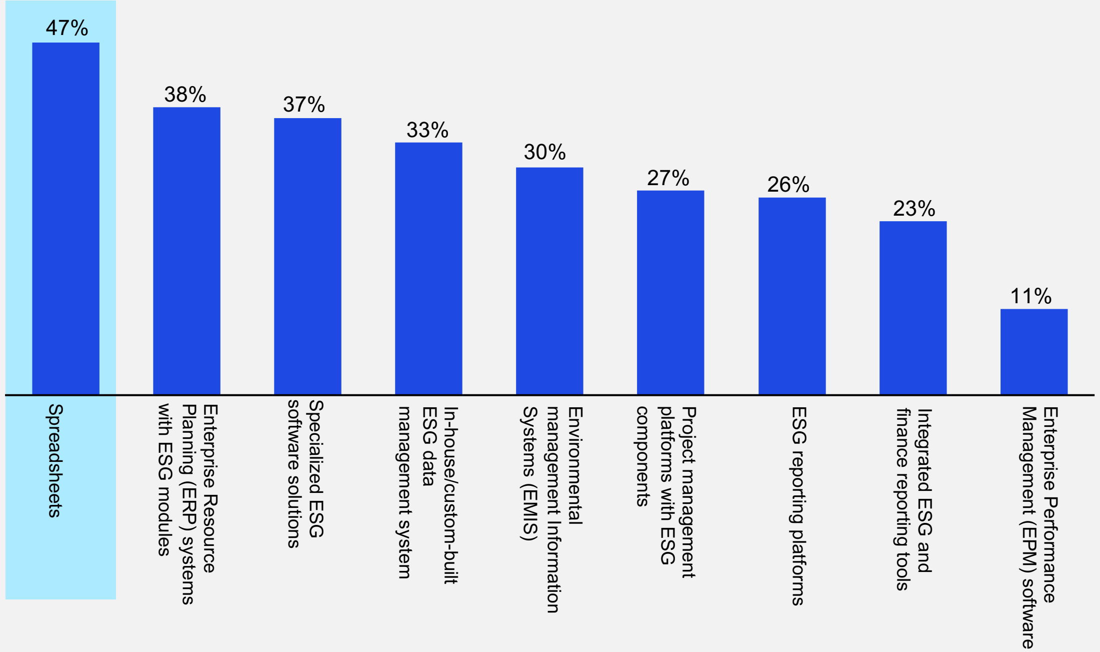
Rapid investment in sustainability capabilities is top priority

Many organizations believe they are ahead of peers regarding sustainability reporting but almost half still use spreadsheets to manage their sustainability data

Level of transparency in ESG reporting of compared to industry peers



Type of ESG data management system used

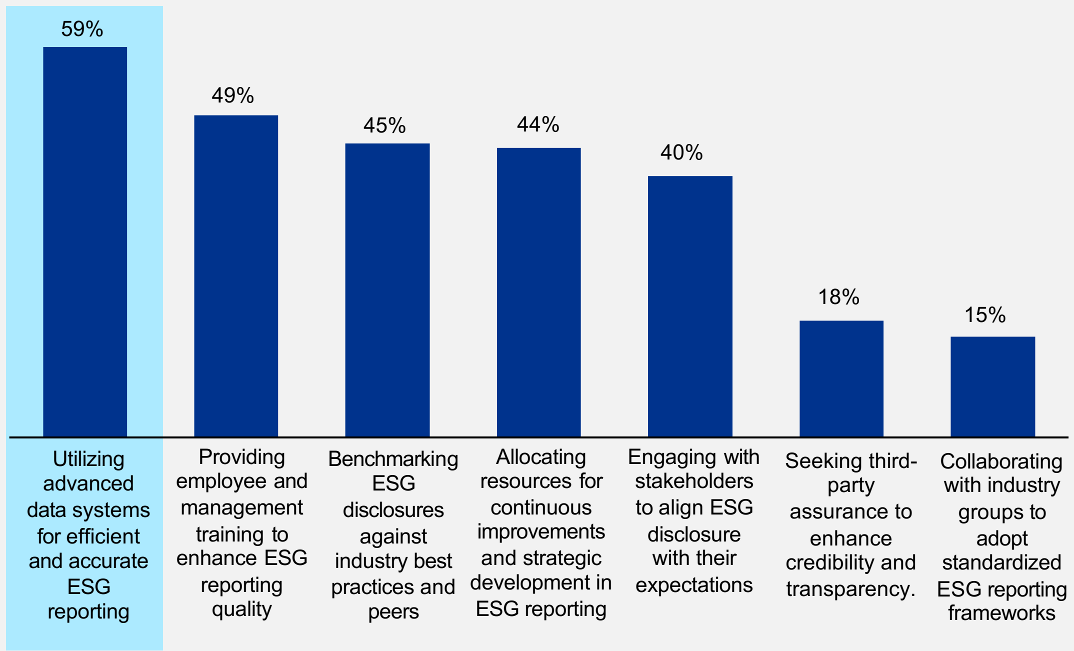


Note(s): Sums are greater than 100% where questions were multi-select
Source(s): Sustainability Organization Survey, Oct 2023

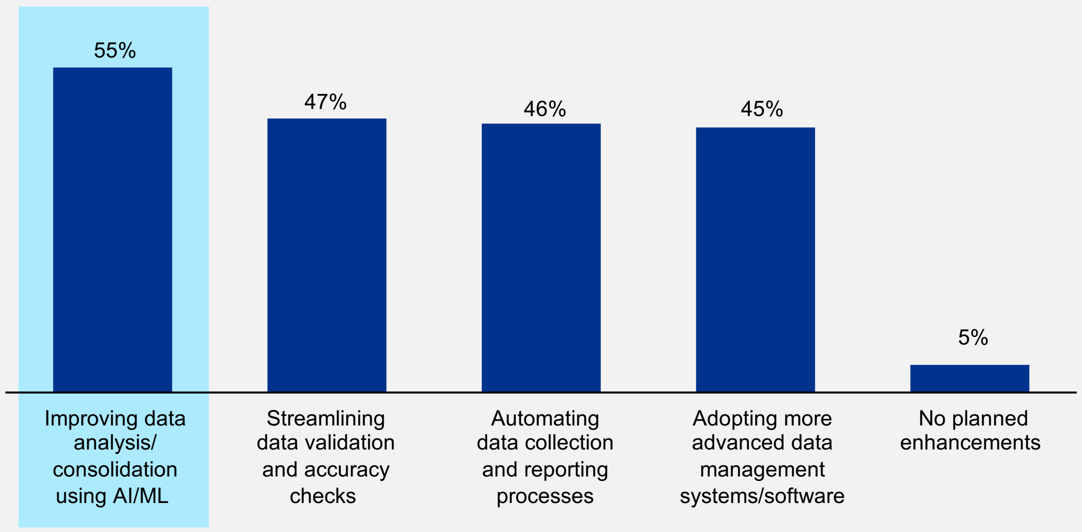
Data management is critical to integrate sustainability goals with overall business objectives

Most organizations plan on enhancing their sustainability data collection and management systems because the use of advanced software, automation and AI/ML tools can significantly improve sustainability reporting efficiencies

Measures being undertaken to be perceivably ahead of others in maintaining transparent ESG reporting



Upcoming enhancements to ESG data collection and management systems in the next 3 years



Note(s): Sums are greater than 100% where questions were multi-select
Source(s): Sustainability Organization Survey, Oct 2023

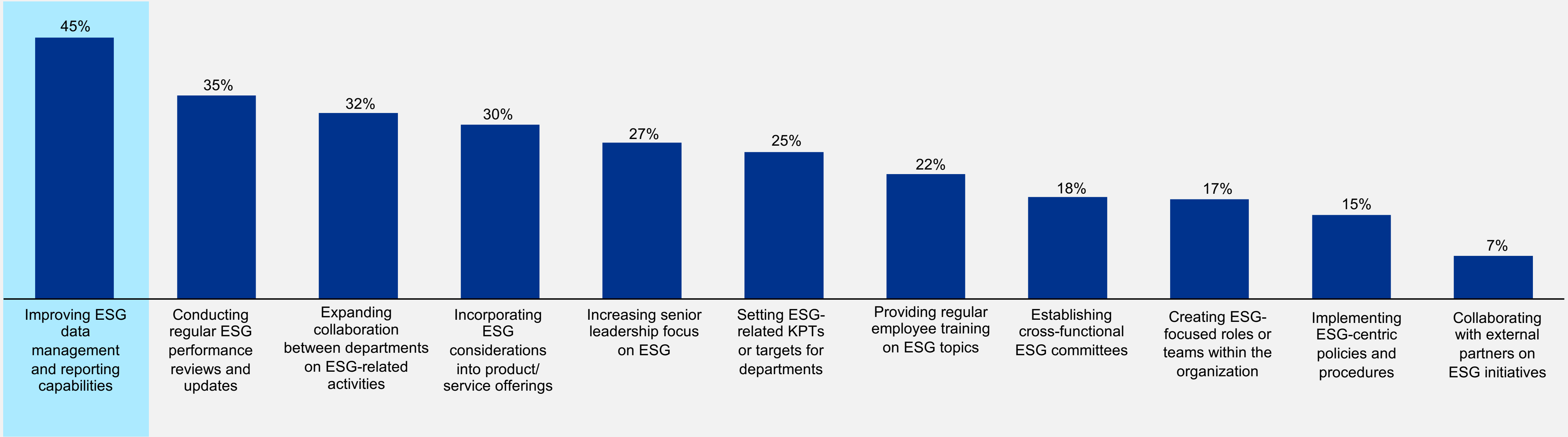
Data management is critical to integrate sustainability goals with overall business objectives

Sustainability data management, along with other improvements help to integrate sustainability within overall business strategy

Rob Fisher
Sustainability Leader

"Our ESG Organization Study underscores the critical role of data in driving sustainability objectives forward and seamlessly integrating sustainability within overall business strategy"

How to enhance integration of ESG goals with overall business objectives

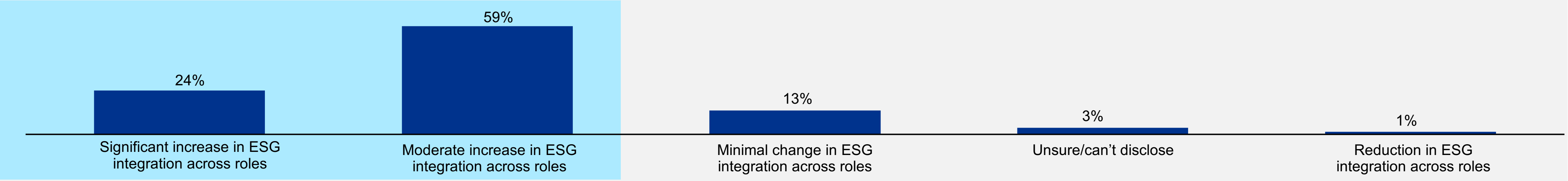


Note(s): Sum does not add up to 100% as it is a multi-select question
Source(s): Sustainability Organization Survey, Oct 2023

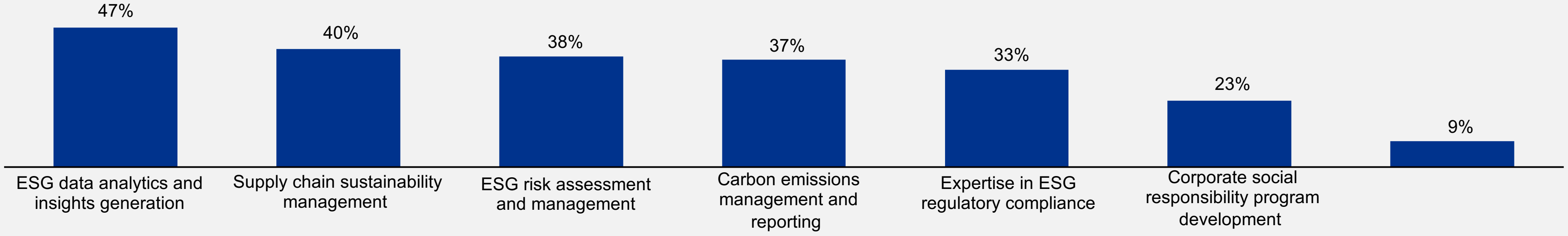
Data management is critical to integrate sustainability goals with overall business objectives

Incorporating sustainability considerations into all job functions will contribute to the development of the most valuable sustainability skills of the future

Integration of ESG responsibilities within non-ESG roles in the next 3 years



Most valuable ESG skills and capabilities in the coming years

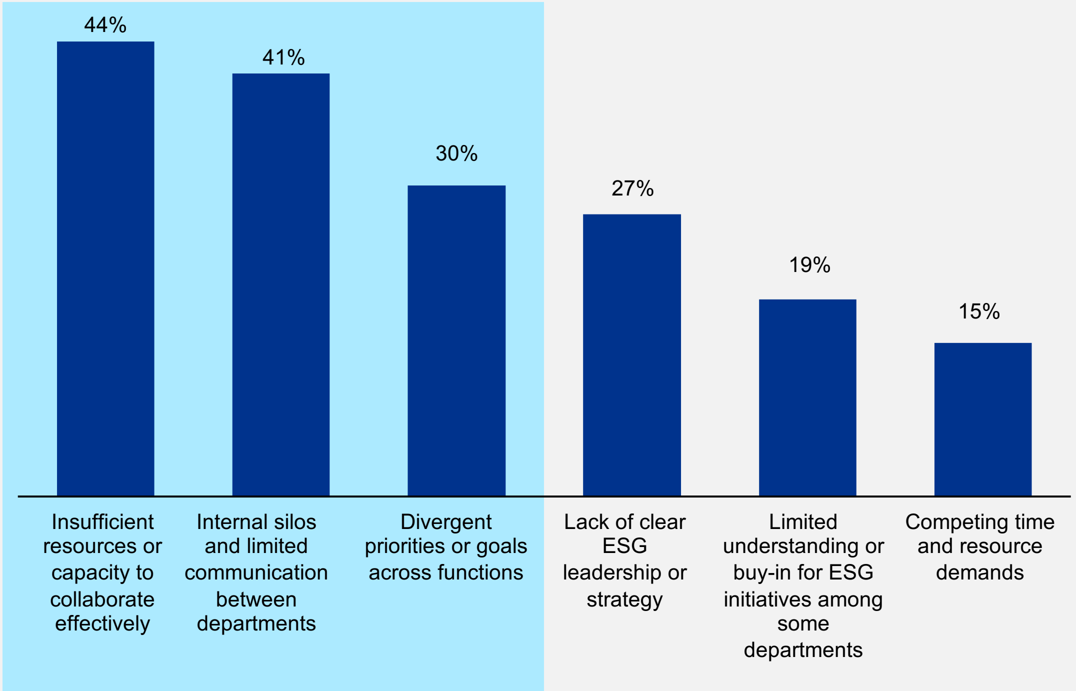


Note(s): Sum does not add up to 100% as it is a multi-select question
Source(s): Sustainability Organization Survey, Oct 2023

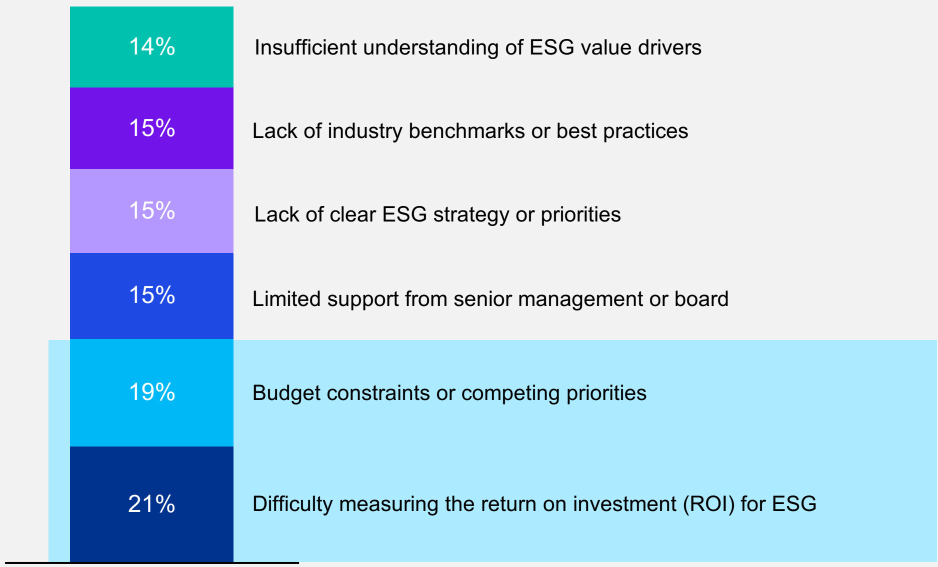
Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Capacity constraints and difficulty measuring ROI on sustainability are the top two challenges organizations are facing

Challenges that impede cross-functional collaboration on ESG matters



Top challenges in allocating adequate financial resources for ESG activities

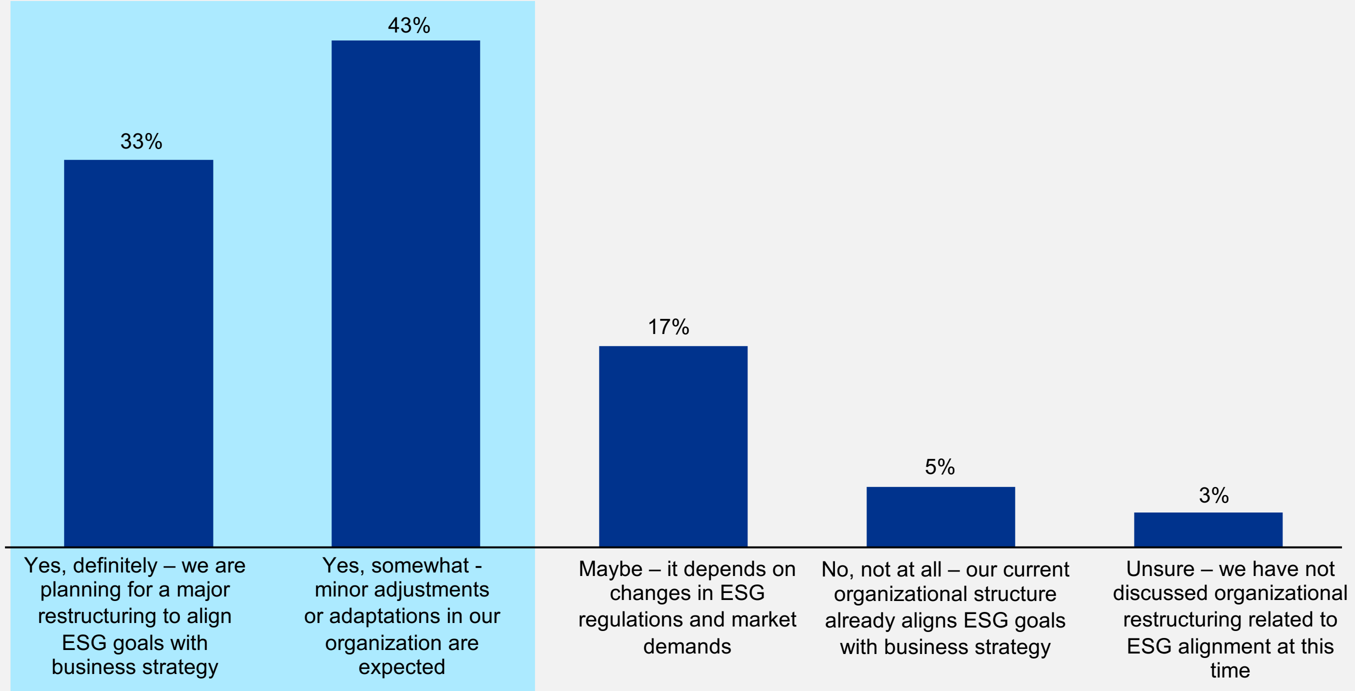


Note(s): Sums are greater than 100% where questions were multi-select
Source(s): Sustainability Organization Survey, Oct 2023

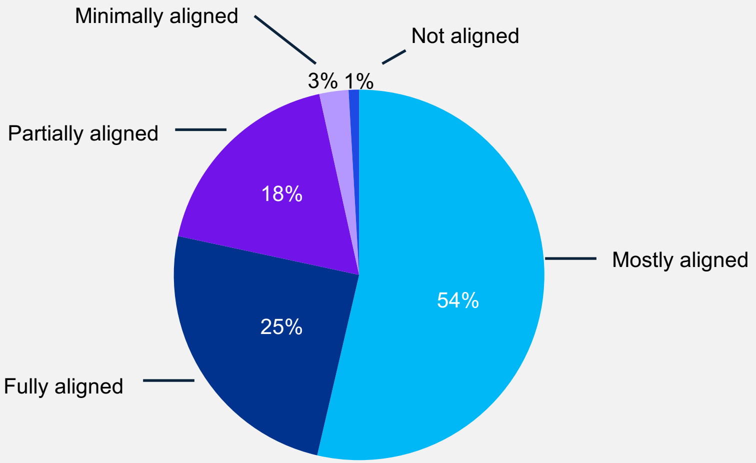
Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Sustainability strategy and reporting efforts need to be aligned, therefore organizations are restructuring to achieve this coordination

Organizational restructuring to better align ESG goals with overall business strategy in the coming years



Challenges that impede cross-functional collaboration on ESG matters

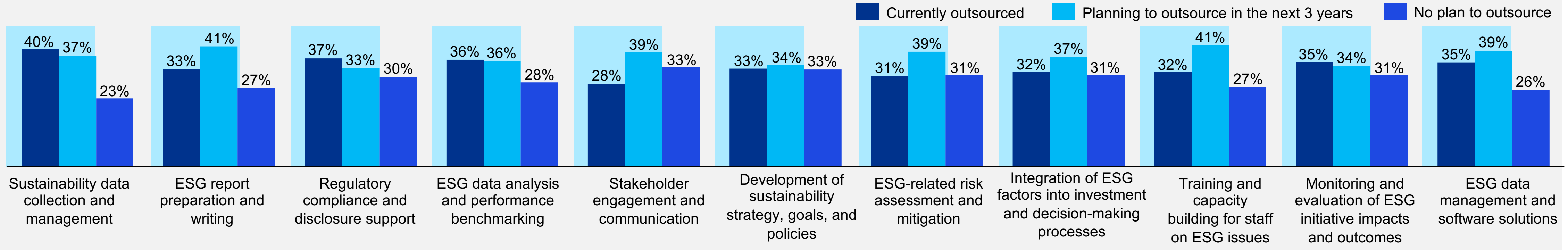


Note(s): Sums are greater than 100% where questions were multi-select
Source(s): Sustainability Organization Survey, Oct 2023

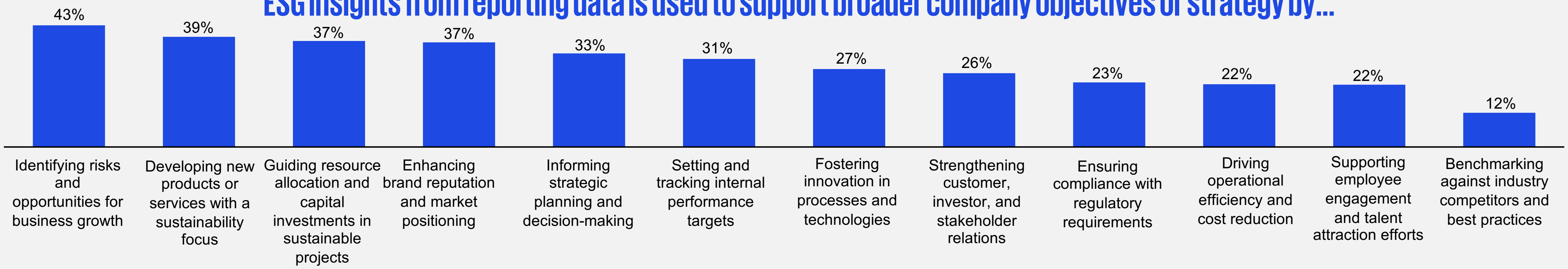
Data management is critical to integrate sustainability goals with overall business objectives

Teams are optimizing their employee mix by outsourcing the majority of sustainability reporting processes and using the reporting data gained to identify risks and opportunities for business growth

Outsourcing mix for ESG reporting processes



ESG insights from reporting data is used to support broader company objectives or strategy by…



Note(s): Sums are greater than 100% where questions were multi-select
Source(s): Sustainability Organization Survey, Oct 2023

04

Sector Insights

Key sector specific insight

ENRC Results

Steve Estes
Sustainability ENRC Lead

"The energy sector faces unique sustainability challenges due to its reliance on natural resources, complex regulatory environment, and stakeholder expectations. This requires unique solutions and organizational structure that ENRC companies will increasingly have to focus on to manage the energy transition and build trust with their stakeholders and regulators."

Rapid investment in sustainability capabilities is top priority

91% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. Dedicated ESG personnel
2. ESG-specific software
3. Compliance and regulatory support

There is a disconnect between perception and preparedness…

90% v. 43%

Many organizations believe they are ahead of peers regarding ESG reporting (90%), but almost half still use **spreadsheets** to manage their ESG data (43%)

Data management is critical to integrate sustainability goals with overall business objectives

Innovative tech is growing in popularity, as:

27% of leading organizations use **advanced data systems** for ESG reporting

56% of organizations plan to improve ESG data collection with **artificial intelligence**

49% see better **ESG data management and reporting** as crucial to integrating ESG goals with business objectives

With access to better information,

92% anticipate an increase in **ESG integration** across roles

Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Top challenges:

53% Insufficient resources and capacity

46% Internal silos

To combat this:

82% will **restructure** teams to better align ESG goals with business strategy

80% or more of all ESG reporting activities are planned to be **outsource**d in the next 3 years

What does this mean for ENRC (Energy, Natural Resources and Chemicals)?

ENRC companies focus heavily on compliance, regulatory support, and emissions reporting due to the nature of their business.

Compared to the broader market, ENRC companies are generally behind in terms of plans to use advanced data systems for sustainability reporting. Knowing that ENRC focuses on regulatory compliance, investment in advanced data systems and accurate reporting is key.

ENRC companies are highly focused on integrating sustainability principles across various roles in their organizations and determining the correct outsourcing mix, as they are facing especially strong internal silos and limited communication between departments.

Key sector specific insight

Financial Services Results

Bryce Wagner
Sustainability FS Lead

"Financial services organizations are placing a great emphasis on improving data management and processes to enhance decision-making and reduce operational inefficiencies. They also have strategic goals to improve their sustainability capabilities and adopt artificial intelligence technologies to improve risk management, customer experience, and operational efficiencies."

Rapid investment in sustainability capabilities is top priority

91% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. Data collection and management tools
2. ESG-specific software
3. Dedicated ESG personnel

There is a disconnect between perception and preparedness…

88% v. 49%

Many organizations believe they are ahead of peers regarding ESG reporting (88%), but almost half still use **spreadsheets** to manage their ESG data (49%)

Data management is critical to integrate sustainability goals with overall business objectives

Innovative tech is growing in popularity, as:

16% of leading organizations use **advanced data systems** for ESG reporting

59% of organizations plan to improve ESG data collection with **artificial intelligence**

51% see better **ESG data management and reporting** as crucial to integrating ESG goals with business objectives

With access to better information,

86% anticipate an increase in **ESG integration** across roles

Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Top challenges:

45% Insufficient resources and capacity

39% Internal silos

To combat this:

79% will **restructure** teams to better align ESG goals with business strategy

73% or more of all ESG reporting activities are planned to be **outsourced** in the next 3 years

What does this mean for Financial Services?

Financial services organizations are increasingly prioritizing the adoption of advanced data collection tools to replace the use of error-prone spreadsheets and enhance decision-making capabilities.

Despite the growing importance of sustainability reporting, many financial services organizations are lagging in their adoption of advanced sustainability data systems that can provide insightful analytics and support more comprehensive reporting.

Financial Services organizations are highly focused on integrating sustainability principles across various roles in their organizations, as they are facing internal silos and limited communication between departments.

Key sector specific insight

Industrial Manufacturing Results

Josh Hesterman
Sustainability IM Lead

"Industrial manufacturing organizations are significantly increasing their sustainability investment and plan to ramp up data collection and management tools and advanced technology. However, they still face divergent priorities and goals due to stakeholder pressures and internal challenges to balance sustainability concerns with financial performance."

Rapid investment in sustainability capabilities is top priority

94% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. Dedicated ESG personnel
2. Data collection and management tools
3. Employee training and education

There is a disconnect between perception and preparedness…

86% v. 49%

Many organizations believe they are ahead of peers regarding ESG reporting (86%), but almost half still use **spreadsheets** to manage their ESG data (49%)

Data management is critical to integrate sustainability goals with overall business objectives

Innovative tech is growing in popularity, as:

13% of leading organizations use **advanced data systems** for ESG reporting

46% of organizations plan to improve ESG data collection with **artificial intelligence**

52% see better **ESG data management and reporting** as crucial to integrating ESG goals with business objectives

With access to better information,

75% anticipate an increase in **ESG integration** across roles

Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Top challenges:

43% Divergent priorities or goals

38% Internal silos

To combat this:

80% will **restructure** teams to better align ESG goals with business strategy

72% or more of all ESG reporting activities are planned to be **outsourced** in the next 3 years

What does this mean for IM?

Industrial Manufacturing organizations are increasingly prioritizing the adoption of advanced data collection tools to replace the use of error-prone spreadsheets and enhance decision-making capabilities.

Despite the growing importance of sustainability reporting, many industrial manufacturing organizations are lagging in their adoption of advanced sustainability data systems that can provide insightful analytics and support more comprehensive reporting.

Industrial manufacturing organizations are facing divergent priorities or goals with respect to sustainability possibly because implementing sustainability measures can be costly and may require significant change to their organizations and supply chains.

Technology, Media and Telecommunications Results

Marcus Leach
Sustainability TMT Lead

"TMT organizations are focused on strengthening their sustainability data collection and management capabilities to better measure and report their sustainability performance. sustainability integration across roles is another key area TMT organizations are implementing to combat divergent priorities or goals across teams."

Rapid investment in sustainability capabilities is top priority

94% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. Data collection and management tools
2. ESG-specific software
3. Dedicated ESG personnel

There is a disconnect between perception and preparedness…

78% v. 38%

Many organizations believe they are ahead of peers regarding ESG reporting (78%), but almost half still use **spreadsheets** to manage their ESG data (38%)

Data management is critical to integrate sustainability goals with overall business objectives

Innovative tech is growing in popularity, as:

17% of leading organizations use **advanced data systems** for ESG reporting

46% of organizations plan to improve ESG data collection with **artificial intelligence**

42% see better **ESG data management and reporting** as crucial to integrating ESG goals with business objectives

With access to better information,

74% anticipate an increase in **ESG integration** across roles

Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Top challenges:

46% Internal silos

35% Divergent priorities or goals

To combat this:

65% will **restructure** teams to better align ESG goals with business strategy

72% or more of all ESG reporting activities are planned to be **outsourced** in the next 3 years

What does this mean for TMT?

Industrial Manufacturing organizations are increasingly prioritizing the adoption of advanced data collection tools to efficiently track sustainability data.

Compared to the market, TMT organizations are behind in using advanced data systems for sustainability reporting, but action is being taken quickly as investment in sustainability reporting is increasing in coming years.

TMT organizations are focused on integrating sustainability principles across various roles in their organizations, as many are facing internal silos and limited communication between departments.

Consumer and Retail Results

Julia Wilson
Sustainability C&R Lead

"C&R organizations are increasing their investment in sustainability initiatives, recognizing the importance of sustainable business practices as key drivers of long-term business success. However, many companies are still lagging in utilizing advanced data analytics tools, which may limit their ability to effectively manage and improve their sustainability performance over time.

Rapid investment in sustainability capabilities is top priority

97% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. Dedicated ESG personnel
2. Employee training and education
3. Compliance and regulatory support

There is a disconnect between perception and preparedness…

78% v. 61%

Many organizations believe they are ahead of peers regarding ESG reporting (78%), but almost half still use **spreadsheets** to manage their ESG data (61%)

Data management is critical to integrate sustainability goals with overall business objectives

Innovative tech is growing in popularity, as:

8% of leading organizations use **advanced data systems** for ESG reporting

50% of organizations plan to improve ESG data collection with **artificial intelligence**

44% see better **ESG data management and reporting** as crucial to integrating ESG goals with business objectives

With access to better information,

81% anticipate an increase in **ESG integration** across roles

Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Top challenges:

42% Internal silos

36% Insufficient resources or capacity

To combat this:

78% will **restructure** teams to better align ESG goals with business strategy

69% or more of all ESG reporting activities are planned to be **outsourced** in the next 3 years

What does this mean for C&R?

Close to 100% of C&R organizations will increase their investment in sustainability in the coming years and are focusing on compliance and regulatory support.

C&R organizations are significantly lagging in utilizing advanced data systems for sustainability reporting.

C&R organizations are realigning departments to better integrate sustainability goals with overall business strategy.

Key sector specific insight

Healthcare and Life Sciences Results

Jim Koch
Sustainability HCLS Lead

"Healthcare and life sciences organizations are increasingly investing in sustainability initiatives and technology to advance sustainability and responsible governance. However, HCLS organizations face unique challenges in scaling innovative technologies and combating resource constraints."

Rapid investment in sustainability capabilities is top priority

84% Will **increase their ESG investment** in the next 3 years

Top areas of future investment are:

1. External consulting or advisory services
2. Data collection and management tools
3. Employee training and education

There is a disconnect between perception and preparedness…

78% v. 37%

Many organizations believe they are ahead of peers regarding ESG reporting (78%), but almost half still use **spreadsheets** to manage their ESG data (37%)

Data management is critical to integrate sustainability goals with overall business objectives

Innovative tech is growing in popularity, as:

19% of leading organizations use **advanced data systems** for ESG reporting

55% of organizations plan to improve ESG data collection with **artificial intelligence**

37% see better **ESG data management and reporting** as crucial to integrating ESG goals with business objectives

With access to better information,

84% anticipate an increase in **ESG integration** across roles

Structural challenges hinder ability to integrate sustainability strategy into broader business goals

Top challenges:

49% Insufficient resources and capacity

36% Internal silos

To combat this:

78% will **restructure** teams to better align ESG goals with business strategy

66% or more of all ESG reporting activities are planned to be **outsourced** in the next 3 years

What does this mean for HCLS?

HCLS organizations are planning to significantly increase spending on external consulting or advisory services to leverage expert advice and guidance to navigate complex sustainability challenges.

Compared to the market, HCLS organizations are behind in implementing advanced data systems for sustainability reporting and are less likely to equate sustainability data management and reporting with overall business strategy.

HCLS organizations are facing capacity constraints with respect to sustainability and are looking to restructure teams to combat this.

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

MADE in KPMG DAS-2024-14338