Sustainable is attainable

Build ESG capabilities with Integrated Value Reporting

accenture

The urgency for organizations to be more sustainable has never been greater, with mounting pressure from investors, customers, and regulators

The next big concern among these stakeholders is the challenges, risks, and financial impact that the move to sustainability can have on companies. While it may seem daunting, this pivot to sustainable performance can actually create opportunities for long-term value creation and growth.

Investors are looking for more clarity, relevance, and comparability when it comes to environmental, social and governance (ESG) metrics and measurement. Responsible investing goals and non-financial disclosure regulations and expectations are growing, and companies are being asked to align their strategy and commitments with ESG frameworks and standards. Customer expectations are radically changing, showing greater loyalty to environmentally sustainable products and services. Businesses we work with are being asked to take a stand on issues, with investment strategies that align with broader purpose-linked beliefs.

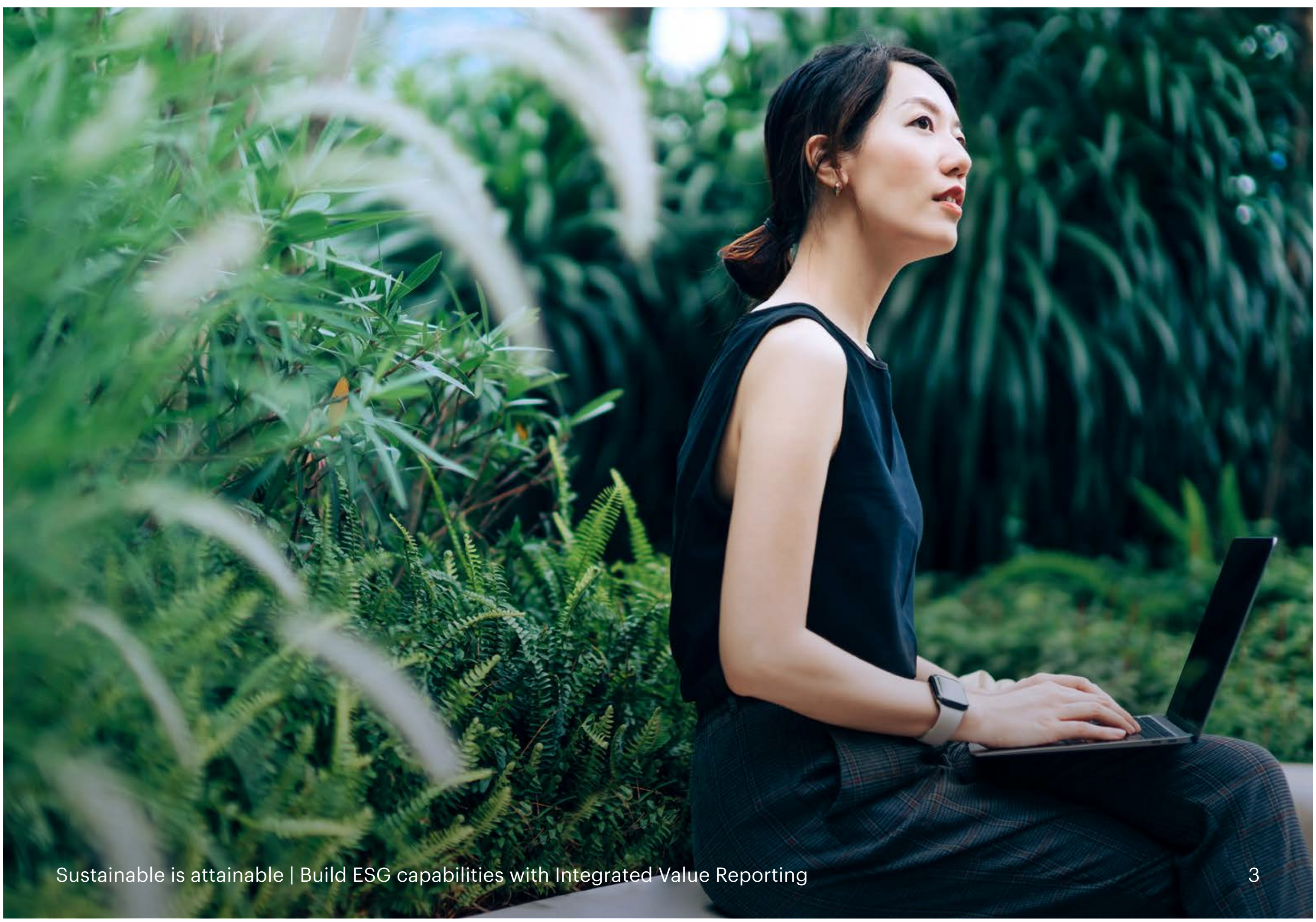
Recently, escalating pressures are coming from regulators like the U.S. Securities and Exchange Commission (SEC) and standard-setters like the International Sustainability Standards Board (ISSB).

The SEC recently proposed new rules for critical climate disclosures for all domestic and foreign companies that are publicly traded in the U.S. These would require companies to disclose climate-related risks, Scope 1 and 2 greenhouse gas (GHG) emissions among other data, in their annual reports and prospectuses. These rules closely align with the Task Force on Climate-related Financial Disclosures (TCFD) reporting framework, aiming to drive standardization in qualitative and quantitative disclosures on climate-related issues.

Similarly, in an effort to meet greater sustainability-related disclosures standardization, the ISSB has published two drafts for consultation: the [General Reporting Requirements] which requires entities to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value; and the [Climate-related Disclosures] which focuses on information that allows financial reporting users to understand how climate-related matters and the associated risks and opportunities affect business operations and resilience.

As a result, materially relevant ESG topics are expected to become part of regulated disclosures, and data quality within companies needs to be audited and/or assured.

The imperative is clear: organizations need to have a more strategic and integrated view on ESG, especially climate-related disclosures. Businesses need to reframe their strategy and narrative around enterprise value. They need to reshape the organization and culture and embed sustainable thinking across the company. They also need to retool processes and provide access to the right data at all levels to transform and scale the business and unlock sustainable business value.



However, across industries we see a common set of challenges

Data and digital, which are at the heart of ESG reporting, are often disconnected and of poor quality.

A global Accenture survey of finance executives revealed that setting clear sustainability targets is the first step, but there's still a significant gap between targeting and transitioning. In our research, Measuring sustainability. Creating value, over half of finance leaders indicated that their company has neither defined key performance indicators (KPIs) for ESG nor aligned on appropriate data sources.

Additionally, once KPIs are set, the data systems that support them should be present, efficient, and accessible – and this proved to be an even larger hurdle for the companies we surveyed. Nearly three-quarters do not have clear, reliable data to measure and monitor their sustainability goals, and another 70% still use manual or semi-automated processes for their ESG reporting.

Lastly, we found that capability gaps prevented companies from taking ESG reporting to the next level. Over half of finance leaders cited inadequate skills as a challenge to measuring and reporting ESG performance.

The vast majority acknowledged that ESG reporting was not yet embedded into core operational and management systems. This is largely due to a lack of understanding of ESG functions and their siloed nature.

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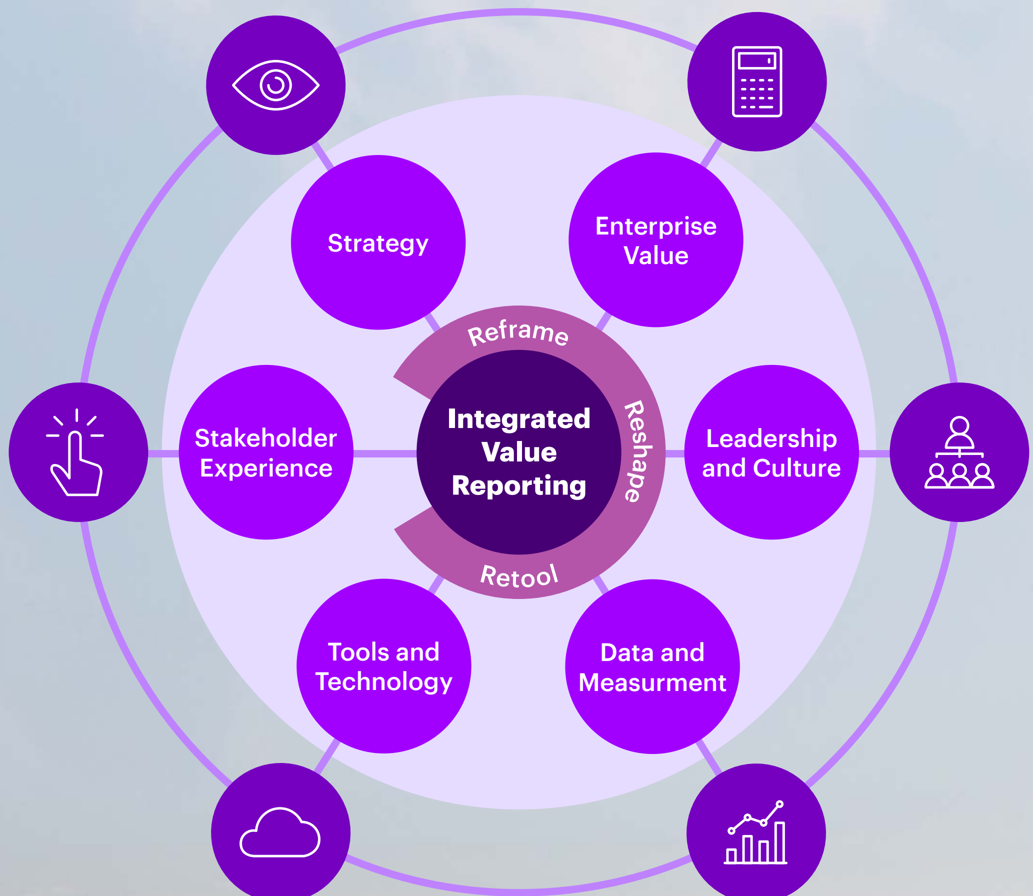
To bridge these gaps, companies need to take an integrated reporting approach across six key pillars. This approach developed by Accenture, helps build end-to-end reporting capabilities as well as realizing top- and bottom-line sustainable benefits across the enterprise. An Integrated Value Reporting (IVR) approach helps create the right strategy, linked to business value. It also helps companies focus on executing and operationalizing their strategy to drive better governance, disclosures, and more informed business decisions (see Figure 1). Companies we work with have leveraged IVR to reframe, reshape and retool their organizations to deliver on their sustainable commitments.

> Companies need to shift focus from the "Why" to the "How" of sustainability.

Figure 1. Accenture's Integrated Value Reporting for ESG



Source: Accenture April 2022

The six pillars can be used to move from ambition to action

For example, depending on how advanced a company's approach to ESG, it can focus on one or two pillars that are best aligned to its current state, or use the pillars in an integrated manner. The following outlines how an organization would use the IVR approach.

Create a "strategy" for building sustainable value

Put ESG at the heart of your business strategy. Conduct assessments, confirm your company's material ESG topics, and prioritize sustainability-based initiatives to unlock business value and deliver on your sustainable development goals (SDGs).

Rethink how you define "enterprise value performance" beyond reporting

Select metrics, identify frameworks, and define your internal KPIs that integrate financial value and impact metrics. Embed these within your performance processes and business planning, talent and training, and capital allocation.

Embed sustainability in the inner workings of "leadership"

Secure leadership and board commitment early in the process. Develop a program to embed sustainability in the DNA of all processes across the organization. This includes hardwiring your company's purpose into your culture; clarifying governance; defining your inclusion and diversity ambitions; and completing your upskilling and reskilling plans.

Focus on measurement, accountability, and governance

Develop an ESG data strategy, build a robust data model and governance framework. Establish a single source of truth for ESG metrics with consistent taxonomy, define a calculation engine with clear lineage between internal and external data sets. Evolve dashboarding and analytics capabilities to test and operationalize scenario models.

Leverage technology solutions to collect and curate ESG data

Define a technology architecture that automates data flows and create processes that can transform ESG data into something useable and easy to understand. Using principles outlined in "Sustainability in tech and by tech," select the right tools to improve analytics and power reporting.

Deliver on stakeholder expectations and requirements

Design digitally enabled interactive experiences that make ESG information accessible and applicable, serving a wider stakeholder community.

Accenture's Measuring sustainability. Creating value research also revealed correlations between ESG performance and profitable growth, for companies willing to take an integrated view of operation and impact that goes beyond just reporting and disclosures. Companies with consistently high ESG performance tended to score 2.6x times higher on total shareholder returns than companies with medium ESG performance. Even more impressive, these ESG high performers enjoyed operating margins that are 4.7x higher than those of their medium-level peers.

By following these steps, companies can move along the ESG maturity curve from foundational to leading in their journey to sustainable performance. The Accenture IVR approach to ESG can also drive more

> Technology is one of the greatest enablers of sustainability, delivering the speed and scale necessary for a system-wide transformation.

effective decision-making across the enterprise. It can deliver on stakeholder expectations and unlock trapped ESG value for the business.

The shift to an IVR approach to sustainable growth is demanding, but the benefits are worthwhile. Accenture has begun its IVR journey and has found it increasingly critical to success.