Measuring sustainability. Creating value

Time to rethink performance and redefine success
COP26 succeeded in re-focusing minds on sustainability. New standardized global reporting is on the horizon. Now is the time to go beyond simply reporting and disclosure. A real opportunity exists for leaders to drive a new era of performance by leveraging technology and new ways of working to bring the right ESG data to the right decision makers at the right place in organizations.
Some companies have made sustainability commitments, such as cutting greenhouse-gas emissions to net zero in the coming years. A few have a scientifically validated target in line with a 1.5°C global temperature increase. Many others have a long way to go.

The formation of the Glasgow Financial Alliance for Net Zero (GFANZ) – a coalition of financial companies collectively accounting for $130 trillion in private capital – signals to companies that their ability to raise capital will increasingly be tied to sustainability objectives. The UK government, meanwhile, is outlining legislative changes to mandate sustainability disclosures.3

However, deficiencies in the ability of companies to target, manage, measure, and report sustainability performance still hamper the ability of businesses to effectively deliver on their sustainability commitments. Just 5% of European companies are on track to meet their own net-zero targets.3

Shareholders and stakeholders will not wait for companies to fix their data deficiencies. The International Financial Reporting Standards Foundation (IFRS) announced at COP26 that a new International Sustainability Standards Board (ISSB) will be developed, to create a global baseline of sustainability disclosure standards. This will start to remove many of the issues associated with multiple disclosure frameworks.4

Meeting demands for sustainability data will be integral to company performance. So how can these deficiencies be overcome? In this report we highlight the four key questions business leaders should be asking about their ability to manage and measure their sustainability performance and report on progress. Reliable data will allow people to make better decisions at every level of the organization, thus creating greater business value and sustainability impact.

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What’s the impact of ESG on existing business models?
Business leaders now widely recognize that stakeholders expect companies to be taking sustainability – translated through ESG metrics – seriously. Indeed, doing so is likely to be rewarded by the market. CFOs play a central role as they set targets, oversee performance and engage strategically with the capital markets. Between 2013 and 2020, companies with consistently high ESG performance tended to score 2.6x higher on total shareholder return (TSR) than medium performers.\(^5\)

There are likely to be many mechanisms at play here. Sonia Thimmiah, Head of Sustainable Brands and Customer Partnerships at Reckitt, notes from her own firm’s experience that the introduction of the right sustainability KPIs “has driven innovation like a juggernaut.”\(^6\)

Most companies now recognize that ESG is linked to performance, not merely compliance. As a result, they are taking steps to evaluate the potential risks and opportunities that ESG has on their businesses.

Indeed, in our ESG Measurement Study of finance leaders (see About the Research), almost four fifths (78%) claimed to be seeking to understand the financial risk to their business that sustainability represents. Almost three fifths (59%), meanwhile, have done something about it already, by launching a new company mission or purpose in the last 18 months due to ESG considerations.
But it’s not enough to explore risks and opportunities, or simply tweak your corporate vision. We need ambitious public commitments that signal serious intent to the market—what Ben Story, Chief Strategy Officer of Rolls-Royce, terms a “North Star.”

Executives claim that they are building out such commitments. Nearly three quarters (71%) of CEOs globally say they are actively working to develop a net-zero emissions target. But many continue to drag their heels on delivery. As of last June, half of the largest 30 oil and gas companies still did not have a net-zero target for example, despite their role in the climate crisis and transition to sustainability. Investor pressure has stepped up accordingly, with many climate-conscious activist investors, such as Engine No. 1, forcing changes from industry incumbents.

ESG matters to the market—and therefore to business value. To satisfy market demands and make sure that the impact of ESG remains an opportunity more than a financial risk, companies should, as a starting point, publicly commit to science-based targets. These can be externally scrutinized, and can chart a sustainability trajectory that is in line with the scientific consensus about what needs to be done.

As of early January 2022, only 1095 companies globally have put science-based emissions reduction targets in place through the Science-Based Targets initiative (SBTi). But the number is growing, and the market is expected to be unforgiving to those that delay.
What you can do

Creating a strategy for sustainable value

Key points to consider:

- Commit to establishing value targets as defined by the C-suite and set by CFOs – sustainability strategy and ambition – towards, for example, net zero, circularity, or delivery of the United Nations’ [Sustainable Development Goals](https://www.un.org/sustainabledevelopment/).
- Define the vision and purpose across 360° value to drive internal action (through a stakeholder engagement process) and external reporting.
- Take action to better understand reporting aspects but focus on how value is created through sustainable business performance.
As the destination is sustainable performance, what’s the route?
Setting clear sustainability targets is the first step. But there remains a significant gap between targeting and transitioning. Defining clear accountability throughout the organization that underpins the journey to reaching those sustainability targets is the next requirement, and yet many companies have been slow to act on this front.

As Richard Mattison, President of S&P Global Sustainable1, puts it, “we have the destination plotted but we don’t necessarily know what the route map is.”

For some, achieving their sustainability targets involves complete business model shifts. This is especially true when a company’s core products or services have no place in a sustainable future – think of the gas boiler or the fossil-fuel based internal combustion engine. A traditional automotive manufacturer, for example, would need to rethink not just its products but its entire set of operations – from manufacturing and training, to selling and its alliances. This means addressing and reducing all its Scope 1 emissions (direct from operations) and Scope 2 emissions (from electricity use). A clear sustainability commitment still needs significant planning to really happen beneath the hood.

Much of this planning will need to be communicated through the setting of near-term targets. As financial institutions and rating agencies increasingly scrutinize sustainability plans and performance, such targets will be needed if they are to trust that companies are on track.

For example, Celine Herweijer, Group Chief Sustainability Officer at HSBC, asserts that “moving forwards we will expect clients to disclose their transition plans and provide regular updates regarding implementation progress, starting with the most carbon intensive industries like thermal coal in 2022/2023.”

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At the same time, though, achieving sustainability targets means more than fixing things that are within your control – cleaning up manufacturing operations, and switching to renewables for example. It means reducing your impact along the entire value chain (Scope 3). According to CDP Worldwide, supply chain emissions are typically more than 11x higher than operational emissions. But managing sustainability in the supply chain is more complex. It demands the tracking and interoperability of data throughout the value chain, the use of procurement power to shift demand in a sustainable direction, and intense collaboration with allies, vendors and partners to clean up their Scope 1 emissions that become your Scope 3 emissions. But for most companies, cleaning up the supply chain is daunting. In our joint global study with the United Nations Global Compact, 63% of CEOs said that difficulty in measuring ESG data across the value chain is a barrier to achieving sustainability in their industry. To manage this, a clear and granular grasp of the detail is required, which companies tend not to have. In our ESG Measurement Study of finance leaders, not even half (47%) indicated that their company has both defined the KPIs when it comes to ESG and aligned on the right data sources. Without this, sustainability value creation cannot be tracked, traced, and managed. And they are struggling to fix this. Almost half (49%) of respondents point to the “inability to identify the right metrics and draw actionable insights” as a top challenge to measuring ESG performance. Many companies are still managing blind.

At Accenture, we work with our ecosystem partners – from the largest software and cloud companies to small, disruptive innovators – to build very specific measurement and performance tools.

Schneider Electric is working with its top 1000 suppliers to halve their emissions from operations by 2025. For example, as part of their global partnership on climate and sustainability services, Schneider Electric and Accenture helped a leading European grocer define key Scope 3 decarbonization levers, which accounts for c. 80% of total emissions. More than 30 levers were assessed, and the most critical ones were highlighted. Facilitating access to renewable energy for the grocer’s suppliers was a lever that was projected to have the most impact, and the team is now investigating ways to implement this.

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A new approach is required. Companies need to prioritize working out what is material to their own journey. This means putting renewed effort and focus into figuring out the indicators that matter to their own business, and on finding the requisite data sources. Achieving this is likely to involve extensive collaboration with ecosystem vendors, alliances and partners, both to define and agree on which frameworks to use, and to collect the value chain data that can allow them to genuinely become sustainable.

As Marcelo Behar, Vice President of Sustainability & Group Affairs at Natura & Co, emphasizes, “collective initiatives are so important” to the achievement of sustainability goals.17

This approach requires proper accountability. Our ESG Measurement Study suggests that companies are much more likely to extensively embed ESG in core management processes when the CFO has accountability for ESG metrics (59% where CFOs were accountable owners, vs 38% for the rest of the sample).

This makes sense, given the role that finance leaders need to play in bringing rigor and clarity to this area. Indeed, the formation of the International Sustainability Standards Board (ISSB) will create a global baseline of disclosure standards, which the market will come to demand companies adhere to.18 As the custodian of a company’s data and reporting, the CFO is therefore well-placed to own a management process that will allow companies to reach their sustainability targets.
What you can do

Focusing on measurement, accountability and effective management

Key points to consider:

- Assess and influence the sustainability “DNA” of the organization.
- Transform the operating model through organization design, and the latest tools and capabilities to deliver lasting impact.
- Embed responsibility in every area of the business to drive fundamental shifts towards 360° value creation.
- Include ESG considerations in the allocation of resources.
How does the right ESG data inform the route?
But even if you have developed appropriate KPIs that are material to your business, the data that underpins them is still required. And, for this, identifying the right data sources may not be enough. You also need to collect, analyze and curate the data.

So how do we stop data collection from being another bottleneck? In our ESG Measurement Study, only 26% of surveyed finance leaders could agree that they had clear, reliable data to underpin their ESG KPIs. But there seems to be a clear reason for this: most companies have not yet extended their measurement capabilities and infrastructure to ESG data. In less than one third of cases (31%), ESG reporting is fully embedded in core operational and management systems, with just under 70% still claiming that manual or semi-automated processes were used. S&P’s Richard Mattison points out that the cobbling together of data in this unstructured way can leave companies open to the charge of “unintentional greenwashing.”

If commitments that companies make are littered with “data holes” rather than clear, consistent data, trust in their performance on sustainability may plummet.19

To make matters worse, these deficiencies in data collection are compounded by a scarcity of necessary skills, with more than half (54%) of finance leaders citing inadequate skills or talent as a key challenge to measuring and reporting ESG performance. And this problem often extends throughout the organization, up to the board level, where (according to NYU Stern researchers) there is typically a dearth of ESG expertise.20

Richard Mattison corroborates this, noting that at S&P, “we run in-depth education sessions for board members on how sustainability is being integrated into capital allocation decisions”. For some companies, though, the emphasis may need to be on bringing in new talent as well as retraining.

As Julia Hoggett, CEO of the London Stock Exchange, asks rhetorically:

“When I was at the FCA and considering how TCFD (The Task Force on Climate-related Financial Disclosures) would be supervised, I had to ask myself, do I now need to hire a whole lot of climate scientists and teach them to be ‘corporate finance geeks’? Or do I need to take my superb corporate finance geeks and teach them to be climate scientists?”21

Setting targets and building a clear plan to get there is crucial. Asked if they had clear, reliable data to underpin their ESG KPIs, only 26% of surveyed finance leaders could agree.
Deficiencies in the way sustainability data is collected indicates that it is evidently not yet treated as core-business data. Financial and ESG data are given very different levels of importance. Companies should recognize and rectify this gap. The good news is that the current and emerging technology solutions that are available for conventional metrics should also be applicable to ESG data. Automating reporting processes should be scalable to ESG data for example – and indeed, our earlier research on the role of the CFO found that 60% of companies had automated traditional tasks for financial reporting.22

This gap can be closed quickly by deploying existing technological solutions. Cloud and platform providers can play a pivotal role in allowing value chain members to bring together their data, so it can be reported in a secure way. Some providers have ESG modules that can be added to enterprise planning toolsets, for example. The technology has been developing rapidly and has emerged in conventional contexts. It now needs to be deployed in an ESG context to aid the collection of data that can allow for proper measurement of performance and progress on the journey to sustainability.

As Reckitt’s Sonia Thimmiah observes about her own company’s reporting, “the days of spreadsheets are gone, I’m happy to say, and technology has been absolutely key.”23
Leveraging technology solutions to collect and curate the right sustainability data

Key points to consider:

- Design end-state ESG data ingestion, storage and reporting solutions that enable analytics and decisioning capabilities.
- Define a clear plan to capture metric data from source systems and establish quality and readiness for disclosure.
- Agree on the key metrics for value creation, internal performance and alignment to frameworks and standards.
How can sustainable performance be communicated to all stakeholders?
Reporting is vital and companies are under considerable pressure to disclose. In fact, we expect the market to seek to report sustainability data as definitively as financial data. The move to create the ISSB and GFANZ makes this clear, both of which will weave sustainability into the capital allocation process. The process is clearly already underway, as S&P’s Richard Mattison points out: “ESG considerations affected 2,300 credit rating actions last year”, many in a negative direction.24

So it’s perhaps surprising to see that almost half of companies (44%) surveyed as part of the ESG Measurement Study cite an “inability to define/prioritize material ESG issues for disclosure” as one of the top challenges for measuring and reporting ESG performance.

The ISSB should eventually provide guidance on this, but our survey findings suggest that even with pristine ESG data, businesses may not be ready for the changing requirements around disclosure in an increasingly demanding market, especially since most are unlikely to have accurate, up-to-date ESG data anyway. Indeed, quality and reliability are more likely to be a serious concern. Only a tiny minority (16%) of respondents indicate that their company’s ESG reports were independently audited.

Although they are vital, it’s obvious that reporting and disclosure requirements alone will not engineer the reorganization that’s needed to deliver real sustainability and unlock new sources of financial value.
Sustainability impact and value need to be understood, mapped and targeted. KPIs need to be set and high-quality data needs to flow where it’s needed, across company functions and throughout their ecosystems.

In other words, business enterprise performance management needs retooling and rewiring, so that sustainability is embedded throughout the organization’s systems and culture from the outset, rather than being an afterthought. Tracking against clear targets, managing the journey towards them and measuring performance accurately means an organization will be able to demonstrate impact in a transparent and trustworthy way. Those are the results you then report – in an integrated way – with other aspects of value.

As Ben Story, of Rolls-Royce puts it, “We have been measuring complex ecosystem outcomes for decades now... The more we can make those outcomes visible, the more we can drive change and get to those sustainable solutions.”

If an organization has not performed optimally against its sustainability targets or cannot accurately assess and report on that performance, value will be left on the table.
What you can do

Re-thinking the definition of performance by going beyond reporting and disclosure

Key points to consider:

- Align on a strong narrative that presents an effective storyline for key metrics and KPIs while balancing value and impact.
- Bring together data and interactive tech capabilities for a unified approach to ESG/sustainability communications.
- Obsess about the user experience from the outset.
- Rewire the organization to drive integrated reporting that meets the needs of multiple stakeholders.
Conclusion

Poor quality ESG data undermines efforts to achieve sustainability goals, and increasingly falls short of what the market demands. Yet thanks to a variety of measurement and collection challenges, poor quality data remains the norm. As standards are consolidated and clarified, and governments move to mandate disclosures, companies will need to act.

However, demand for compliance should be the minimal reason to measure and manage ESG. As we have seen, sustainability is a driver of performance and value creation, and managing it properly can enhance business outcomes.

Our ESG Measurement research findings (and this report) offer guidance on how to do this, prompting companies to consider the targets they need to meet, their management plan for implementing sustainability, the tools and capabilities to collect the necessary data, and their insights and disclosures.

By embedding change in the culture, rewiring to optimize sustainability performance and retooling the organization to deliver, real sustainability impact and value is achievable.

As the custodian of the company’s reputation in the financial market, the CFO is well placed to orchestrate this by working in partnership with functions across the company to identify, extract, interpret, and report all the required data. But responsibility for defining sustainable performance and delivering value and impact ultimately lies with all leaders. Reflecting on the four questions that we pose should make for a promising start.

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Accenture also convened and conducted an expert panel discussion at COP 26 with six executives from different industries, working in sustainability. The event took place in Glasgow, UK, on 4 November.

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