



ESG Reporting: A lever for Transformation

People can be the key to
unlocking ESG Value Creation





Whole organisation ownership and participation in the ESG agenda is the key to unlocking ESG Value Creation

The context

The prominence of ESG reporting regulations has led to it becoming a strong feature of the sustainability agenda for many businesses. With a host of both mandatory reporting regimes, and voluntary frameworks impacting businesses, the focus of efforts to improve a businesses' sustainability could quickly turn into a compliance challenge.

Our recommended approach

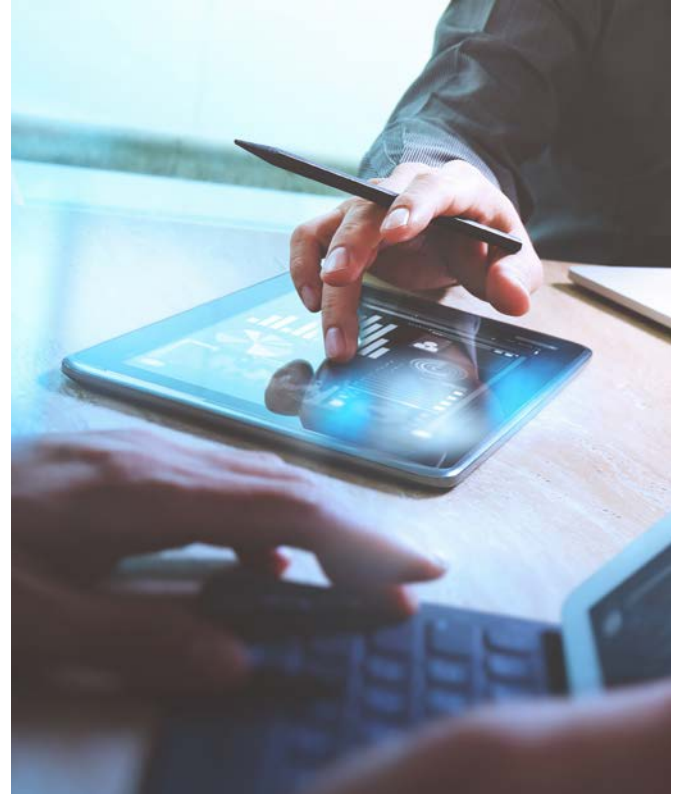
The temptation to consider ESG reporting as a matter of compliance is high, however in our view rather than an obligation to comply with, organisations should use ESG reporting as a catalyst for transformation and a lever to engage the whole organisation in the delivery. The topics typically covered are those that have potential to deliver significant business value.

Taking the Corporate Sustainability Reporting Directive (CSRD) as an example; by adopting an approach that considers this as a blueprint to drive and achieve a strategy for a sustainable business, organisations will achieve greater return on their efforts than viewing it as a regulatory compliance obligation or a 'readiness' exercise. Either way huge change will be required for most businesses.

The benefits

Organisations that choose to use CSRD as a mechanism to drive real change within their organisations, can gain tangible benefits. KPMG's CEO outlook, noted that of the business leaders surveyed, 70% agreed that ESG programmes have improved their financial performance, up from 37% in the previous survey with key benefits including;

- reduced cost of capital;
- improved resilience of assets; and
- enhanced employee and customer retention.



The importance of people and culture

Engaging the workforce and putting the right foundations in place as the regulatory timeframes close in, will require a more fundamental shift in mindset and full engagement of the business. Considering ESG through the people lens can be one of the major accelerants to unlocking value creation from sustainability efforts. Tangible results can be better achieved (and can therefore be reported upon) through an engaged workforce that can see, feel and are able to contribute to the success, in a transformed culture of ESG Excellence.



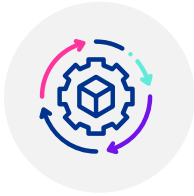
Never has it been more important for organisations to be a catalyst for positive change. Corporate sustainability should not be regarded as a simple compliance exercise - it should be part of everything an organisation does. The time is now for organisations to rethink their purpose, using ESG is a lever in reimagining culture. Behaviours are what will ultimately drive the biggest change in an organisation's impact on not only the climate but biodiversity, human rights, inclusion and diversity, and the ethics of how business is conducted"

Conor McCarthy



Making Transformative Change Happen

The far reaching disclosure requirements of CSRD and other ESG reporting frameworks will require change that extends beyond the finance function, to the level of organisational impact associated with significant business transformation. For many organisations, change will be required across core operational and support functions that assume responsibility for:



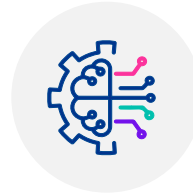
Operations & Supply chains



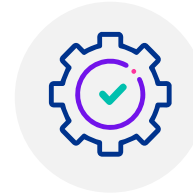
Compliance & governance



Skills, talent & capacity



Technology & data



Resource management

Ultimately, core elements of process and technology will need to be updated to achieve ongoing compliance with the directives, along with the associated costs, however, the greatest opportunity for transformative change will be achieved through an organisation's people. To deliver this change effectively, there are some priority elements that can be considered 'table stakes':

01

A simple, compelling

Vision: Anchor your efforts in a compelling and strong vision on sustainability. Your vision for your ESG ambitions should be rooted firmly in your strategy, with a need for understanding and ownership both at senior levels and cascaded throughout the organisation. This is best achieved when this vision is visual and simplified and resonates at all levels of the business.

02

Leadership alignment:

In our experience, transformative change progresses most effectively where leaders are aligned on the 'end game'. Without true alignment of the leadership, the choices to be made to unlock true value will be compromised. Test this alignment before you begin, and consider linking leadership remuneration to the outcomes, to progress your transformation with an increased level of assurance.

03

Constant dialogue:

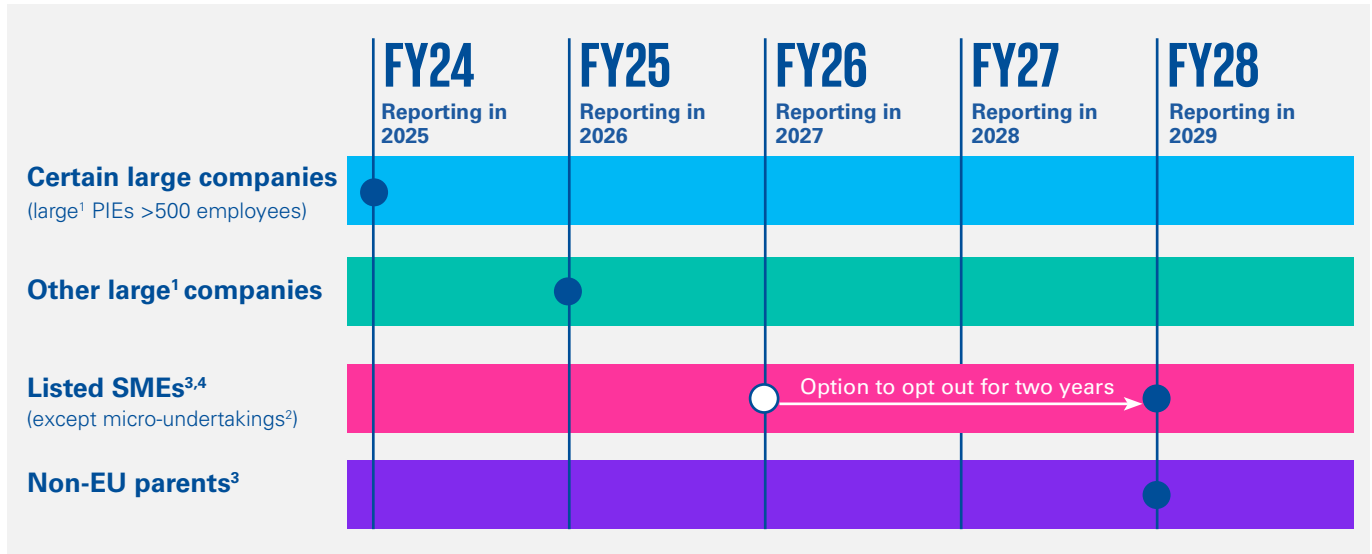
There is a difference between engagement and communication, as true engagement involves dialogue. Organisations need to provide clear opportunities for feedback which are offered and undertaken in an authentic way. In our view the tipping point for any culture change is that 20% of the workforce are influencers and will need to truly believe in the change.

04

Educate your teams:

Employees may struggle to make the connection between ESG and their role. In addition to dialogue, ESG training programmes will help them uncover 'the why' required for transformative change and ultimately enhance their active participation.

Corporate Sustainability Reporting Directive – a snapshot



¹ Large companies are those that, on the balance sheet date, exceed two of the following three criteria (including EU and non-EU subsidiaries): 250 employees, net revenue of EUR 40m or total assets of EUR 20m

² Exemptions apply, for example, for micro-undertakings (companies that do not exceed two of the following three criteria (including EU and non- EU subsidiaries): 10 employees, net revenue of EUR 700,000 or total assets of EUR 350,000 and for certain debt listings.

³ Separate standards will be developed for SMEs and non-EU parent companies.

⁴ Small and non-complex institutions and captive insurers are treated like listed SMEs(the option to opt out until 2028 does not apply unless they also meet the definition of an SME).

Overall requirements:

- Inclusion in the Annual Report
- External (limited) assurance (as from FY2024)
- Reporting principles
- Format and timing

General disclosures:

- Business model, strategy and policies
- KPIs and targets (forward looking information)
- Company and sustainability governance
- Double materiality assessment and due diligence
- Risk and opportunity management

Topic-specific disclosures:

- Environmental (incl. EU Taxonomy)
- Social
- Governance
- Sector-specific standards

The scale of the challenge

In Ireland, KPMG’s Survey of Sustainability Reporting 2022*, showed that 95% of N100 businesses surveyed engage in sustainability reporting, with only 58% issuing reports that are specific to Ireland. Whilst this is encouraging it demonstrate that Irish businesses can achieve greater value from their sustainability efforts.

Meaningful transformation through people

Businesses can be forgiven for focusing their efforts on the strategies and metrics to be put in place, however it cannot be overlooked that an organisation’s people are the key, both to making change happen, and, making it stick. Businesses will not achieve sustainable benefits by taking a siloed approach. Leveraging all elements of the people agenda throughout transformation ensures that the people experience is at the core of any change effort. - maximising capability, retaining talent, optimising performance and unlocking ESG value creation. In our view there are key interventions you can make in order to truly leverage the organisational impact

Most transformation efforts fail due to an insufficient focus on the areas that really embed the right behaviours.

It comes as no surprise that, according to the United Nations, 40% to 70% of a sustainability transformation will need to focus on behaviours. In our experience a structured approach to culture change can help to guide a coherent set of organisational actions which will drive the behaviours required for transformative change.

* N100: Worldwide sample of the top 100 companies by revenue in 58 countries, territories and jurisdictions



Leveraging the Organisational Impact

Management systems to structure implementation

Putting the right management systems in place for Sustainability, is important to prevent the initial 'enthusiasm' for transformation dwindling. The right systems will embed new ways of working that support the longevity of the change. This will also enable the business to get the balance right between monitoring/measuring performance and truly driving improvement across the sustainability agenda and the business itself.

Operating rhythm: Introducing, daily operating rhythm routines such as team stand-ups as part of the management system, is highly effective in embedding the desired changes and behaviours. Akin to the success seen for similar routines for the drive of operational excellence or pursuit of safety goals, these interventions can accelerate the leap from mere compliance with the reporting frameworks to unlocking the potential value. As simple first step, beginning operational meetings with a sustainability agenda item, can create an onus on teams to actively deliver the impact, rather than waiting for the end of a CSRD reporting period, to scramble to produce the metrics.

Investment in Skills and Roles: investment by businesses will be required – to build the capability across new specialist knowledge areas. For many, achieving this will mean supplementing internal training for staff and upskilling of existing teams, with onboarding of new sustainability skills. Consideration should be given to onboard the skill types that best align with the areas of highest impact identified in gap analysis and double materiality exercises performed in the early part of the reporting preparation journey. This can mean onboarding skills not traditionally found within the business including climate specialists, carbon accountants, human rights specialists or biodiversity knowledge. Onboarding such specialist skills requires understanding the full value chain impact and opportunity that access to these new skills can provide. This can logically be delivered in line with existing (or required) workforce planning approach, however, like many of today's business challenges, it can be better achieved through the use of workforce planning technology, to accelerate the impact.



The ESG agenda should be at the forefront of how you do business

With the comprehensive remit of ESG reporting, businesses will do well to apply deliberate interventions to how they operate, in order to maximise the value of the effort that will be required. Key questions for organisations to consider include:

- Will the structures within the business enable a smooth pathway from commitments to reporting on progress?
- Have we equipped leadership to support and lead the change?
- Where will the responsibilities align, to ensure adequate ownership?
- Are the right skills and capabilities in place and how do we build and maintain knowledge?
- Will our governance structures be effective and are our business processes going to enable our staff to contribute in a meaningful way to sustainability?

Clients are realising that designing the best-fit target operating model that enables their businesses to address the capabilities and requirements for ESG Reporting whilst maintaining the focus on their growth aspirations is a critical step in getting the right things done.



A management system that links high level strategy to the daily tangible actions of teams is a key accelerator in unlocking value from your ESG efforts."

Allison Davis

A recent KPMG survey found that over 50% of Millennials and Gen Z value ESG commitments from their employers and a growing number of them are considered "climate quitters" – people seeking environmentally friendly companies and leaving their jobs to join them. To engage the workforce of the future, businesses will require a meaningful focus on sustainability.

How can KPMG help

Sustainability reporting is a rapidly evolving field, with CSRD providing the greatest clarity and obligations for businesses operating in Ireland and Europe. Regulations and standards being adopted by worldwide exchanges, investors and stakeholders will further extend the requirements for businesses on the global stage. The range of ESG metrics is vast and varies by sector, size and complexity. The opportunity to leverage these obligations to truly create a sustainable business are immense.

Transforming a business to create a organisation in which acting in the interest of sustainability becomes 'the way things are done around here', will require specific and deliberate action by businesses.



KPMG in Ireland is at the forefront of sustainability transformation. We can support clients with navigating the landscape of ESG reporting, building the vision and strategy for sustainability for your organisation and supporting you to deliver the associated actions and plan, ensuring that your people are engaged throughout the journey.

Our support is enabling our clients to unlock the true potential of ESG for their businesses and drive true long-lasting value to not only their own businesses, but to investors, stakeholders and wider society as a whole.

We can help you:

- ✓ Build your ESG vision
- ✓ Equip your leaders with the knowledge, skills and behaviours required, to lead from the front
- ✓ Develop the right strategies, metrics, targets and policies to ensure CSRD obligations are met
- ✓ Engage with your value chain and wider communities
- ✓ Ensure that ESG is embedded across all aspects of your employee lifecycle
- ✓ Develop, manage and implement your transformation plan

Finally:

ESG reporting and the required business effort to achieve compliance will be hugely significant for businesses in the coming years. It will fundamentally change how a business is run, with the potential to;

- Create business value and a competitive edge;
- Allow businesses to make better strategic and operational decisions.
- Encourage a culture of transparency and invoke the trust of stakeholders and customers; and
- Provide a meaningful and attractive business for current and future employees;
- For those that get it right, the benefits of seizing the opportunity that ESG reporting provides to truly achieve sustainability transformation will be substantial. At KPMG we are looking forward to engaging with our clients to achieve that goal.

If you are ready to begin your approach to ESG reporting, or have already begun your journey and seek to increase the potential value for your business, please reach out to a member of our team.

Contact



Patrick Farrell
Partner
Head of ESG Consulting
e: patrick.farrell@kpmg.ie



Conor McCarthy
Partner
Head of People and Change
e: conor.j.mccarthy@kpmg.ie



Allison Davis
Director
ESG Consulting
e: allison.davis@kpmg.ie



Susan Moylan
Associate Director
ESG Consulting
e: susan.moylan@kpmg.ie



Russell Smyth
Partner
Head of KPMG Sustainable Futures
e: russell.smyth@kpmg.ie



Shane O'Reilly
MD Sustainable Futures
ESG Strategy
e: shane.oreilly@kpmg.ie



kpmg.ie

© 2023 KPMG, an Irish 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 information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour 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 on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks of KPMG International Limited ("KPMG International"), a private English company limited by guarantee.

If you've received this communication directly from KPMG, it is because we hold your name and company details for the purpose of keeping you informed on a range of business issues and the services we provide. If you would like us to delete this information from our records and would prefer not to receive any further updates from us please contact unsubscribe@kpmg.ie.

Produced by: KPMG's Creative Services. Publication Date: October 2023. (9651)