KPMG

The ESG Data Imperative & Journey Ahead

As ESG becomes imperative for organisations, the intertwined need for ESG data management and technology simultaneously becomes more apparent.

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Contents

Glossary

AI	Artificial Intelligence
CEO	Chief Executive Officer
ERP	Enterprise Resource Planning
ESG	Environmental, Social and Governance
FDI	Foreign Direct Investment
GHG	Green House Gas
GRI	Global Reporting Initiative
IT	Information Technology
KPIs	Key Performance Indicators
ML	Machine Learning
PRI	Principle of Responsible Investments
PTP	People, Technology & Process
TCFD	Task Force on Climate-Related Financial Disclosures
WEF	World Economic Forum

Foreword

A window of opportunity exists for organisations to improve their sustainability performance by leveraging the exponential advancements in technology. This way, they can eliminate prevalent ESG data management hurdles that hamper organisational decision-making and non-financial reporting.

Tomi Adepoju

**Partner & Head,
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Foreword

The world is in an era where organisational performance is now being analysed and benchmarked based on results of both financial and non-financial disclosures – rather than merely financial metrics. Now more than ever, C-suite executives are coming to terms with the current reality that the ESG narrative has gone beyond business-as-usual.

As highlighted in our 2022 Global KPMG CEO Outlook, more CEOs now acknowledge that ESG improves financial performance. This research also revealed that CEOs anticipate that emerging technology, operational issues, regulatory concerns, environmental/climate change, and reputational risks would be the top five risks that pose the greatest threats to organisational growth in the future. Comparably, the Global Risk Report 2023 of the World Economic Forum (WEF) also revealed that environmental and social issues would likely be the most severe in the coming decade.

Consequently, it has become pertinent for organisations to have adequate control and oversight over E, S and G risks and opportunities. However, this is far from what is tenable in practice; organisations currently grapple with identifying, measuring, and aggregating ESG data. The lack of organisational expertise to integrate ESG data management and architecture into their existing business processes and data management systems has impacted the availability of quality and reliable ESG data.

A window of opportunity, therefore, exists for organisations to catalyse their sustainability performance by leveraging the exponential advancements in technology. There is also an opportunity for organisations to steer the establishment and implementation of their sustainability strategy and policies, frameworks and targets to set a solid foundation for effective ESG data management.

In this thought leadership, we would delve deeper into the current challenges that contribute to poor ESG data management, while highlighting the essential attributes of a good ESG data management system – especially as drivers of organisational planning, effective non-financial decision-making, and reporting. We also propose an effective blueprint for ESG data governance/management while highlighting the potential fallouts of overlooking this intrinsic business imperative.

Executive Summary

The spotlight on sustainability has soared due to mounting pressure from myriad stakeholders (investors, regulators, suppliers, customers etc.). These, coupled with the benefits of sustainability, have compelled organisations to become more sustainability conscious. However, a major challenge – poor ESG data management – impedes organisations from unearthing the benefits of sustainability. Below are the main takeaways of this thought leadership:

What "Good" Looks like

An ideal ESG data management solution should have the following attributes:

- Centralised, analytics-driven, and cloud-based to prevent the risk of gathering ESG data in silos.
- Capable of gathering ESG metrics and indicators which are aligned with relevant ESG standards.
- Enable designation of responsibilities to relevant data champions, data process owners and custodians across business units.
- Incorporate relevant levels of review, and checks and balances to ensure quality ESG data.

Core Issues

Lack of ESG Strategy		
People Related	**Technology Related**	**Process Related**
• Weak ESG culture & tone at the top • Skills & competence gap • Insufficient human re-source allocation to the ESG function	• Low investment apathy for data technology by organisations • Poor quality of source data • Decentralised organisational technology solutions and silos	• Weak controls & accountability • Absence of strong data governance structure • Ill-defined reporting process & standards • Manual data collection process

Cost of Negligence

- Reputational damage
- Difficult reporting & disclosure process
- Insufficient performance oversight
- Impact on corporate strategy
- Revenue leakage

The Path Forward and Why you Should Act Now

- Define ESG strategy and associated targets
- Invest in ESG data technology and tools
- Establish ESG data governance and architecture
- Embed ESG into organisational culture
- Conduct independent third-party assurance
- Embed effective data quality controls
- Conduct ESG-centred capacity building
- Define carbon accounting & other estimation methodologies

There is a strong business case and ROI to be reaped from investing in cloud-based ESG data solutions. These benefits can steer C-suite executives to make a leap and kickstart their ESG data management journey.

Introduction

Globally, the significance and attention on sustainability and ESG (Environmental, Social and Governance) is growing rapidly. Key trends such as greater customer demand, mounting investor pressure and tightening regulations are driving multi-stakeholder and multi-level scrutiny of these ESG issues. Thus, it has become apparent that organisations would require granular ESG data and a robust ESG data management system capable of aggregating complete and accurate ESG data across their units, subsidiaries, geographic footprints, and portfolios. ESG data/ESG data management would be a critical factor for organisations to align with the global ESG imperative as well as the benefits it births.

The existence of ESG data and associated capabilities is beneficial in the identification, management, and monitoring of ESG risks. Without these, organisations would have limited oversight of certain supply chain risks, financial risks (revenues, costs, assets, liabilities), credit risks and market risks that may materialise due to environmental (physical and transition), social and governance factors.

The need for ESG data goes beyond just equipping organisations with proper risk management competencies. It also enables organisations better harness evolving opportunities. It positions them to catalyse strategic, tactical, and operational organisational planning as well as sustainability reporting. In addition, the availability of ESG data is a requirement in accessing sustainable finance and sustainable-linked opportunities from institutional investors.

Despite the numerous benefits of ESG data, we observe that publicly available ESG data and ratings of West African corporates reflect challenges due to inadequate and insufficient ESG data. It appears that the current business models in this clime have not effectively implemented sustainability strategies and ESG data architecture to enhance the security of global investment partners. This discourse should not be trivialised since the availability of quality ESG data drives decision-making for both foreign and local investors. The inadequacy and unreliability of ESG data – by and large – remains a significant challenge affecting the effective use of such data by investors and organisational leaders.

E.g., a survey by Harvard[1] revealed that 50% of investors agreed that the inconsistency in ESG scores is the biggest factor that contributes to the challenge of incorporating ESG data into investment decision-making.

From the foregoing, addressing this ESG data hurdle would be germane in bolstering Western Africa's investment flows in the future, bearing in mind that responsible investment is becoming a priority in the global financial market. A 2021 research by the World Bank discovered that the low foreign investment in Africa limits her participation in Global Value Chains. The Western Africa region has become a major destination for Foreign Direct Investment (FDI) on the continent – with its FDI stock increasing from 15% in 2002 to 36% in 2018.[2] However, the availability of organisational ESG data/ credentials would be crucial for the region's continued investments.

[1] Harvard ESG Global Study 2022 (harvard.edu)
[2] World Bank The road to recovery in Sub-Saharan Africa: Capitalizing on transformative opportunities from shifting FDI patterns (worldbank.org)

ESG Data; The Heartbeat of Sustainability Performance

The Sustainability Imperative and its Interlink with Good ESG Data Management System

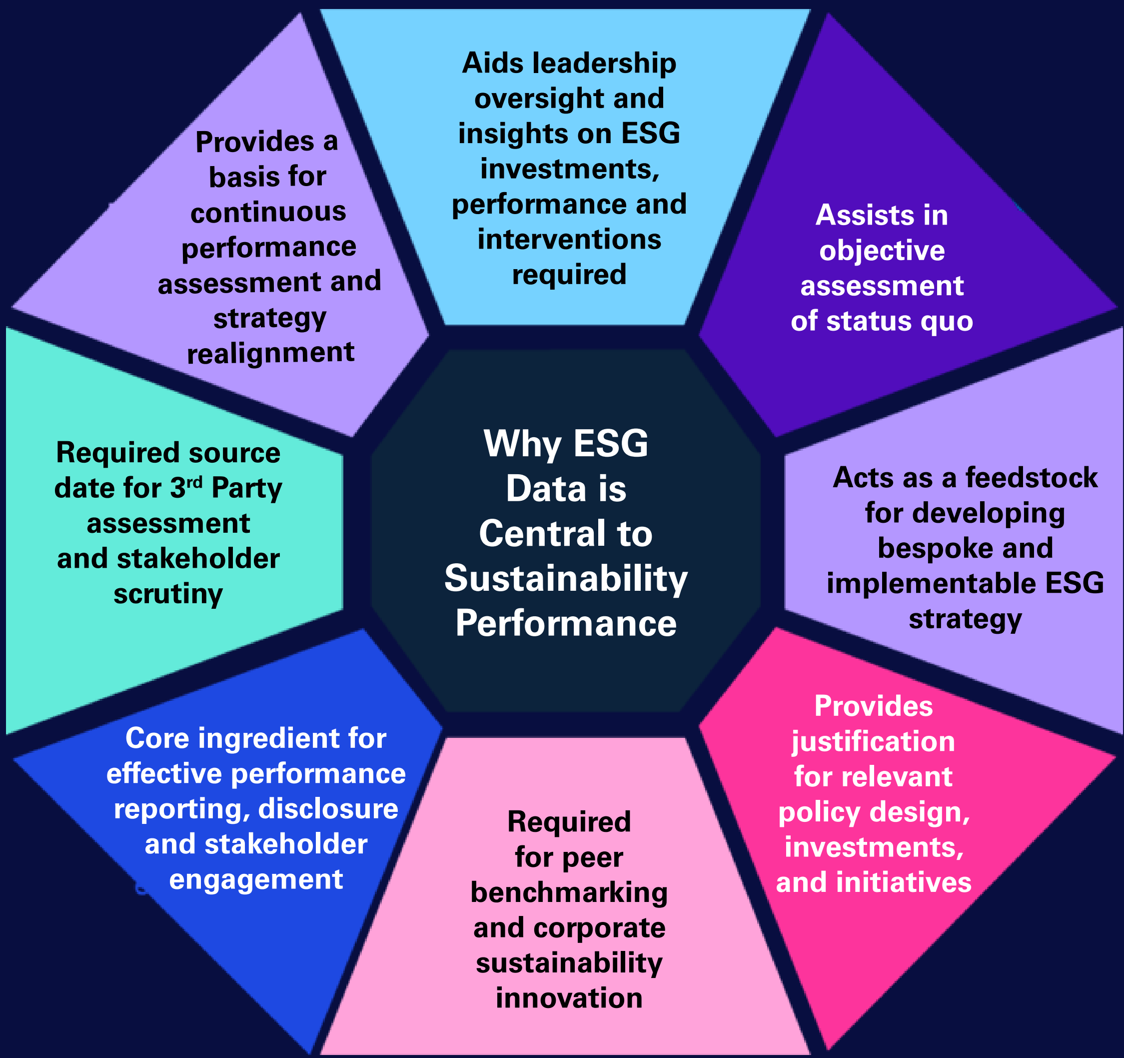
The recent trend of events has revealed that financial metrics are not the only measure of organisational success. There is a shift towards consideration of assessment hinged on the broad set of ESG metrics and factors. Furthermore, internal stakeholders (employees) and external stakeholders (suppliers, customers, government, regulations, rating organisations etc.) are pulling their weight to ensure that organisations are responsible corporate citizens. Hence, organisations are expected to embrace transparent disclosure of their sustainability commitment, credentials, and performance through different channels, including integrated reports, sustainability reports, corporate websites, etc.

However, these non-financial disclosures require input ESG data as crucial ingredients; the nature and type of such data could particularly depend on geography, industry/sub-sector, material topics and adopted ESG standards & frameworks. For a vast majority of organisations, it has therefore become a herculean task to gather, store and utilise the requisite ESG data due to their weak capabilities and competencies. Using an environmental pillar metric to illustrate, for an organisation to adequately disclose its scope 1, 2 and 3 Green House Gas (GHG) emissions, it would require several ESG data inputs such as the activity data within its organisational and operational boundary, e.g., the quantity of fuel used by fuel type, emission factors and data from its suppliers along its supply chain etc. The unavailability of source data in the required form, classification and quality would therefore impact the extent to which the organisation is able to correctly disclose its GHG emissions.

> **Quality ESG data is an intrinsic business imperative. Forward-thinking organisations are shifting from traditional methods and are beginning to invest in cutting-edge ESG data management solutions. This differentiates and repositions them for competitive sustainability performance.**
>
> **Marilyn Obaisa-Osula,**
> Associate Director and Lead
> ESG/Sustainability Services, KPMG in Nigeria.

Following the above, it is apparent that ESG data plays a central driving role in the direction, implementation, outcome, and perception of an organisation's ESG performance. Conversely, the lack of reliable source ESG data would have an extended significant impact on an organisation's capacity to accurately aggregate, assess and report its performance across different ESG indicators and from various stakeholder lens. The following factors further accentuates the relevance of ESG data as the heartbeat of corporate sustainability performance.

Figure 1: Why ESG Data is Central to Sustainability Performance



In this regard, ESG has become an intrinsic business imperative. According to the 2022 KPMG CEO Outlook[3], an increasing number of CEOs acknowledge that ESG programs improve financial performance. A total of 45% of the CEOs surveyed agreed to this, compared with 37 percent from the prior year. Concurrently, the CEO Outlook also noted that emerging technology, operational issues, regulatory change, environmental/climate change, and reputational risk would constitute the top five risks and the greatest threat to organisational growth in the coming years.

A total of 45% of CEOs acknowledge that ESG programs improve financial performance.[3]

At a glance, it is observable that there is a strong inextricable link between these top five risks, the ESG agenda and ESG data management. (See Figure 2).

[3] KPMG 2022 CEO Outlook KPMG 2022 CEO Outlook - KPMG Global

Figure 2: Interlink between global risk, sustainability/ESG, and ESG data

Top 5 Risks *(According to the KPMG CEO Outlook 2022)*	**Interconnection with ESG and ESG Data Management**
1 Emerging technology	Organisations generate ESG data across several ERP solutions. Also, the availability of more sophisticated ESG data tools will require advanced technical skills.
2 Operational Issues	Several ESG metrics are gathered from the day-to-day activities of organisations. Thus, operational issues can hamper the attainment of ESG targets and ambitions.
3 Regulatory Change	The fast-paced advancements in the ESG terrain could change organisations' ESG data requirements and ESG reporting frameworks.
4 Environmental/climate change	This is the most complex ESG pillars in terms of reporting requirements. Hence, there is a greater need for organisations to surmount potential reporting challenges.
5 Reputational risk	Greenwashing and lack of data transparency and disclosures on non-financial metrics can expose organisations to reputational damage.

In today's world, sustainability is no longer a buzzword but a critical aspect of doing business, and at the very heart of sustainability performance is ESG data. By implementing a robust ESG data management system, organisations can better understand their ESG impacts, align their operations with emerging trends and needs, and seize opportunities to drive innovation and growth. This is a call to action for organisations to take a holistic approach towards prioritising sustainability across their business operations by establishing a solid/good ESG data management system.

What “Good” Looks like

Attributes of a “Good” ESG Data Management System

Sound data governance is the cornerstone of high-quality data. Governance and management of ESG data include documenting the processes and methodologies used to gather and aggregate ESG data consistently and repeatably. To illustrate, there should be clearly documented ESG data management responsibilities (e.g., data champions/collectors and reviewers), frequency of data collection and medium of collection. Another key aspect of ESG data governance is the vital function that the Board Audit committee, Internal Audit, Internal Control and Risk Management play in validating ESG data, improving transparency and credibility whilst reducing the risk of greenwashing.

ESG data governance, when put in place, guarantees the proper management, use and archival of ESG data. The following are the attributes of good ESG data management solutions/ platforms. (These are further illustrated in Figure 3.)

- **Alignment with ESG Standards and Frameworks:** The choice of relevant ESG metrics/indicators to be tracked is not determined abruptly. The choice must be underpinned by global ESG standards, disclosure frameworks, and local and industry-related regulatory requirements. Disclosure frameworks such as GRI Standards and TCFD typically provide ESG metrics and indicators that enable the assessment of an organisation's ESG performance.[4] An ideal ESG data management system should be aligned with such ESG standards and frameworks.

- **Allocation of Data Champion and Custodian:** An ideal ESG data management system should have a mechanism to allocate the responsibilities of data champions and custodians to relevant staff across the functional areas of the organisation, those who will be charged with the responsibility of gathering ESG data. It is leading practice for assigned ESG data responsibilities to be embedded into employees' performance goals.

- **Consideration for Quality Control:** A good ESG data management system also possesses attributes that make assessing the quality and accuracy of ESG data seamless. For instance, it should have the ability to enable levels of review after data champions and custodians have inputted relevant ESG data into the solution. This way, there are adequate levels of checks and balances to stem the risk of inaccurate data collection.

- **Cloud-Based, Analytics-Driven and Centralised Solution:** An ideal ESG data management system should be a centralised/unified cloud-based solution/platform that enables the central collection, tracking and aggregation of ESG data across units, entities, and portfolios. Further, the ESG data architecture should be capable of performing analysis and extracting insights from such data, whilst displaying – at a glance – the visual representation of relevant ESG metrics against relevant targets.

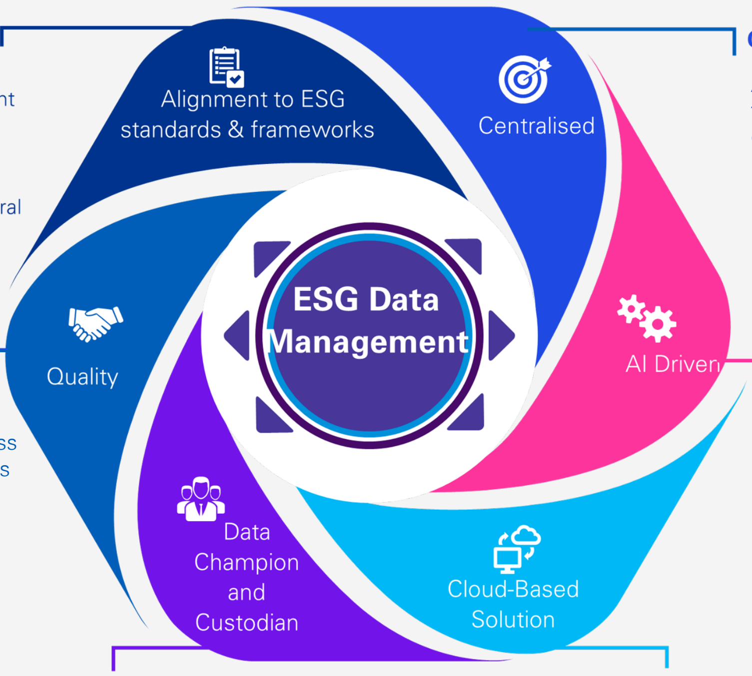
It is however important to note a prerequisite for having a good ESG data management system is developing a sustainability strategy, sustainability policies and ESG reporting frameworks – all of which serve as a foundation for a good ESG data management system.

> In adapting to the dynamic ESG landscape, organisations need to implement a comprehensive cloud-based ESG data management architecture that is capable of aggregating ESG data, incorporating checks and balances and employing advanced data analytics techniques to extract quality insights.

Yomi Akinyemi,
Partner, Analytics & Operations,
KPMG in Nigeria.

[4] KPMG Global Closing the disconnect in ESG data - KPMG Global

Figure 3: Attributes of a Good ESG Data Management System



Alignment to ESG standards & frameworks

ESG data management system should meet the requirements of relevant general, geographic and sectoral ESG standards and frameworks.

Centralised Solution

A single system is utilised to perform the following on ESG data across units, entities, portfolios:

- Collect, track and aggregate material ESG data.
- Analyse ESG data for insights.
- Visualise ESG insights in dashboards.

Quality

ESG data should possess the following qualities as any other data:

- Accurate
- Complete
- Consistent
- Unique
- Coverage
- Timeliness

Analytics Driven Solution

ESG data management systems should leverage analytics and AI/ML (Artificial Intelligence/Machine learning).

Data Champion and Custodian

Clear delineation of ESG data gathering responsibilities across the operational and organisational boundary.

Cloud-Based Solution

A cloud-based software that ensures ESG data is shared effectively and efficiently whilst lowering costs.

Core Issues

Birds-Eye View of the Challenges Associated with ESG Data Management

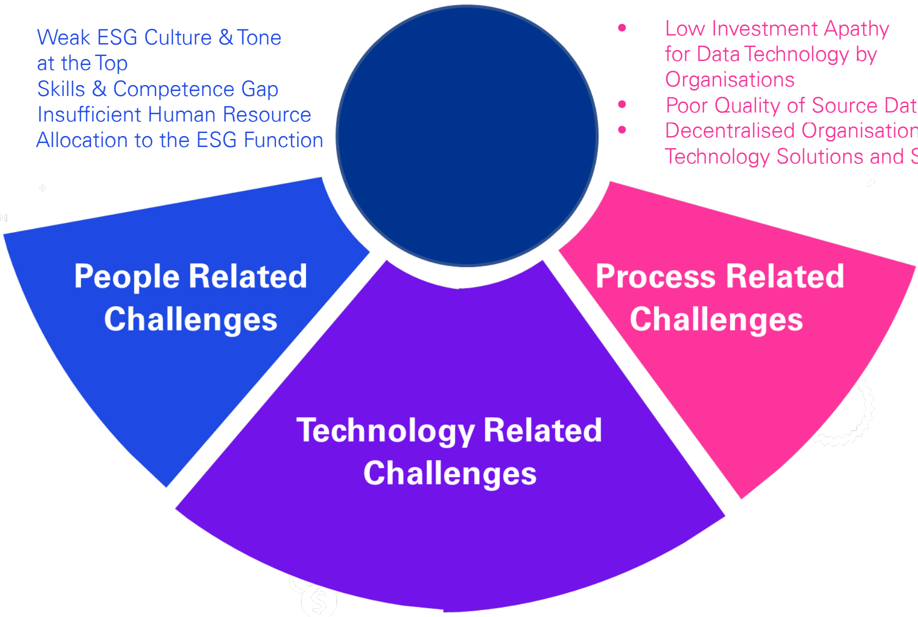
As with any other organisational agenda, ESG strategies also face intrinsic challenges. One of such challenge is the unprecedented and fast-paced changing ESG regulatory landscape. In the Global KPMG CEO Outlook[5], the fast-paced ESG regulatory landscape was ranked as the second most common challenge organisations would face when delivering ESG strategy in the next three years. Others, such as the lack of budget to invest in ESG transformation and the dearth of the requisite technology to effectively measure and track ESG initiatives, were ranked as third and fourth, respectively. Similar to the trends observed on the global stage, the West African market also exhibits similar challenges. Our Survey of sustainability reporting in Nigeria revealed that only 25% of the top Nigerian organisations by revenue sought assurance on their sustainability information.[6] Indeed, this may indicate the weak ESG data management culture among many organisations.

One of the overarching challenges associated with ineffective ESG data management is the lack of an organisational sustainability strategy. Weak ESG data management is underlined by prevalent issues like messy, inconsistent, patchy, and inaccurate ESG data. The range of challenges associated with weak ESG data management are captured using the PTP Model below:

Figure 4: The PTP Model of ESG Data Management Challenges

- Weak ESG Culture & Tone at the Top
- Skills & Competence Gap
- Insufficient Human Resource Allocation to the ESG Function

- Low Investment Apathy for Data Technology by Organisations
- Poor Quality of Source Data
- Decentralised Organisational Technology Solutions and Silos



- Low Investment Apathy for Data Technology by Organisations
- Poor Source Data Quality
- Decentralised Organisational Technology Solutions and Silos

[5] KPMG 2022 CEO Outlook KPMG 2022 CEO Outlook - KPMG Global
[6] KPMG Nigeria 2022 Survey of Sustainability Reporting in Nigeria 2022 Survey of Sustainability Reporting in Nigeria - KPMG Nigeria

"P" People-Related Challenges

Weak ESG Culture & Tone at the Top	Inadequate tone at the top and insufficient organisational leadership to take active ownership of spreading the ESG message in words and action. Also, weak disposition of staff towards ESG across an organisation contributes to the ESG data management conundrum. This may result in poor integration of ESG into their day-to-day activities and could impact the quality of ESG data being churned out.
Skills & Competence Gap	Inadequate knowledge and people capabilities around the burgeoning field of ESG - the various ways it impacts work, standard approaches, and practices for managing ESG-related processes and documentation, the highly disruptive technology sphere and its intricate interplay with ESG, etc., are some of the major factors impacting the lifecycle and quality of ESG data in organisations.
Insufficient Human Resource Allocation to the ESG Function	For the most part, the units charged with ESG duties across many organisations are often understaffed, inadequately staffed or entirely non-existent. Often, ESG roles are merely add-on roles and responsibilities to other well-structured organisational roles. This results in limited ownership of ESG matters at organisations.

"T" Technology-Related Challenges

Low Investment Apathy for Data Technology by Organisations	Organisations are sometimes reluctant to make significant investment in tech platforms that can seamlessly harmonise ESG data across locations, processes, units, etc. Invariably, they continue to be heavily reliant on manual/paper-based processes and unconnected Excel spreadsheets to manage their ESG data. These result in bottlenecks with aggregating and extracting actionable insights from such data.
Poor Source Data Quality	The utilisation of poor ESG data quality in analytics models and AI models degenerates into weak insights due to inaccuracy and incompleteness. Incomplete, inconsistent, and messy data laden with errors make it a herculean task to interpret data. In addition, capturing a given ESG metric with inconsistent units could result in the risk of computational and conversion errors.

Decentralised Organisational Technology Solutions and Silos	According to our KPMG Global Tech Report, just 38% of surveyed organisations have an integrated or streamlined enterprise-wide application.[7] Consequently, organisations utilise several ERP solutions without adequate technological tools that enable synergy and alignment. This leads to the aggregation of ESG data in silos and further results in the inability of such organisations to gain enterprise-level ESG insights. This also results in even greater difficulty for large organisations with footprints across various subsidiaries, portfolios, and geographies.

"P" Process-Related Challenges

Absence of Strong Data Governance Structure	The lack of formalised and standardised ESG data governance structure, reporting lines and frequencies, and poor institutional capacity across organisations is also a significant issue. Consequently, ESG data requirements, commitments, and actions become challenging to implement in practice. There could also be gaps that emanate from the lack of synergy between an organisation's corporate strategy, its ESG strategy, and governance structure.
Ill-defined Reporting Process & Standards	Poorly defined internal processes, internal controls and ESG data quality reviews on ESG data identification, collection, analysis, communication and archival may lead to inconsistent ESG data. Challenges could be observed when ESG data is not well structured around a single, unified, and centralised system, thus leading to siloed ESG data. ESG has increased rapidly in popularity and importance, and the number of ESG standards and reporting frameworks have also increased. It has become a herculean task for some organisations to keep track of all the metrics they need to report on and decide which ones to prioritise. Also, harmonising multiple ESG reporting frameworks poses a challenge to some.
Weak Controls & Accountability	Weak internal controls, levels of defense, and checks and balances to ensure accuracy and verification of ESG data results in poor ESG data quality. In addition, the poor accountability of relevant process owners, data owners and reviewers poses another common challenge.
Manual Data Collection Process	The lack of appropriate infrastructure/tools for the collection and processing of data is another factor that negatively impacts the quality of ESG data generated by different process and data owners.

[7] KPMG Global Tech Report 2022 KPMG global tech report 2022 - KPMG Global

The "PTP" related challenges trickle down the entire chain of the organisation and can ultimately result in the risk of greenwashing. For an organisation to establish a sound ESG data management system, a good starting point would be to remediate challenges around the PTP Model.

> In order to optimally harness the potentials of ESG data, it is imperative that organisations undertake a rigorous analysis of their business chain and reporting requirements, identify peculiar ESG data challenges, and then take targeted steps at closing these gaps.
>
> **Kehinde Fadare**
> Manager,
> ESG/Sustainability Services,
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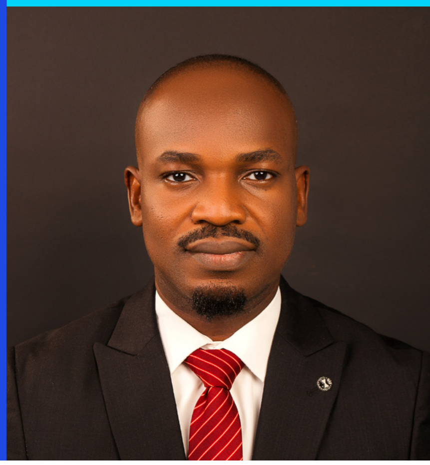
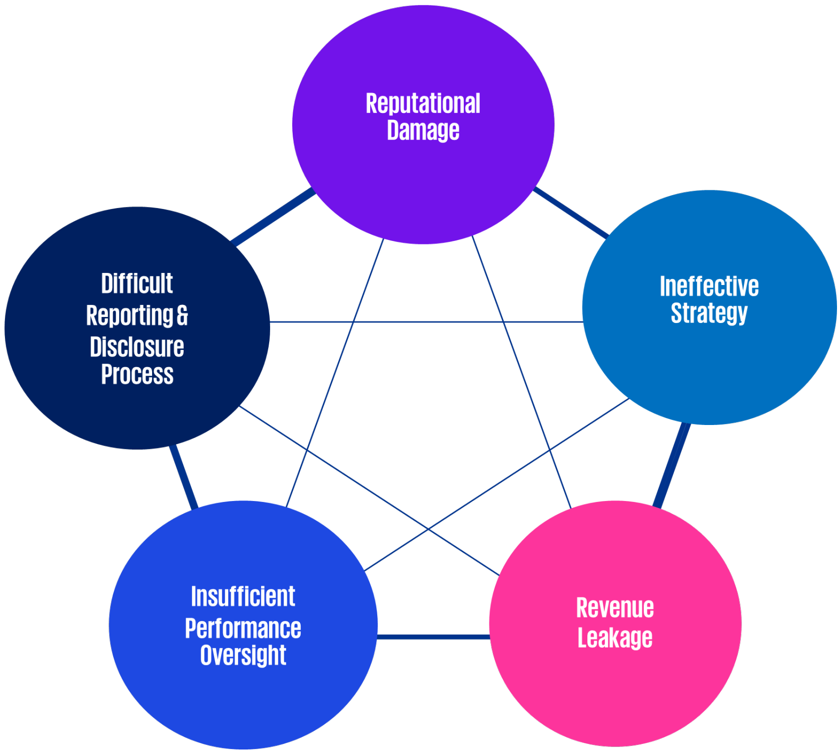


Cost of Negligence

Fallout of pushing ESG Data Management to the backseat of firm-wide strategic priorities

Turning a blind eye to proper ESG data management comes at a significant cost and could have negative consequences on organisations. Some of such consequences include bad reputational capital, regulatory fines and weak social license to operate, etc.

The following 5 aspects of an organisation's operations are the most hit - when ESG data management is relegated to the backseat of firm-wide strategic priorities.These range from its impact on corporate strategy, to brand perception and ultimately to the bottom-line. ESG data has an underlining significance – which often comes at a cost when ignored.



Cost of Negligence

Ineffective Strategy	Establishing a formidable ESG data management system enables adequate accountability and objective/target setting. As expected, negligence towards ESG data management would hamper strategic planning. There would be scant and poor ESG data across the spectrum of the business to support rigorous analysis/data-driven decision-making and strategic planning. In addition, there would also be a weak depiction of the likelihood and severity of possible E, S and G risk exposures. Thus, such organisations would lack resilience and agility against disruptions.
Insufficient Performance Oversight	The unavailability of ESG data hampers adequate non-financial reporting on the organisation's sustainability performance. In practice, organisations may be implementing stellar and praiseworthy sustainability strategies. However, they may be unable to articulate and disclose their performance due to a lack of data stemming from a weak monitoring and evaluation system. Furthermore, the dearth of ESG data impedes the process of reporting performance against targets. This limits how organisations can assess and articulate the quantitative impact of their implemented sustainability initiatives and strategy.
Revenue Leakage	The dearth of ESG data makes it difficult for organisations to explore appropriate cost savings mechanisms and ways to block revenue leakages. More so, the lack of ESG data hinders access to exciting opportunities around carbon credits, green finance as well as other levers that can impact the bottom line. Also, regulators, civil society and activists are watching organisations with greater scrutiny to checkmate instances of greenwashing and improve transparency of sustainability information in circulation. Hence, litigation and legal threats are increasing for organisations perceived to be misleading, misstating or misrepresenting their sustainability credentials. Courts around the world are imposing fines for greenwashing (especially in developed nations like the US and the UK that have well-developed sustainability regulations and regulators).[8]

[8] KPMG Global The crackdown on greenwashing - KPMG Global

Reputational Damage	Engaging in greenwashing erodes trust. Greenwashing is a term that describes "any dishonest practices used by businesses to represent themselves as more sustainable either by giving a false impression or providing misleading information as to the sustainability of a product/service". Apart from eroding trust, commercial and reputational damage could also emanate from being involved in greenwashing scandals. These can be deleterious to organisations as stakeholders are increasingly ready to boycott organisations that show gross negligence to sustainability.[9] Investors are also ready to invest elsewhere, and talents desire to only work in places that uphold transparency. Insufficient ESG data at the granular level to warrant favorable ESG ratings/scores is another impact of negligence. Often, an organisation may be implementing many sustainability-related practices than it tracks/discloses. Therefore, this lack of verifiable ESG data may result in poor ESG ratings (which are dependent on publicly available information and questionnaires filled for companies). These poor ESG ratings could have ripple effect on the perception of investors and other stakeholders who fall back to ESG scores as a means for comparing and benchmarking companies across industries and geographies.
Difficult Reporting & Disclosure Process	Not embracing sound ESG data management practices also present the risk of poor ESG data quality controls, evident by weak and inadequate levels of review of collected ESG data. Consequently, the assurance process over ESG disclosures would be a herculean task since there is a lack of documented evidence on qualitative and quantitative reporting indicators and performance indicators included in assurance statements. These will ultimately have a ripple effect on stakeholders as they will perceive such disclosures as less credible.

[9] KPMG Global The crackdown on greenwashing - KPMG Global

The Path Forward

8 Strategic Recommendations for Optimising Organisational ESG Data Management Capacity & Outcomes

The importance of incorporating a robust ESG data governance framework into an organisation's sustainability management strategy cannot be underestimated. An ESG data governance structure or solution can help companies navigate the complexities of embedding sustainability into their business practices. However, organisations need to embark on this journey from a starting point that sufficiently reflects its business context and ESG maturity levels. In general, the following recommendations are critical steps in establishing a good ESG data governance system.

1. **Define ESG Strategy and Associated Targets:** Define your organisational ESG strategy to articulate your ESG priorities, targets and commitments into a short-, medium- and long-term action plan. The ESG strategy should be in sync with the business strategy. This way, it is well aligned to the core of the business as well as to key material ESG issues. Also, there should be a clear framework that captures material ESG indicators and metrics across the ESG pillars to ease implementation when collecting, analysing, managing, and reporting on ESG risks and opportunities. This would ensure that progress made towards achieving the ESG strategy is measured and tracked via relevant data at the granular level. An ESG strategy will provide a reasonable base for ESG data collection and performance disclosures.

2. **Establish ESG Data Governance and Architecture:** Establish robust policies, procedures and standards which are aligned with industry leading practices. Develop an ESG data governance and architecture that clearly defines roles, responsibilities, reporting lines, controls, and decision-making processes for ESG data management. Further, there should be a tailored process-flow for data collection, analysis and reporting that aligns with the ESG strategy and targets.

   It is pivotal to assess the current state of the organisation; its existing ESG data sources, data maturity, data collection frequency, methodologies, and processes. Concerted efforts should be made to close any identified data gaps and adequate process improvements should be articulated and considered.

3. **Embed Effective Data Quality Controls:** Establish processes that define ESG data quality standards; this would require defining data quality requirements that align with, and are most important to the organisation. Assess the reliability and consistency of ESG data sources, and design adequate internal quality controls to correct any identified gaps. It is paramount to develop an ESG data architecture and plan that outlines the steps and process-flow to be implemented to ensure data cleansing and validation checks. Implement regular internal audit processes and a system of checks and balances that involve multiple levels of review for gathered ESG data. Implementing the aforementioned steps would ensure that an organisation's ESG data is accurate, reliable and complete.

4. **Define Carbon Accounting & other Estimation Methodologies:** Develop a framework that highlights the agreed-upon procedure and approach for tracking E, S and G indicators and metrics per the organisation's sustainability strategy and policies, external ESG standards, and regulations (this will ensure consistency, comparability, and compliance). Also, develop carbon accounting methodologies that outline the process for identifying Green House Gas inventories within the operational and organisational boundary. This way, the carbon footprint of the organisation can be tracked and measured to identify opportunities for emissions reduction.

5. **Embed ESG into Organisational Culture:** Institute a culture shift that promotes ESG data literacy and data-driven decision-making. This will foster a mindset of responsibility and accountability towards ESG related matters among employees and will promote transparency and stakeholder engagement. It is also of the essence to communicate ESG data strategy, governance, and architecture to all internal stakeholders and not just the relevant ESG data owners or process owners. Overall, ESG needs to be ingrained into the values, policies, and processes of the organisation.

6. **Conduct ESG-centred Capacity Building:** Build capacity by reskilling and upskilling existing employees on the ESG concept, trends, and emerging sectoral risks. Hire personnel to develop a well-rounded ESG team and ensure data specialist competencies that are requisite in implementing an effective ESG data management system are developed across the organisation.

7. **Invest in ESG Data Technology and Tools:** Invest in an ESG data management solution that would enable the collection, storage, and processing of organisational data across all three ESG pillars from various sources and business units. The solution should have the capability to perform data analytics on gathered ESG data. The solution should also be capable of visualisation by displaying interactive dashboards to management in real time for constant decision-making. Importantly, such a solution should also ensure security and privacy by implementing security controls such as encryption and a secure cloud-based data storage system.

> Technology has immense potential to drive an organisation's journey towards a more efficient sustainability approach. It serves as an effective vehicle for bolstering ESG data collection via a standardised procedure. This way, the timelines for data gathering and processing are optimal –and insights, richer.

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Tech Platforms,
KPMG in Nigeria.

8. **Conduct Independent Third-Party Assurance:** Leverage the services of independent parties to assess and review organisational ESG disclosures. Third-party assurance provides valuable external validation of an organisation's ESG data and reporting by identifying and correcting errors and inconsistencies in ESG data. This would ultimately enhance data quality and accuracy, standardise data for stakeholder comparability and evaluation, and help organisations comply with stakeholder expectations. This could also promote organisations' ESG data transparency, credibility, and accountability, build organisations' reputation, and help them make better-informed decisions.

Why You should Act Now

The Business Case for Rethinking Corporate Approach towards ESG Data Management

The exponential increase and the global attention on ESG has been largely driven by stakeholder expectations and constantly evolving regulatory requirements. ESG has become an intrinsic business imperative and fortifies organisations with capabilities along two principal areas. One, it gives adequate oversight of current and emerging risks such as supply chain risks, financial risks, credit risks and market risks that may materialise due to environmental (physical and transition), social and governance factors. However, organisations that would be well suited to weather such ESG-linked risks need to be armed with ESG data at a granular level. Two, the availability of ESG data has also become a source of differentiation for organisations, setting them on a pedestal ahead of their peers.

To guarantee that ESG data is accurate, consistent, and utilised appropriately, internal ESG data systems and architectures need to be developed and meticulously implemented. When it comes to ESG specifically, the reward for implementing a solid data governance framework can be reaped throughout several levels of "quality out." For C-suite executives planning to roll out ESG data management solutions, there exist clear benefits which outweigh incurred costs.

"Organisations that successfully implement effective ESG data management systems are positioning themselves for a slew of benefits. Asides from the link that exists between ESG and financial performance, such organisations will also possess greater oversight of their ESG risk exposures, and can more effectively respond to deepening stakeholder scrutiny and reporting requirements.

Tomi Adepoju,
Partner & Head,
Enterprise Risk and ESG Services,
KPMG in Nigeria.

ESG data management can be effectively deployed by cloud-based solutions and offers myriad benefits as well as a high ROI. Another benefit of cloud systems is that they offer immense efficiency gains as discovered in our KPMG Global Tech Report.[10] The following are five benefits that make investment in ESG data system and infrastructure, an optimal business decision.

[10] KPMG Global Tech Report 2022 - KPMG Global

Business Case for Investing in an Improved ESG Data Management System/Solution

Case 1
Improved strategic decision-making over ESG-related matters

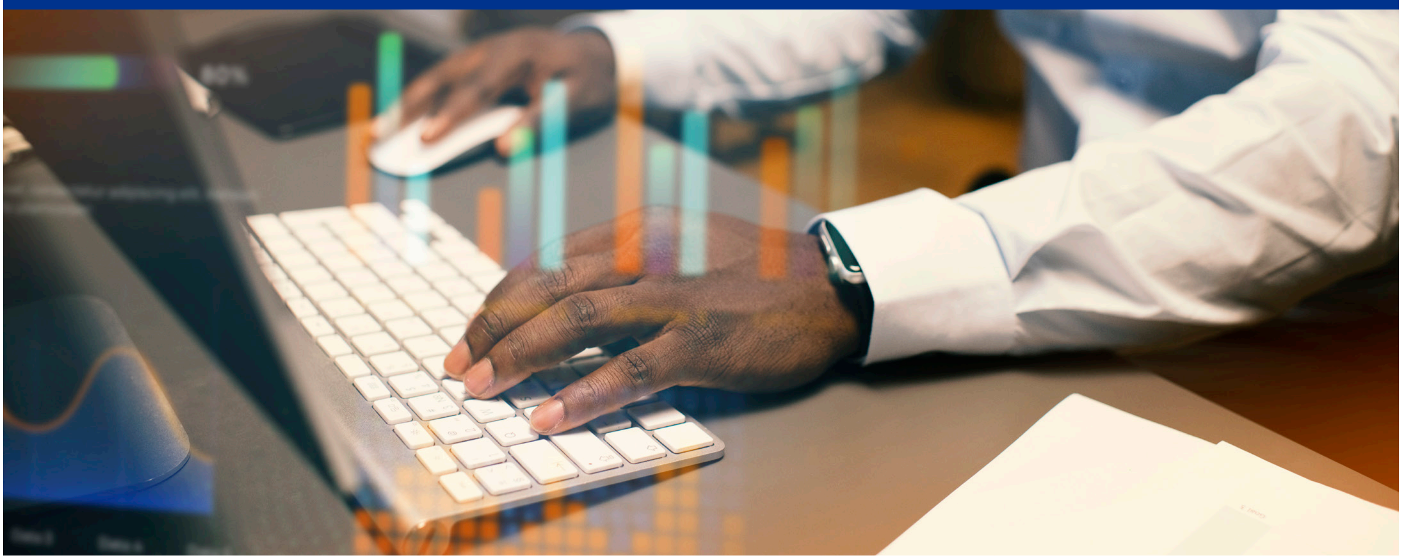
Case 2
Increased reputational capital and customer attraction

Case 3
Transparent and accuracy of ESG data and disclosures

Case 4
Improved assurance and auditing process

Case 5
Better operating and financial performance

Investing in ESG data management system has a sound business case for any organisation looking to achieve sustainable growth and create long-term value. The sustainability imperative has become a critical subject for businesses worldwide and possessing an effective ESG data management system provides a stable base for strategic positioning, market leadership and societal transformation. Ultimately, investing in ESG data management is a smart business move that can help organisation thrive in a rapidly changing world.



How KPMG can Help

- We can assist in improving the quality and efficiency of ESG data management. We help you identify ESG data requirements, ESG compliance and ESG reporting requirements; We can help you identify and contextualise ESG data and reporting requirement for your business. This way, we create a stable base for all your ESG reporting requirements and draw an actionable framework for the life-cycle of scoped-in data aspects.

- We can undertake materiality assessments to enable you consider all material ESG topics crucial to your internal and external stakeholders. This way, you can better assess your stakeholders' expectations and articulate your ESG performance seamlessly.

- We can provide support with preparing balanced ESG disclosures. We take a holistic view of all ESG pillars and ensure that relevant metrics along these pillars are adequately disclosed. We can assist you in aligning your ESG reporting with key global and local reporting standards.

- We are well positioned to leverage a seamless collaboration between our ESG, technology and data analytics competences to develop a bespoke ESG data solution for your organisation. We recognise that every organisation has its unique ESG data challenges - therefore, our approach is to co-create a solution that would incorporate your existing systems, expectations, strategic ESG aspirations.

KPMG Nigeria has ESG and technological capabilities to assist organisations articulate their ESG data management and transformation initiatives properly. We leverage a multi-discipline approach in tackling difficult client problems. Our ESG Advisory services can lay out a roadmap that will enhance trust, mitigate risk and unlock new value as you build a sustainable future.

- We can conduct a validation of your existing ESG data and corresponding processes and controls to improve the quality of your ESG data disclosure.

- We can conduct an Assurance of your Sustainability Reports - using applicable standards and frameworks. An Assurance of your Sustainability Report will give your Report more credibility with your stakeholders.

Contact Us

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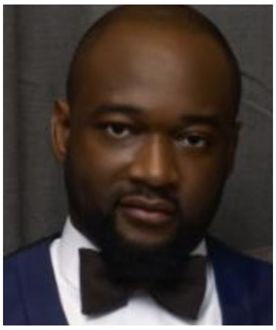

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