ESG Performance Management: Sustainable value creation in Financial Services
There has been a significant trend in recent years for organisations to monitor and account for Environmental, Social and Governance (ESG) activities. This increasing focus on the ESG agenda will alter how businesses are viewed going forward, including how executives in charge of these businesses manage financial and non-financial performance.

The effects of this trend are wide reaching, affecting many Financial Services, businesses and corners of society. Regulatory developments and movements towards net zero policies; increasingly informed consumers making buying & investment decisions based on organisations’ sustainability quotient, and a growing workforce of Gen Z and Millennials seeking employers with a sense of purpose and responsibility, are key drivers of this sustainability movement.

The result is that in order for businesses to be able to attract top talent and fulfil regulatory requirements, they need to demonstrate high performance in the ESG space.

In addition, a favourable ESG score can also significantly affect the economic success of a business as well as the ability to secure support and funding. For the Financial Services sector, to ensure continued and new investment in their business, executives will have to prove that not only are they managing clean money, but that they are also managing green money.

Whilst most businesses recognise the need for reporting on ESG, the majority are focused on external reporting driven by regulatory requirements. By doing so, they are not utilising the opportunity to look towards the impact of ESG on the holistic Enterprise Performance Management (EPM). This requires a cultural change for the business as they move to a socially responsible management framework.

If done right, businesses can truly transform the performance of their executives. At KPMG, we take a top down approach, where ESG is linked to value creation, with the first step embedding ESG in balance scorecards to better understand the drivers of performance management.
## ESG forces which need management focus, transparency and forward looking steer

As the ESG agenda becomes increasingly important for a wide range of stakeholders, including management, consumers and investors, the reporting and forecasting of these metrics require the right tools and capabilities to support an enterprise-wide strategy.

The table below summarises the ESG value chain by external and internal forces. The value drivers represent factors that increase the appeal, worth or capability of the product or service and hence lead to enterprise value creation. These drivers can be integrated into financial models to monitor and provide forward steering for the organisation.

Performance can be assessed across each of the key areas with a balanced scorecard of financial and non-financial measures to encourage long-term value creation.

### How ESG can be used to enhance enterprise value: External

<table>
<thead>
<tr>
<th>ESG forces</th>
<th>ESG value drivers</th>
<th>Enterprise value creation</th>
<th>Transparency (MI)</th>
<th>Forward steering (planning/forecasting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Promote green products e.g. deposits, mortgages and carbon-cautious motor policies</td>
<td>• Provide transparency by adhering to regulatory taxonomy and definitions</td>
<td>Single customer view</td>
<td>Customer profitability</td>
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<tr>
<td></td>
<td></td>
<td>• Customer profitability – engaging with ESG compliant customers when company operations are also ESG compliant creates stability</td>
<td>• ESG ratings of products</td>
<td>• Innovative products to help customers ‘go green’ to reduce their environmental impact</td>
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<td></td>
<td></td>
<td>• Enhance ethical and environmental footprint</td>
<td>• Know-Your-Customer checks, anti-money laundering checks etc.</td>
<td>• Align sustainability targets to strategic product offerings to support transitioning to a low carbon economy</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Support ethical practices across the supply chain</td>
<td>• Engaging third parties with a strong ESG reputation can enhance operational performance and in turn improve reputation</td>
<td>Procurement MI</td>
<td>ESG compliant procurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Enhance ethical and environmental footprint</td>
<td>• Supplier ratings</td>
<td>• Work towards a visible and sustainable supply chain</td>
</tr>
<tr>
<td>Investors</td>
<td>Present a clear strategy with KPIs, metrics and sustainability goals</td>
<td>• Investors can use ESG metrics to assess the behaviours of the company which can lead to improved ROI</td>
<td>• Comparable ESG metrics with clear narrative on steps to achieve targets</td>
<td>• Improving the ability to understand supply chain impacts and risks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Corporate governance metrics e.g. balance of power within the board, transparency of accounting and audit policies, shareholders’ rights, market behaviour, business ethics etc.</td>
<td>• Measure performance against published targets</td>
<td>Risk management</td>
</tr>
<tr>
<td>Government</td>
<td>Comply with mandatory reporting frameworks e.g. Streamlined Energy and Carbon Reporting (SECR) and Task Force on Climate Related Financial Disclosures (TCFD)</td>
<td>• Governments are more likely to offer subsidiaries and contracts to companies which demonstrate favourable ESG scores</td>
<td>• Investor Day MI</td>
<td>Strategic planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Assist governments tackle the adverse effects of global warming</td>
<td>• Measure performance against published targets</td>
<td>• Align sustainability targets to strategic business goals e.g. offering green mortgages to support transitioning to a low carbon economy</td>
</tr>
<tr>
<td>Regulators</td>
<td>Management of the regulatory environment</td>
<td>• Strong ESG reputation will reduce the risk of fines, sanctions and restrictions by regulators in operating regions</td>
<td>• Disclose carbon footprint by direct &amp; indirect type emissions</td>
<td>Financial planning &amp; stress testing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Good relationships with regulators are likely to reflect favourably in the future with increasing freedom and support to operate in new markets</td>
<td>• Pillar 3 disclosures (where applicable)</td>
<td>• Inclusion of climate change in scenario analysis by taking into consideration different climate-related scenarios</td>
</tr>
</tbody>
</table>
Using the ESG agenda as a catalyst for value creation in Financial Services

## ESG forces which need management focus, transparency and forward looking steer

### How ESG can be used to enhance enterprise value: Internal

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<tr>
<td>Workforce</td>
<td>Responsible and responsive employer</td>
<td>• Diverse &amp; inclusive environment</td>
<td>• FTE reporting by performance targets</td>
<td>Workforce planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Build the capability of the workforce</td>
<td>• Employee satisfaction can be correlated to positive shareholder value</td>
<td>• Ensuring competitive salaries, evidence of opportunities across genders &amp; high workforce retention</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reflects favourably as a place to work and likely to attract more talent</td>
<td></td>
<td>• Linking executive remuneration to ESG targets</td>
</tr>
<tr>
<td>Governance</td>
<td>Maintain a robust control environment</td>
<td>• Security for shareholders in knowing there is strong governance in place in order to support risk management</td>
<td>• KPI reporting ensuring internal ESG controls are in place for satisfying internal and external auditors</td>
<td>ESG reporting framework</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Abide by legal and regulatory requirements</td>
<td></td>
<td>• Ensuring alignment with regulatory, statutory and management requirements e.g. embedded Sox controls</td>
</tr>
<tr>
<td>Treasury</td>
<td>Financing products that link to sustainability performance</td>
<td>• Treasury’s role evolving into an advisory and collaborative role with sales, procurement and technology</td>
<td>• ESG Investment Ratings</td>
<td>• Greater transparency and accountability through clear RACI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Borrower’s interest rates linked to whether company meets sustainability targets</td>
<td>• Reporting on investments, supply chain finance</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>• Encourage suppliers to comply with ESG targets</td>
<td>• SI driven pension plans for employees</td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>Lifecycle impacts of products and services</td>
<td>• Ensuring that products are compliant with ESG related guidance, as well as supporting the ESG direction of company</td>
<td>• Product profitability</td>
<td>Capital planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Promote new product innovation</td>
<td>• MI to support reduced carbon emissions and transition to net zero</td>
<td>• Reducing the level of carbon intensity investments within funds and portfolios</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Attract new customers and market share</td>
<td>• ESG related add-ons to services</td>
<td>• Divesting from high-impact fossil fuels linked to specific targets</td>
</tr>
<tr>
<td>Technology</td>
<td>Transition to energy efficient technologies for the business</td>
<td>• Investment in increasing green technology usage throughout the company</td>
<td>MI</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Eligibility for capital allowances when sourcing energy efficient, low or zero-carbon technology for business</td>
<td>• Prioritisation of R&amp;D expenditure into green technologies</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• MI reported in annual accounts &amp; financial reports</td>
<td>• Reporting targets in annual accounts &amp; financial reports</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>Make operations Climate Positive by leveraging sustainable sources of power</td>
<td>• Leveraging sustainable sources of power present may be subject to tax relief</td>
<td>MI</td>
<td>Capex planning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Long-term business resilience</td>
<td>• Reporting net zero carbon across operations</td>
<td>• Embed climate related drivers for calculating asset value in use and impairments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Renewable electricity target &amp; usage</td>
<td>• Accelerated depreciation schedule reducing tax effects</td>
</tr>
<tr>
<td>CSR</td>
<td>Business ethics, data security and customer privacy</td>
<td>• Consumers choosing to transact with organisations that have positive CSR initiatives</td>
<td>MI</td>
<td>Operational risk management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• A responsible approach to tax</td>
<td>• Number of CSR activities completed</td>
<td>• Continued R&amp;D and investment into greener production techniques</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Positive response to human rights and community relations</td>
<td>• Number of sectors supported through CSR hours</td>
<td>• Increasing reliance on sustainable sources of power</td>
</tr>
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<td></td>
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Going beyond ESG disclosure reporting, what do you need to do

Addresses key gaps to deliver:

01 Develop your ESG KPI framework for internal performance management

Key focus areas

02 Enhance your planning and forecasting models for ESG

Risks to mitigate

03 Improve your ESG performance reporting

ESG disconnected from planning processes, which are disconnected from reporting results

04 Provide self-service reporting to drive transparency for the business

Information lags and inaccuracies hinder the ability to make decisions and take corrective actions

05 Embed a sustainable operating model

Weak enforcement and accountability with operations and at the individual level

Enablers/action to support

• Definition and alignment on what is relevant to measure and manage business on for ESG
• Plans and targets cascaded to functions and individuals aligned with the business

• Clear understanding and visibility of ESG drivers and events impacting KPIs and business outcomes
• Integrated business and financial plans with the capability to predict and accurately plan and forecast performance

• Accurate and timely impact of ESG on cost and profitability across multiple dimensions
• Common ESG data definitions and integrity with cloud access to improve timeliness

• Access to the right information on a timely basis to make impactful decisions
• Tools and capability (skills) to analyse and influence the drivers and measures

• Governance to ensure accuracy, consistency and use of the data and information
• People held accountable to take action and make decisions that impact performance

Addressing these actions will support the drive towards more complete ESG reporting

How to start:
Small and value-led

FP&A strategy for ESG

Identify improvement targets

Define internal KPIs for ESG

KPMG data scan

Prioritise opportunities

Gap analysis

Validate solutions

Quantify the business benefits

Prototype

Sustain and improve

Embed

Expand

Measure results

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How can KPMG help and accelerate and de-risk your ESG performance management journey

KPMG professionals can partner with you to:

- Understand the ESG issues that are material for your organisation and your stakeholders
- Choose the right reporting approaches and framework for your business
- Integrate financial and non-financial information in your reporting leveraging ready to deploy asset libraries
- Report information for specific purposes, such as sustainability indices
- Benchmark the quality of your reporting against industry peers
- Gain independent assurance for your internal and external reporting systems and your sustainability reporting
- Undertake a review of ESG performance management to ensure you are leveraging an appropriate framework to deliver on ambitions

Delivering insight

- Industry depth & insights
  - Content, planning, scenarios, prototypes/models
- Business outcome focused
  - Deliver measurable business outcomes and value

Speed to value

- Fit for purpose agile speed boat solutions vs. 'big bang' solutions leverage our pre-built models, assets and accelerators
- Customer experience
  - Is at core engaging, interactive design labs

End-to-end business integrator

- Strategy implementation
  - 'show vs. tell'; business-led and technology-enabled
- Accountable for the holistic solution and bring in multi-disciplinary teams across finance, accounting, risk, tax, data & analytics
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Contact us

To learn more about how KPMG can help with your ESG Performance Management reporting needs, please contact us.

Contributors:

Myra Doyle  
Head of Banking ESG Finance Transformation  
Partner  
KPMG in the UK  
myra.doyle@kpmg.co.uk

Minochehr Vania  
Head of FS Cost and Value Management  
Partner  
KPMG in the UK  
minochehr.vania@kpmg.co.uk

Charlotte Lo  
Head of Banking Accounting Advisory  
Partner  
KPMG in the UK  
charlotte.lo@kpmg.co.uk

Joao Abreu  
Finance Transformation  
Director  
KPMG in the UK

Stefan Stefanov  
Finance Transformation  
Manager  
KPMG in the UK

Chirag Shah  
Finance Transformation  
Director  
KPMG in the UK

India Clutterbuck  
Finance Transformation  
Manager  
KPMG in the UK

Givarn Ramsundar  
Finance Transformation  
Director  
KPMG in the UK

Katie Simpson  
Finance Transformation  
Manager  
KPMG in the UK

Jyotsna Goel  
Finance Transformation  
Manager  
KPMG in the UK

Jonathan Ashenafi  
Finance Transformation  
Assistant Manager  
KPMG in the UK