Sustainable management

Study on ESG management & steering

2023
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KPMG AG Wirtschaftsprüfungsgesellschaft

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Foreword

Dear readers,

We are in the middle of probably the most dramatic phase of societal and economic transformation the world has seen. Sustainability is the key driver of this development.

The pressure of public opinion and the visible impacts of climate change and environmental destruction are leading to an increasingly strict regulatory framework that companies are no longer able to ignore. As a result, the management of ESG (environmental, social, governance) issues is vital for companies' decision-making processes and economic success. Putting business management on a sustainable footing requires rethinking on the part of management bodies in particular. Decision-makers face the challenge of reconciling a sustainable ESG value contribution with their business strategy. Now is a good time to take stock.

For this "Sustainable management" study, we surveyed 200 ESG officers from German companies operating in four industries and analysed how they are gearing their organisations with respect to ESG issues and what measures they are taking to make their businesses more sustainable. The results reflect the self-assessment of the companies surveyed.

In the second stage, the results were placed into context by our ESG experts. This means our study illustrates the status quo of companies' ESG transformation. It also highlights the challenges and opportunities arising in connection with a sustainable approach to business management, the influence of ESG aspects on organisational structures and reporting, and the technology and data landscape.

While most companies across all four industries are aware of the considerable relevance of ESG transformation, the degree of implementation has yet to keep up with the level of ambition they have defined for themselves. They will need to pick up the pace, not least in light of the EU's mandatory regulatory ESG requirements.

We hope you enjoy reading this study.

Goran Mazar

Partner
EMA & German Head of ESG
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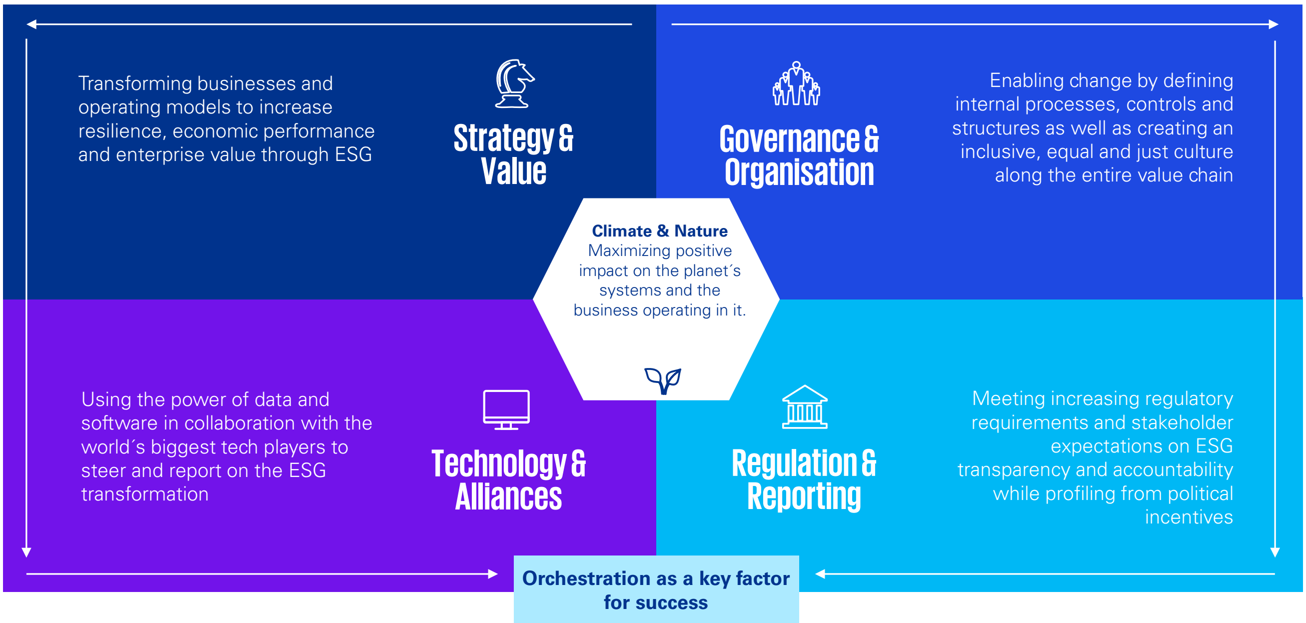
Dimensions of sustainability



Source: KPMG in Germany, 2023

Executive summary

INCORPORATION OF ESG

63% have incorporated sustainability issues at the highest levels of management, i.e. C level and management board.

CHALLENGES

The biggest challenge when it comes to implementing ESG reporting is a lack of resources and capacity.

SYSTEM LANDSCAPE

48% do not have integrated systems and processes for comprehensive ESG reporting.

DRIVERS OF ESG ACTIVITIES

Customer expectations and needs is the main driver of ESG activities for three in every four companies.

KEY PERFORMANCE INDICATORS

56% have established suitable, well-defined KPIs for controlling environmental aspects, whereas KPIs for social and governance aspects are less commonplace.

ESG RESPONSIBILITIES

One in every five companies does not have a clear and integrated organisational structure for ESG management.

LEVEL OF AMBITION

47% have recognised the competitive benefits that can result from the proactive management of opportunities and risks in connection with critical ESG issues.

EU TAXONOMY

67% of in-scope companies are not yet implementing all of the necessary measures to satisfy the new reporting requirements in accordance with Article 8 of the EU Taxonomy Regulation.

DATA GOVERNANCE

Less than one-third of the companies surveyed pursues a systematic or overarching approach to internal data governance for ESG issues.

ESG STRATEGY

67% consider the compatibility of ESG aspects with their business strategy to be the biggest challenge facing their company.

01. Strategy & value

Generating added value – the strategic importance of ESG

Almost half of the companies consider their approach to ESG issues to be proactive and believe that managing risks and opportunities will result in competitive advantages.

47 percent of respondents state that they manage opportunities and risks proactively in order to give themselves a competitive advantage.

More than a quarter of the companies surveyed **(26 percent)** follow the principle that economic success should go hand in hand with benefit to society. A further **17 percent** address opportunities and risks in their operating business as required.

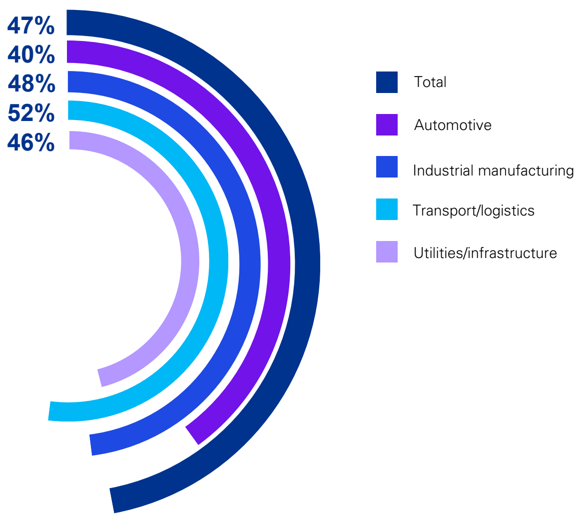
When it comes to ESG issues, around one in ten companies only meet the minimum requirements of their stakeholders or restrict themselves to complying with statutory provisions.

7 percent of respondents state that they always act in accordance with the law and comply with their stakeholders' contractually required minimum (ethical) standards, while a further **4 percent** satisfy themselves with meeting the statutory provisions.

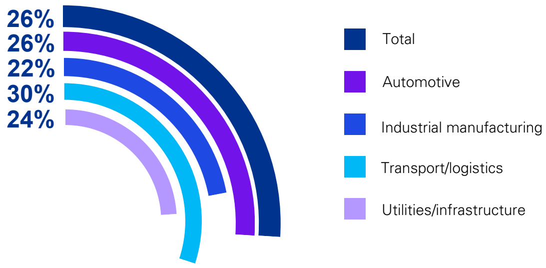
The belief that the proactive management of ESG issues can deliver a competitive advantage is most pronounced in the transport and logistics industry **(52 percent)**, while this view is shared by considerably fewer respondents in the automotive industry **(40 percent).**

Fig. 1: How do you assess your company's ambition with regard to ESG issues?

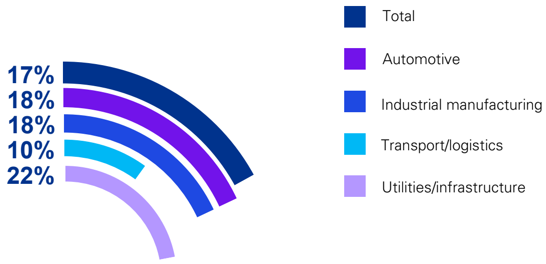
We manage opportunities and risks proactively in order to give ourselves a competitive advantage



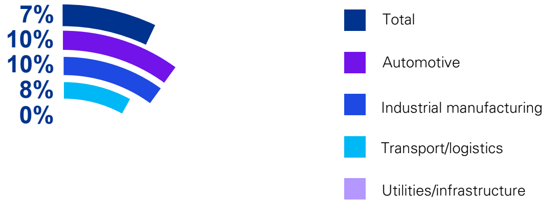
Economic success goes hand in hand with benefit to society



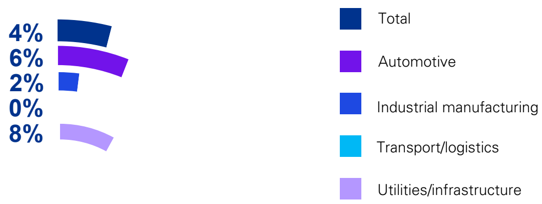
We address opportunities and risks in our operating business as required



We act in line with the statutory provisions and satisfy our stakeholders' contractual minimum standards



We limit ourselves to complying with the statutory provisions



Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview); chart shows overview of key drivers (important + extremely important)

> ESG management is still rarely seen as a competitive advantage in many sectors. But an integrated approach to sustainability, implemented correctly, can be an opportunity – for more growth, greater profitability, and higher enterprise value. Any company that limits itself to complying merely with the minimum regulatory standards also limits its own possibilities. It is time to develop holistic solutions rather than making minor optimisations. By turning social responsibility into one of the strategic pillars of the organisation, sustainability management can change an entire company.

Goran Mazar
Partner
EMA & German Head of ESG and Automotive
KPMG AG Wirtschaftsprüfungsgesellschaft

Changing customer expectations and needs is the most important driver of ESG activities for the companies surveyed.

Customer expectations and needs is the key driver of ESG activities for three in every four companies surveyed **(76 percent)**

Almost two-thirds of participants **(64 percent)** consider climate change and environmental damage to be an important or extremely important driver of their sustainability initiatives.

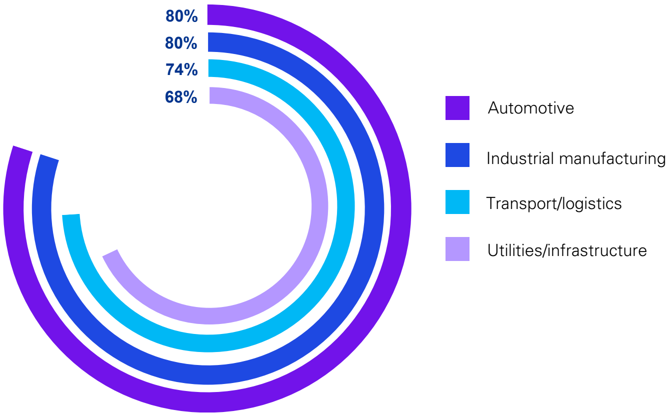
The manufacturing and automotive industries believe customer expectations and needs to be particularly important (each **80 percent**), while the figures for climate change and environmental damage are considerably lower (manufacturing: **46 percent**, automotive: **56 percent**).

Fig. 2a: What do you consider to be the key drivers of ESG activities for your company? (general overview)

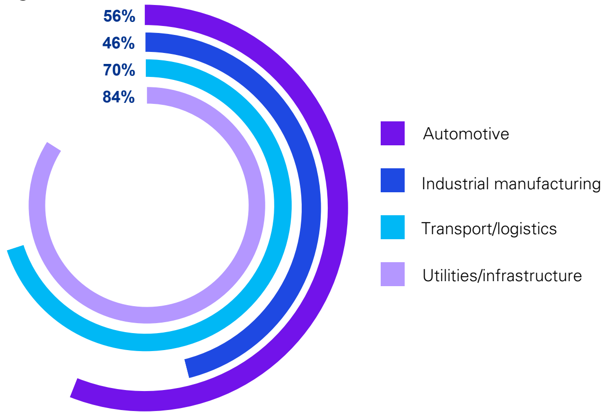
Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview); chart shows overview of key drivers (important + extremely important)

Fig. 2b: What do you consider to be the key drivers of ESG activities for your company? (sector assessment)

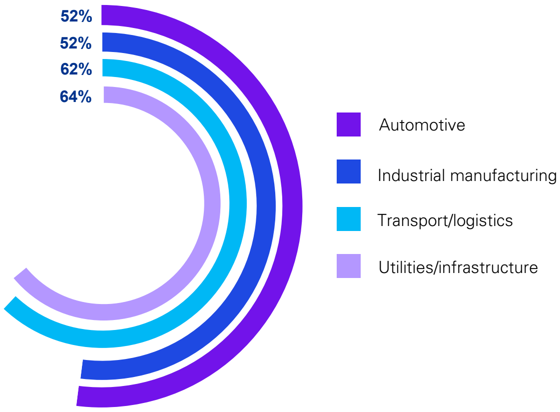
Customer expectations and needs



Climate change and environmental damage



New business potential



Source: KPMG in Germany, 2023; figures in percent, comparative sector overview, n=50 per sector; chart shows overview of key drivers (important + extremely important)

> **Manufacturing has a key role to play in achieving net zero. As the supplier to industry as a whole, it has an obligation to develop decarbonisation solutions that are technologically feasible and economically scalable. These customer expectations are by far the biggest driver for ESG activities in the manufacturing industry.**
>
> **Ulrich Ackermann**
> Head of Tax
> Head of Industrial Manufacturing
> KPMG AG Wirtschaftsprüfungsgesellschaft

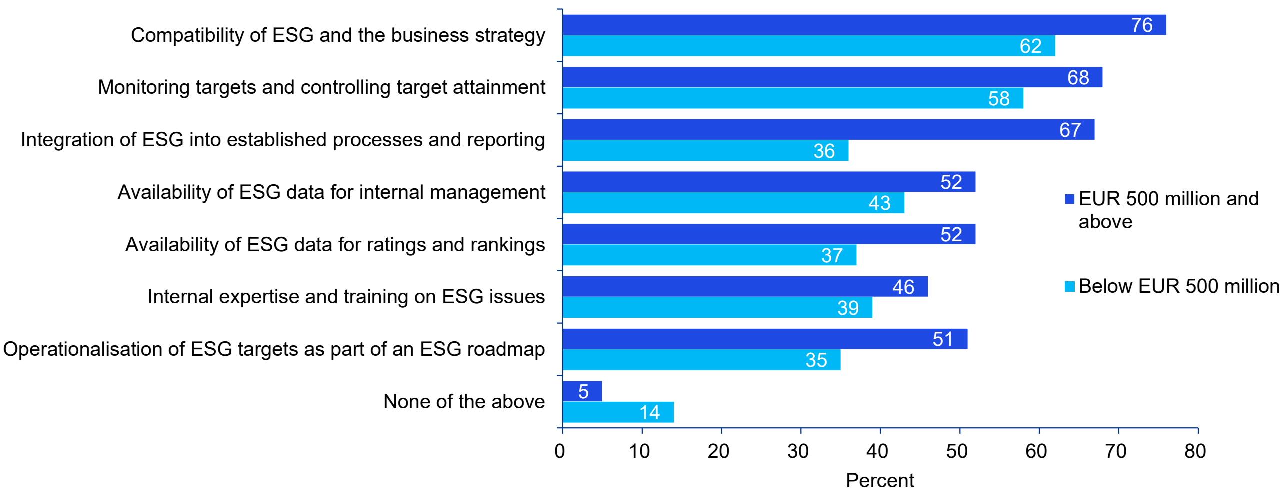
For companies, the compatibility of ESG aspects with their business strategy represents the biggest challenge.

Two-thirds **(67 percent)** of respondents consider the compatibility of ESG aspects with their business strategy to be the biggest challenge facing their company. At **61 percent** the second-biggest challenge is monitoring ESG targets and controlling target attainment.

The compatibility of ESG aspects and the business strategy is particularly relevant for companies with revenue in excess of EUR 500 million **(76 percent)**. However, these companies also consider all of the other challenges included in the survey, such as the integration of ESG into established processes and reporting and the operationalisation of ESG targets, to be more important than is the case at companies with revenue of less than EUR 500 million.

The biggest deviation between sectors relates to the availability of ESG data for ratings and rankings: While **52 percent** of companies in the automotive industry consider this factor to be particularly important, the figure for the infrastructure industry is just **34 percent**.

Fig. 3: How important do you consider the following ESG challenges to be for your company?



Source: KPMG in Germany, 2023; figures in percent, revenue < EUR 500 million n=137, revenue > EUR 500 million n=63 (general overview); chart shows overview of key ESG challenges (important + extremely important)

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ESG challenges vary depending not only on the size of the company, but also on the industry to which they belong – and the variations can be considerable. The availability of ESG data for ratings and rankings is seen as less important in a fragmented market environment with predominantly public-sector clients, like the infrastructure industry, than in sectors that also have to take private stakeholder expectations into account to a large extent.

Dr. Steffen Wagner
Partner, Deal Advisory
Head of Transport & Leisure
Head of Infrastructure
KPMG AG Wirtschaftsprüfungsgesellschaft

Analysis by KPMG experts

Sustainability as the basis for value growth
ESG transformation is clearly a priority for the management levels of German companies. Half-hearted initiatives or outright inaction can be expensive and lead to both financial and reputational damage. If the opportunities and risks resulting from sustainability transformation are managed proactively, this can generate competitive advantages, such as identifying opportunities for expansion into new markets at an early stage and reinforcing this development through innovation and technology leadership. By contrast, companies that merely seek to comply with the statutory provisions or the contractually required minimum (ethical) standards of their stakeholders can easily miss out on the opportunities resulting from newly evolving ecosystems. Furthermore, in a dynamic regulatory environment, companies that focus solely on satisfying their regulatory obligations can soon find themselves having to play catch-up.

In order to stay one step ahead of the statutory provisions – and ideally also ahead of the competition – it is necessary to develop strategic options and establish a corresponding ESG strategy. The first step in developing a sustainable value strategy that generates added value and competitive advantages for the long term is to identify strategic ESG solutions and platforms that allow companies to take advantage of material opportunities while avoiding significant risks.

Taking stock to identify targets
It is important for companies to quickly gain a clear understanding of the opportunities that ESG topics can entail for their organisation. This involves embracing various aspects of ESG as potential new business opportunities. Senior management needs to clearly commit to the process of ESG transformation and the necessary changes must be made to processes, work procedures and behaviours. The operating model and the business model should be geared towards sustainability.

This requires policies and tools that contain clear criteria and indicators (KPIs) in order to ensure the measurability and comparability of developments in the three areas of environment, social and governance. The first step is to take stock to determine the degree of ESG maturity within the organisation across the four dimensions – 'Strategy & value', 'Governance & organisation', 'Regulation & reporting' and 'Technology & alliances' – so that areas requiring action can be identified and corresponding transformation projects initiated.

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Extensive changes to the regulatory framework will make sustainable corporate management even more of a driver for preserving and increasing enterprise value. Successful sustainability management requires a clearly defined sustainability strategy that is fully integrated into the wider corporate strategy. Implementation generally represents the biggest hurdle for our clients. In light of the large volume of ESG data that will be available in future, the challenge will be to derive management-relevant KPIs from the strategy and to empower and incentivise the entire organisation, not just the sustainability and accounting departments.

Dr. Thimo Stoll
Partner, Deal Advisory, Strategy
KPMG AG Wirtschaftsprüfungsgesellschaft

ESG as part of corporate culture
Developing and successfully implementing a meaningful ESG strategy requires more than just a clear commitment to ESG topics on the part of senior management. ESG must become an integral part of the corporate culture – one that is internalised and developed further by all of the relevant decision-makers within the company.

02. Governance & organisation

Incorporating ESG into the business organisation

The C level and the management board have overarching responsibility for ESG topics at the majority of the companies surveyed.

ESG is established at the highest management level at a clear majority of the companies surveyed: **63 percent** of respondents stated that the C level and the management board have overarching responsibility for all topics relating to sustainability.

ESG topics are most frequently assigned to the C level and the management board in the infrastructure industry **(72 percent)**, whereas this is only the case for half of all companies in the automotive industry **(50 percent).** The number of employees and the level of revenue do not affect the extent to which responsibility is assigned to the C level (equal distribution, each **63 percent**).

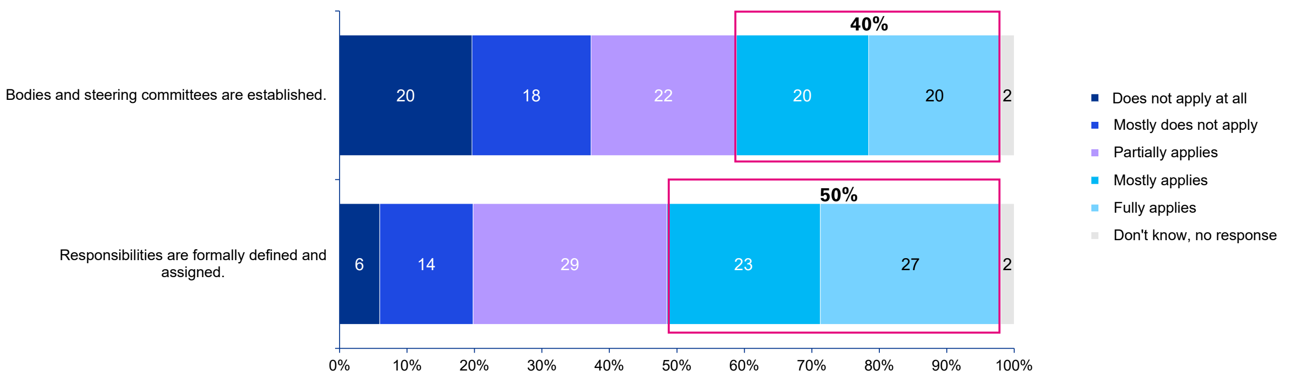
> **To reinforce the chosen sustainability approach and give it greater credibility, companies should ensure that their ESG topics are established at senior management level both strategically and operationally. This is the only way to ensure a successful shift to sustainability throughout the company. However, half of all companies in the automotive industry have yet to acknowledge this fact. At the same time, the regulatory requirements are extensive – and becoming increasingly complex. A clearly defined organisational and operational structure for ESG management is essential, and the time available to implement it is getting short.**
>
> **Goran Mazar**
> Partner
> EMA & German Head of ESG and Automotive
> KPMG AG Wirtschaftsprüfungsgesellschaft

There is room for improvement when it comes to the organisational structure of ESG management.

Only half of all companies **(50 percent)** fully or mostly agree with the statement that ESG responsibilities are formally defined and assigned, while the allocation of responsibilities is only partially defined at a further **29 percent** of companies. **20 percent** of the companies surveyed say that this statement mostly does not apply or does not apply at all, meaning that one in every five companies has no structured organisational framework for ESG management.

Decision-making bodies for ESG issues are even less established. Only **40 percent** of respondents fully or mostly agree with the statement that bodies and steering committees are established at their company, while this applies at least partially to a further **22 percent.** This means well over one-third of all companies **(38 percent)** have not established effective ESG decision-making bodies for the most part or at all.

Fig. 4: To what extent do the following statements apply to the organisational structure of ESG management at your company?



Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview)

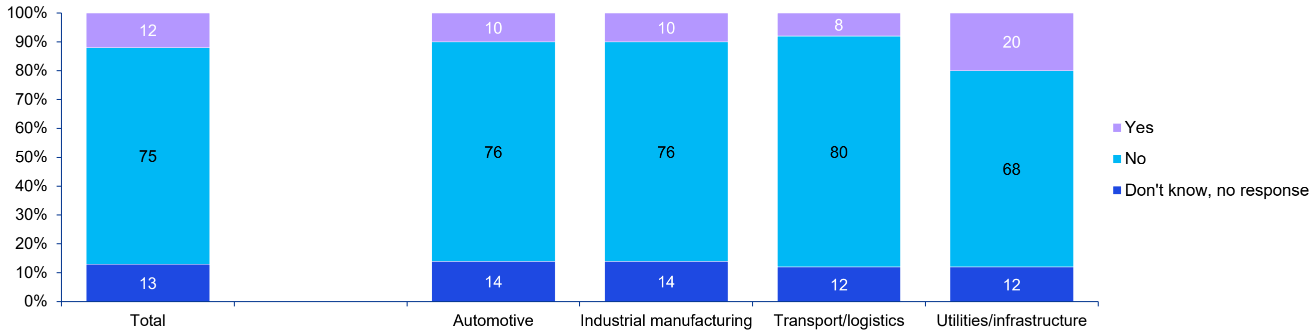
Very few companies have incorporated ESG targets into their remuneration structure.

Fewer than one in eight companies **(12 percent)** have established ESG-relevant targets and their attainment as a component of the variable remuneration paid to their management. ESG targets play no part in the management remuneration structure at three-quarters of companies **(75 percent)**.

ESG targets are more commonly found in the relevant remuneration mechanisms at companies with revenue in excess of EUR 500 million **(17 percent)** than at companies with revenue of less than EUR 500 million **(9 percent).**

ESG targets most frequently form part of the C level salary structure at utilities and infrastructure operators **(20 percent)**, whereas they are least common as part of the management remuneration structure in the transport and logistics industry.

Fig. 5: Does the achievement of ESG targets form part of your management remuneration structure?



Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview and comparative sector overview, n=50 per sector)

The number of companies that have incorporated ESG targets into their remuneration structure is low, especially in industries with a high proportion of non-owner-operated companies.

Dr. Steffen Wagner
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Analysis by KPMG experts

Clear responsibilities deliver the best results
Effective ESG management and steering mechanisms require responsibilities to be clearly allocated within a company's structures. Centralised decision-making responsibility is beneficial when it comes to the quick and efficient implementation of requirements and targets, and the introduction process can be centrally coordinated between individual business units at the same time. Clear, demarcated responsibilities help all of the relevant organisational units to contribute as best as they can. In turn, this requires the relevant ESG expertise to be in place in the corresponding teams.

ESG expertise as a key to successr
The complexity and dynamism of ESG issues requires expertise and experience in many areas. The involvement of experienced ESG managers and experts can improve steering and outcomes, as well as allowing interfaces within the company to be managed more efficiently. However, the long-term effectiveness of ESG steering depends to a large extent on whether senior management is seen to actively back the company's ESG efforts. As far as the company's ESG positioning is concerned, strategic responsibility, integration into decision-making processes, internal and external communication, the configuration of reporting channels and the provision of adequate resources are all tasks that clearly fall within the remit of senior management.

Establishing internal and external performance incentives
Effectively integrating ESG aspects within the organisation is essential to their successful implementation. It is important to ensure that ESG-related targets are clearly and consistently tied to flexible salary components at the different levels and in the responsible bodies. Positive incentive systems can also be established beyond the company's own workforce, e.g. for customers and suppliers. For example, the latter can be encouraged to act more sustainably not only by making them sign up to corresponding policies and codes of conducts, but by "rewarding" strong ESG performance in the form of more attractive conditions and offers.

Dialogue-oriented approach to business relationships
From suppliers to customers and business partners, effective and comprehensive communication between the parties in a spirit of mutual trust is essential – and not only when it comes to ESG issues. The requirements in terms of company reporting make it necessary to exchange a large amount of data and information along the value chain, discuss problems quickly, and work in tandem to resolve them.

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ESG needs to be at the heart of a modern corporate strategy – and the successful implementation of this strategy requires an efficient and effective organisation. In order to successfully meet its ESG targets, a company needs clear responsibilities, ESG expertise, adequate resources, defined roles and the right incentives.

Nadine-Lan Hönighaus
Partner, Markets
Head of ESG Governance
EMA ESG Hub
KPMG AG Wirtschaftsprüfungsgesellschaft

03. Regulation & reporting

ESG reporting – from meeting requirements to gaining a competitive advantage

There is room for improvement when it comes to defined ESG KPIs for holistic controlling.

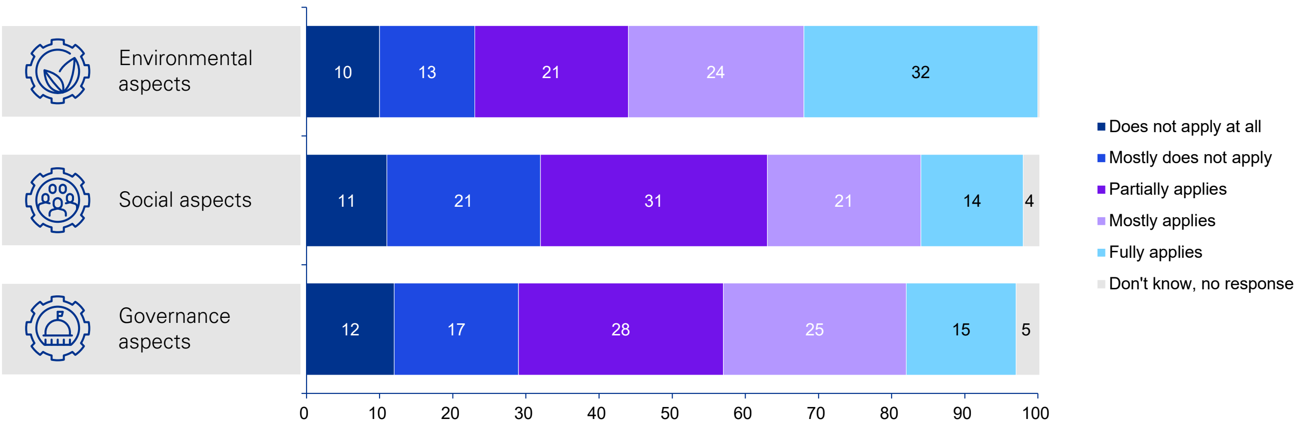
56 percent of the companies surveyed say that they have defined suitable KPIs for controlling environmental aspects. However, **23 percent** of respondents say this is mostly or entirely not the case – meaning that almost one-quarter of all companies have no KPI system with which to steer their activities, products or services and their impact on the environment.

Just over one in three companies **(35 percent)** mostly or fully agree with the statement that they have defined KPIs for social aspects, **31 percent** partially agree with this statement, and **32 percent** mostly or entirely disagree.

40 percent of the companies surveyed say that they have a coordinated set of KPIs for managing governance aspects, while this applies at least partially to a further **28 percent. 29 percent** say they have not defined suitable KPIs for controlling governance aspects for the most part or at all.

This distribution is reflected in the sector assessment almost without exception: KPIs for controlling environmental aspects are most commonplace, followed by governance and social aspects.

Fig. 6a: To what extent has your company defined suitable KPIs for ESG controlling? (general overview)

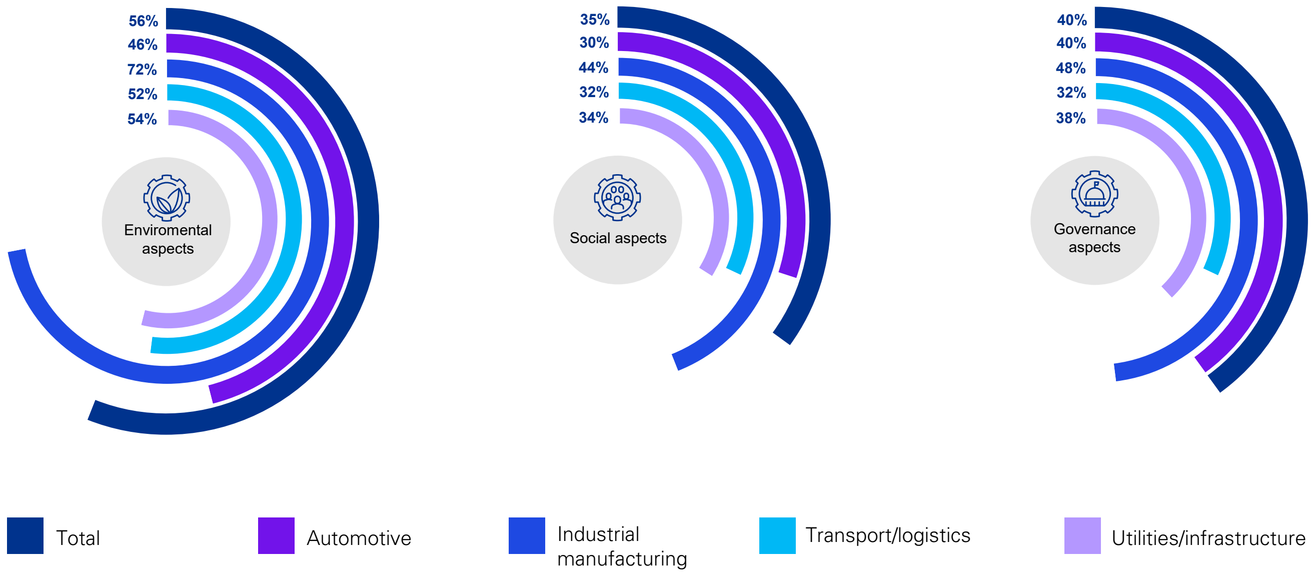


Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview); figures may not add up to 100 percent due to rounding differences

Energy and raw materials are the main input factors in manufacturing. Reducing them is already in the DNA of manufacturing companies. Our findings show that many companies already integrated measures into their production at an early stage in order to minimise the consumption of resources, thereby preventing and reducing harmful emissions to the greatest possible extent.

Ulrich Ackermann
Head of Tax
Head of Industrial Manufacturing
KPMG AG Wirtschaftsprüfungsgesellschaft

Fig. 6b: To what extent has your company defined suitable KPIs for ESG controlling? (sector assessment)



Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview and comparative sector overview, n=50 per sector); chart shows total of "fully agree" and "mostly agree" responses

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An analysis based on company revenue shows considerable differences. A good three-quarters of companies with revenue in excess of EUR 500 million **(76 percent)** mostly or fully agree with the statement that they have defined KPIs for controlling environmental aspects, while more than **50 percent** have corresponding KPIs for social **(56 percent)** and governance aspects **(57 percent**). By contrast, the figures for companies with revenue of less than EUR 500 million are below **50 percent** – and well below in some cases.

> **In their ESG reporting, companies currently focus to a large extent on information concerning climate change mitigation and carbon emissions. Disclosures on other environmental aspects, such as water and marine resources, biodiversity and the circular economy, are still largely uncommon and will need to be intensified considerably in future. Just like social issues, these aspects require immediate attention, not least in light of the imminent deadlines for ESG reporting.**
>
> **Dr. Jan-Hendrik Gnändiger**
> Partner, Audit
> Head of Risk & Compliance Services
> KPMG AG Wirtschaftsprüfungsgesellschaft

Very few companies have their ESG KPIs reviewed by external auditors.

Of the companies that have defined ESG KPIs, only one in every four **(25 percent)** have their ESG performance indicators reviewed by an external auditor: **14 percent** as part of a limited assurance engagement and **11 percent** as part of a reasonable assurance engagement.

One-third of companies with defined ESG KPIs **(33 percent)** do not have them reviewed.

A further **28 percent** are planning to have their ESG KPIs reviewed externally. Our survey finds considerable differences when it comes to reasonable assurance reviews in particular: Companies with revenue in excess of EUR 500 million are twice as likely to plan a reasonable assurance engagement for their ESG KPIs as companies with revenue of less than EUR 500 million **(17 percent vs. 8 percent)**.

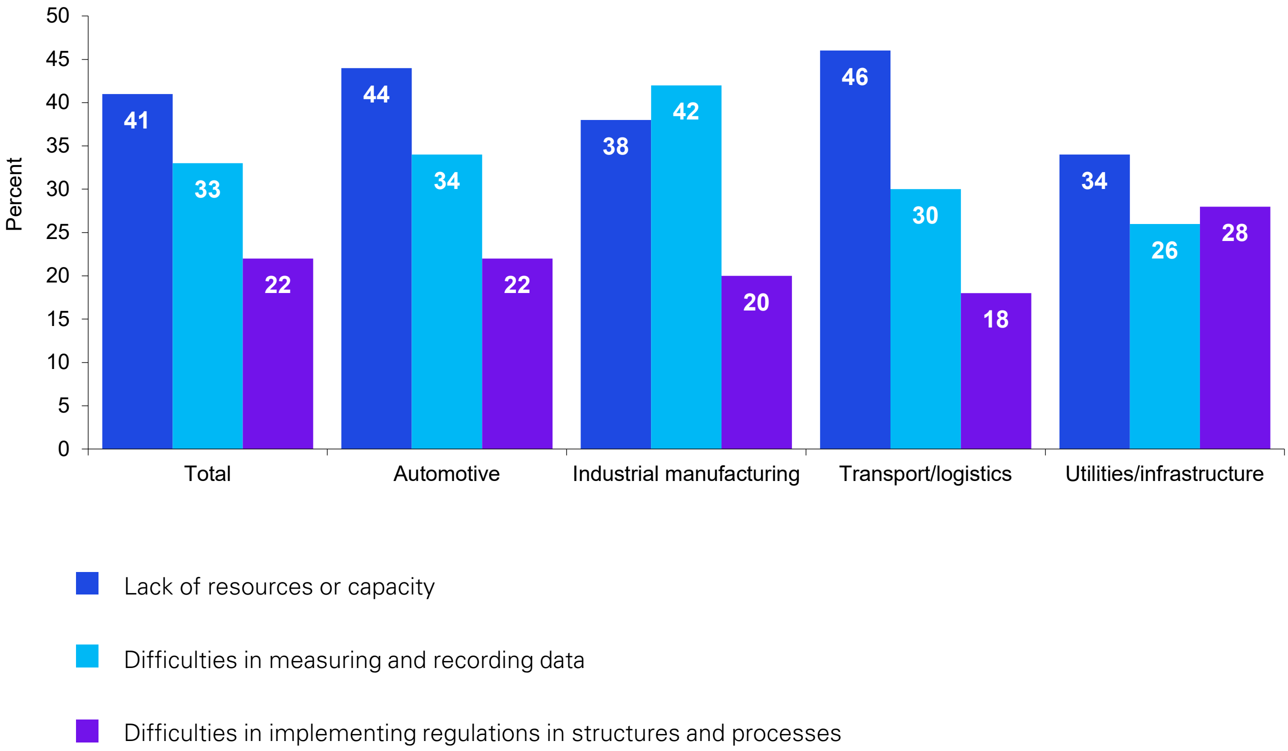
A lack of resources and capacity is the biggest challenge when it comes to ESG reporting.

41 percent of the companies surveyed mostly or fully agree that they do not have the necessary resources or capacity to implement ESG requirements. By contrast, this is not an issue for just over one in four companies **(26 percent)**.

One-third of the companies surveyed **(33 percent)** say they find it difficult to measure and record data.

A good one in five companies **(22 percent)** find it difficult to implement regulations in their structures. While almost half of all transport companies say they lack the necessary resources, companies in this industry also have the fewest difficulties when it comes to implementing regulations in their structures and processes.

Fig. 7: What do you consider to be the challenges facing ESG reporting at your company?



Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview and comparative sector overview, n=50 per sector); chart shows total of "fully agree" and "mostly agree" responses

> **When it comes to ESG reporting, a lack of resources and capacity is by far the biggest challenge affecting companies across all industries. This is particularly the case for the transport and logistics sector, which is faced with a uniquely strained situation on the employment market accompanied by growing demand for qualified employees in areas such as IT, automation and route planning. As their business model is somewhat less complex than other industries, however, companies in this sector have fewer difficulties in implementing regulations in their structures and processes.**

Dr. Steffen Wagner
Partner, Deal Advisory
Head of Transport & Leisure
Head of Infrastructure
KPMG AG Wirtschaftsprüfungsgesellschaft

More than two-thirds of in-scope companies are not yet implementing all of the necessary measures to satisfy the new reporting requirements.

14 percent of respondents have yet to address the new reporting requirements in accordance with Article 8 of the EU Taxonomy Regulation. The size of the company makes a big difference: **19 percent** of companies with revenue of less than EUR 500 million have yet to engage with the new requirements, whereas this is true for just **5 percent** of companies with revenue in excess of EUR 500 million.

A good half of the companies surveyed **(53 percent)** are still in the preparatory phase: **27 percent** are working on understanding the requirements and a further **26 percent** are analysing the requirements for their company.

20 percent of the participating companies are already in the process of implementing the EU taxonomy. Here, too, size is a decisive factor: While **35 percent** of companies with revenue in excess of EUR 500 million are already implementing the requirements, the same is true for just **13 percent** of companies with revenue of less than EUR 500 million.

1 percent of the companies surveyed say that they have already finished implementing all of the measures required to satisfy the new reporting requirements in accordance with Article 8 of the EU Taxonomy Regulation.

Analysis by KPMG experts

ESG is more than climate protection
Most companies tend to focus more on environmental protection than on social aspects and corporate governance. But sustainability is more than just environmental protection. ESG also encompasses issues such as human rights, health protection, diversity and company values. Stakeholders – from supervisory authorities and investors to customers and the general public – are paying increasingly close attention to the ESG KPIs that are relevant to them and the corresponding reporting. They expect to be able to base their decisions on credible, transparent and comparable data. Meeting their expectations can mean going above and beyond the statutory provisions.

Transparency is essential
Legally compliant ESG reporting calls for comprehensive supply chain transparency – and this is where many companies still fall down. Their knowledge of their supply chains is often based on information provided by the suppliers themselves and complex Excel tables that are administered decentrally. However, companies need a complete overview of their entire supply chain and of all suppliers involved in the value chain, for example with regard to whether they comply with all environmental and social standards.

Viewing changing requirements as an opportunity
Ultimately, the aim is to view changes in legislation and stakeholder requirements not as an additional burden, but as an opportunity to generate new revenue or lower costs. As an example, new products such as electric vehicles can attract new target groups as well as achieving cost savings by contributing to the circular economy. Addressing ESG aspects is no longer a specialist area that is the domain of a dedicated department, but something that affects the entire company. Accordingly, a holistic approach must be taken to ensure that ESG reporting takes account of the requirements of all stakeholders. Stakeholder and risk analyses can be conducted to establish the necessary prerequisites. The creation of sustainable reporting systems can also be supported by optimised internal and external audit processes as well as internal and external workshops and training.

Our ESG projects show that capital market-oriented companies understand the relevance and complexity of the issue and have initiated projects to achieve auditability. The expansion of non-financial reporting means the legislation is also starting to apply to considerably smaller companies. It will be interesting to see how they deal with this challenge. I expect them to find it even more difficult because they do not possess the necessary processes, systems and human resources to the same extent.

Johann Schnabel
Partner, Audit
Head of Accounting & Process Advisory
KPMG AG Wirtschaftsprüfungsgesellschaft

04. Technology & alliances

Sustainable digitalisation – ESG as a lever for transformation

Fragmented system landscapes are still commonplace in ESG reporting.

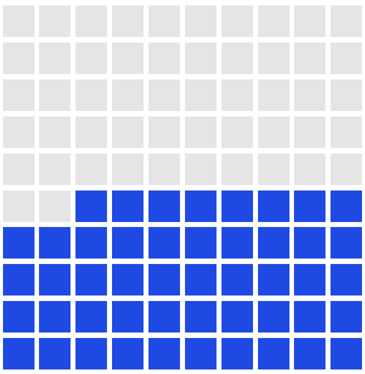
Almost half of all companies **(48 percent)** say that the interfaces between their systems and tools in the processes for ESG reporting consist of a large number of individual systems. In terms of revenue, this statement applies to **55 percent** of companies with revenue of less than EUR 500 million and **33 percent** of companies with revenue in excess of EUR 500 million.

More than one-quarter of the companies surveyed **(27 percent)** have an (in some cases extensive) ESG data lake – the majority of which **(19 percent)** involve manual interfaces. Here again, ESG data lakes are less widespread among companies with revenue of less than EUR 500 million.

A sector-based analysis shows that individual systems are most common in the transport and logistics industry **(60 percent)** and least common among infrastructure companies **(42 percent)**.

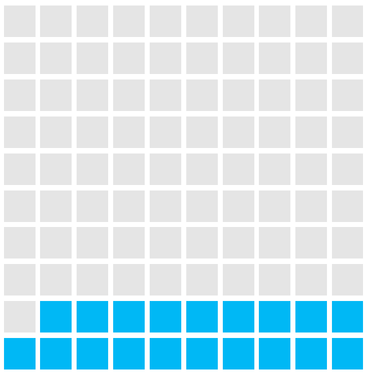
Fig. 8: How are the interfaces between your company's systems and tools in the processes for ESG reporting designed? Which of the following statements is most accurate?

48%



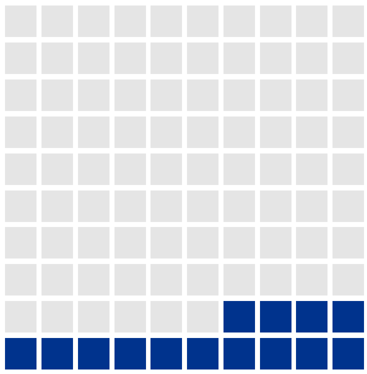
Large number of individual systems

19%



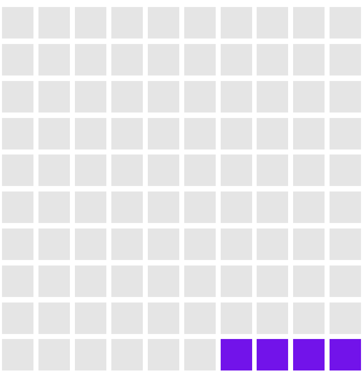
ESG data lake with manual interfaces

14%



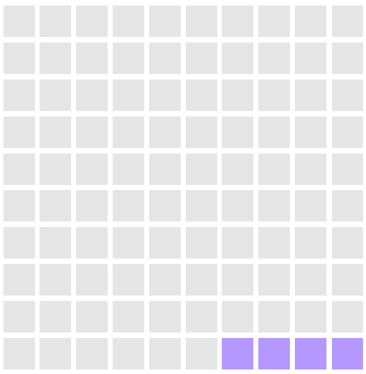
External ESG data sources to enrich existing reporting

4%



ESG data lake with automated connection to financial system

4%



Integrated non-financial and financial data lake

Source: KPMG in Germany, 2023; figures in percent, n=177

Less than one-third of the companies surveyed pursues a systematic or overarching approach to internal data governance for ESG.

24 percent of participants say that data maintenance processes are defined and system-based support for managing ESG data is in place, e.g. in the form of a master data management tool. More than half of the companies surveyed **(56 percent)** say that this statement does not apply for the most part or at all due to the absence of defined and binding processes for data maintenance and the systematic management of ESG data. Companies with revenue of less than EUR 500 million are especially likely to have no defined data management processes **(64 percent)** – compared with **36 percent** at companies with revenue in excess of EUR 500 million.

30 percent of companies mostly or fully agree that they pursue an overarching approach to the centralised management of data, policies and documentation and that they have defined the content of ESG data. By contrast, **41 percent** of respondents say this statement does not apply to them for the most part or at all, i.e. they do not have centralised structures for data management and organisation. The difference between the two revenue clusters is particularly pronounced in this respect: **25 percent** of companies with revenue in excess of EUR 500 million say they do not possess the necessary framework for data governance, whereas this figure is almost twice as high – 48 percent – for companies with revenue of less than EUR 500 million.

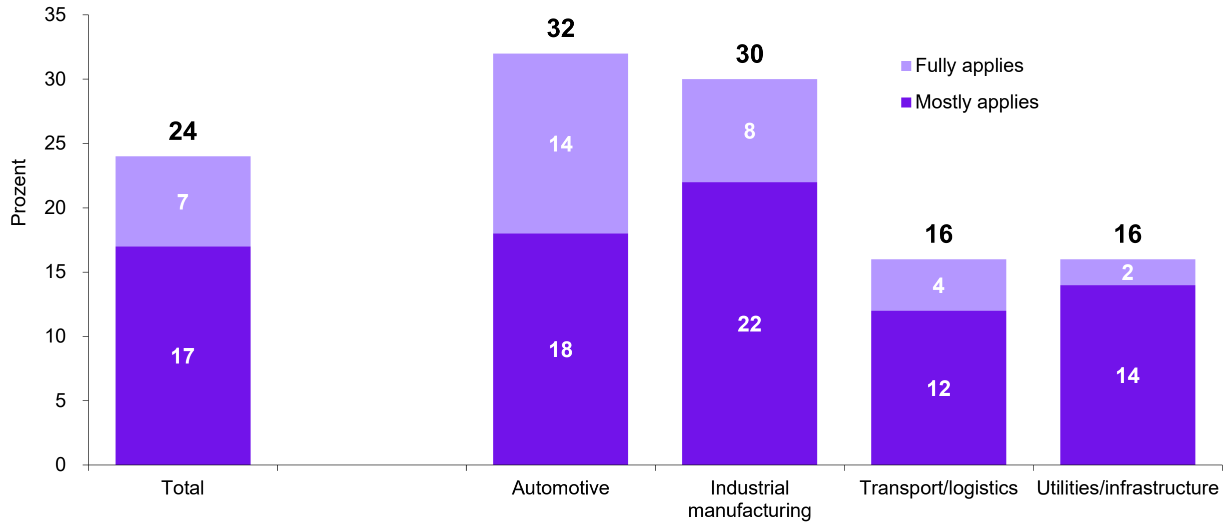
A sector analysis shows that twice as many companies in the automotive industry **(32 percent)** say they have defined data maintenance processes and systematically use suitable tools to record their ESG data than in the transport and logistics industry **(16 percent)**.

“

As regulatory requirements become stricter, companies are facing the challenge of ensuring the consistent availability and transparency of data showing the impact on environmental, social and governance aspects. In turn, this is increasing the pressure on them to manage their data efficiently. Legacy systems and obsolete IT processes mean a lack of clarity, which is a major concern for companies. Some companies in the automotive industry have already made important progress in this respect: Almost one-third of them have defined ESG data maintenance processes and systematically established the recording of the relevant data using suitable tools.

Goran Mazar
Partner
EMA & German Head of ESG and Automotive
KPMG AG Wirtschaftsprüfungsgesellschaft

Fig. 9: To what extent are data maintenance processes defined in order to provide systematic support for the management of ESG data?



Source: KPMG in Germany, 2023; figures in percent, n=200 (general overview and comparative sector overview, n=50 per sector); chart shows total of "fully agree" and "mostly agree" responses

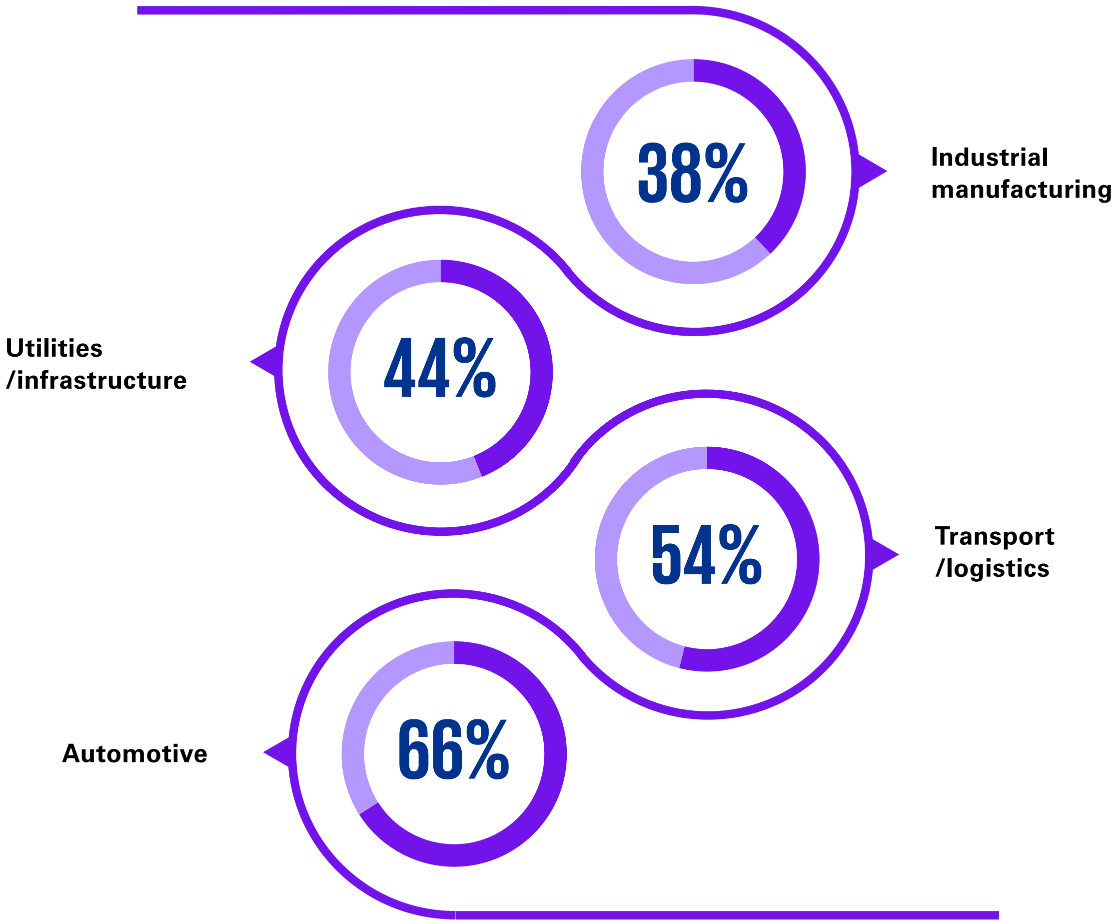
Half of the companies surveyed use distributed data sources in various formats in the collection and processing of ESG-relevant data.

51 percent of respondents say that they mostly or fully agree with the statement that decentralised data sources and different formats are used in the collection and processing of ESG-relevant data. Only **23 percent** say this statement does not apply to them for the most part or at all, which suggests that centralised data sources and standardised formats are already established.

There are considerable differences in terms of the revenue clusters: **62 percent** of companies with revenue in excess of EUR 500 million mostly or fully agree that they use distributed data sources in various formats when collecting and processing ESG-relevant data, whereas this is only the case for **45 percent** of companies with revenue of less than EUR 500 million.

20 percent of the participating companies mostly or fully agree with the statement that established data structures form the basis for a harmonised data architecture. By contrast, **43 percent** say they mostly or fully disagree with this statement.

Fig. 10: To what extent are distributed data sources and different formats used in the collection and processing of ESG-relevant data? (sector assessment)



Source: KPMG in Germany, 2023; figures in percent, n=200 (comparative sector overview, n=50 per sector); chart shows total of "fully agree" and "mostly agree" responses

Industrial manufacturing and automotive are the outliers when it comes to the sector comparison. The number of companies using decentralised data sources and different formats in the manufacturing industry is relatively low **(38 percent),** whereas the figure for the automotive industry is comparatively high **(66 percent).**

> **Based on our analysis of the market, companies are not yet achieving their full potential when it comes to data collection and evaluation. Very often, they face the challenge of identifying the necessary data, extracting it from the various machines and systems that are in use, and making good use of it. Evolving into a data-driven organisation means taking a holistic approach to data and ensuring this mindset is established throughout the organisation.**
>
> **Ulrich Ackermann**
> Head of Tax
> Head of Industrial Manufacturing
> KPMG AG Wirtschaftsprüfungsgesellschaft

Analysis by KPMG experts

Regulatory provisions cause uncertainty
Many companies have been collecting non-financial data for some time and have established corresponding data warehouses or data lakes. As such, they often feel confident that they already comply with the majority of the regulatory requirements. However, they frequently change their mind as soon as they come into contact with the regulatory framework in detail (e.g. double materiality in accordance with the CSRD). As the understanding of this framework improves in terms of both functional and IT requirements, companies are becoming far better at assessing the differences between their ambitions and reality.

ESG tools compete with existing architectures
As a result of the pronounced focus on sustainability aspects in terms of content and regulatory requirements, specialist departments are often keen to directly procure the services of specialist providers of ESG tools, especially platforms for data recording, carbon accounting and traditional reporting solutions.

However, companies should only do so in close cooperation with their internal IT department, as these tools often encroach on the existing data strategy and architecture to a large extent. Recklessly selecting a (new) data platform is a decision that can be extremely difficult to reverse further down the line.

Integration with the financial data pool
The regulatory framework and the demand for harmonised steering models mean there is a need for integrated financial and non-financial reporting and steering. Unlike financial data, however, non-financial data is typically poorly structured and sometimes involves entirely different technical requirements in terms of collection, storage and processing.

As a result, divergence between the non-financial data world and traditional, financially driven organisational structures constitutes a specific risk. Financial information systems are usually geared towards the legal organisation or cost centre structures.
Non-financial systems are often considerably more granular and need to be mapped to the financial view before anything else. The longer the existing data structures have been in place, the greater the cost and effort required to consolidate them.

To this end, processing ESG data requires close cooperation between the specialist departments and the IT and enterprise architects as early as possible in the transformation process in order to facilitate the development of an IT landscape that is sustainable in both senses of the word.

“

Many IT organisations are not involved in the implementation of ESG requirements, with companies instead seeking to manage sustainability data using ESG tools. However, mature IT organisations typically already possess suitable solutions that can be used for data collection and processing. As such, the early involvement of the IT department is essential in order to minimise risks and realise innovation potential in IT.

Ulrich Dommer
Partner, Consulting
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Methodology

Our "Sustainable management" study on ESG management and steering was conducted in the first quarter of 2023 in collaboration with the independent market research institute KANTAR. We surveyed 200 decision-makers from companies in four industries across Germany on the status of ESG activities at their companies.

50 companies from each industry – automotive, manufacturing, infrastructure, and transport and logistics – were asked to give their opinion on how well prepared they are for medium-term and long-term changes, how sensitively they respond to future changes, and whether potential risks and opportunities have already been identified.

The results of the study primarily reflect the self-assessment of the companies concerned. The results were then placed into context by KPMG experts.

Additional authors

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KPMG Business Analytics ESG Management & Steering provides you with a pragmatic analytical tool to find out where you are in your ESG agenda. We use an extensive questionnaire to identify and assess your ESG management's current strengths, challenges and areas for development.

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