NEWS RELEASE

Businesses balancing growing ambition with rising regulation and evolving job roles as sustainability becomes big focus for 2024

- KPMG survey of 50 ESG specialists in 10 countries and territories reveals sustainability increasingly embedded in wider corporate strategies
- Despite increasing maturity and focus on purpose-driven approaches, companies are having to adapt and flex to increasing ESG reporting requirements and an evolving regulatory landscape, and this has effects on their governance and organization
- Findings highlight that company structures have adapted to ESG, from the board level to the whole organization. The findings also suggest a growing need for group sustainability units to adapt to ESG's increasing importance by taking a more strategic approach, working with other departments, and no longer trying to do everything connected with sustainability themselves.

KPMG International global survey on ESG governance and organization

ESG and broader sustainability strategy have made their way to the top of board agendas in 2024, despite business leaders facing a bulging inbox of issues and challenges, according to new research from KPMG International.

Chief Sustainability Officers* from some of the world's largest companies were interviewed for KPMG's global survey on ESG governance and organization, to gain a deeper understanding of how companies are structuring their set-up and teams for sustainability and responding to a wave of new regulation and increased stakeholder and investor pressure for transparency on ESG.

Almost all respondents reported high ambitions for ESG in their organizations, with half now viewing sustainability as a strategic issue that is embedded in core business operations.

With ESG covering a wide area of societal and governance issues, the challenge for many businesses can be deciding what to prioritize. For many respondents, decarbonization and the race to net zero was the topic most-often included in their corporate ESG strategy, with diversity, equality and inclusion and human rights in the value chain the next most-mentioned theme.

Nadine-Lan Hönighaus, Global ESG Governance Lead, KPMG International, said:

> "Sustainability is growing in strategic importance for companies, with increasing reporting requirements on environmental, social and governance (ESG) as well as other demands on the organization regarding sustainability. This creates challenges for the group sustainability units within organizations charged with ESG work. On one hand, such units must produce more material than they did 10 years ago while strategically developing and implementing work on a wide range of topics from climate to human rights. On the other hand, the framework conditions for this work have become much more complex and the standards for

implementation, reporting, mandatory auditing and governance requirements increasingly require a robust approach.

“KPMG’s research highlights that companies should (RC) start developing a clear analysis of the characteristics, strengths and weaknesses of their existing sustainability-focused organization and how effectively it supports their (A) ESG strategy, performance and reporting.”

Who leads on ESG?

With ESG recognized by boards as a key issue, there is evidence of companies finding their feet on who makes the decisions on future strategy and the structures needed to measure, implement, and report effectively.

About one-quarter of the organizations covered by KPMG’s research said they have a board level sustainability committee. A further fifth discuss it through committees that cover other topics, most commonly the audit committee. There was also evidence that ESG is a topic making its way into committees typically focused on management, innovation, remuneration and safety and culture.

The question now facing many business leaders is who should make the ultimate decision on ESG as it increasingly becomes embedded in the fabric and purpose of a company. The chief executive officer is responsible for sustainability in almost half of organizations surveyed, with a dedicated chief sustainability officer as the second most-popular option. The remaining respondents revealed a wide variety of roles taking charge of ESG – from head of supply chain and manufacturing to the chief risk officer.

Responding to rising regulation with better resources and a focus on remuneration

Reporting on ESG has generally been a voluntary exercise, but some jurisdictions are in the process of making it compulsory, most significantly the European Union through its Corporate Sustainability Reporting Directive (CSRD). Nearly half of the organizations in this research plan to report in accordance with CSRD for their 2024 financial year, with nearly a fifth more planning to do so a year later.

Nearly three-quarters of organizations in this research have six or fewer full time equivalent staff working on non-financial reporting, and more than half have three or fewer. Just over half said they expect to see an increase in this number, with most of the rest expecting numbers to stay about the same.

Group sustainability units take sole responsibility for ESG reporting at more than half of the organizations in this research. It is shared between several department at a further quarter with written responses suggesting that most involve both sustainability and finance with some also including communications. Most of the rest make finance and accounting solely responsible, except for one where a communications and government affairs department runs reporting with an ESG unit in the finance group responsible for data quality.

Just under half of the organizations in this research have ESG topics in their core corporate key performance indicators (KPIs), with more than a quarter more including them in management level performance reviews. Some respondents say that their organizations plan to increase such work, with one mentioning that they currently have a single indicator on carbon dioxide emissions intensity but plan to add more.

Almost half of organizations interviewed produce internal indicators on a quarterly basis and several use monthly reporting for some measures. Annual is the most common frequency for external reporting used by more than three-quarters of organizations, with the remaining respondents doing so quarterly.

ESG key performance indicators are used in calculating executive pay in a majority of the organizations in this research, with just over half using these for short-term incentives and two-fifths for long-term incentives. Just under half have between 16 and 25 percent of variable executive pay linked to ESG indicators.

Looking to the future of ESG

Sustainability professionals see their task becoming more and more a part of everyone's job in the future. Some see the central function becoming smaller as individual business units take up work, while others believe that finance is likely to take over reporting on sustainability given its increasing importance. The result of these two trends is that group sustainability units need to become more strategic in outlook so they can provide oversight and guidance across the business and to the board.

John McCalla-Leacy, Global Head of ESG, added:

> "Businesses have the opportunity to embed robust ESG and suitability governance by ensuring effective connectivity between functions - from finance to internal operations and supply chains - which can both help to (RC) enable compliance with reporting requirements and the identification of sustainable value creation opportunities through enhanced operational transparency and data-driven insights. As one respondent put it in this survey- 'if we want to exist as a company in 10 or 20 years from now, we need to transform'".

Gustav Von Bratt, Governance Lead for ESG at KPMG in Southern Africa, added:

> "In South Africa, the concept of governance has been traditionally well-defined through the King IVTM Code on Corporate Governance. However, a recent emphasis on ESG mandates and international developments has propelled this topic into the spotlight. Investors, shareholders, and stakeholders now insist on increased transparency and accountability concerning ESG performance, and also for boards and management to take clear and direct responsibility. While South African companies are urged to concentrate on climate action, social equity, corporate responsibility, technology, innovation, and stakeholder engagement, ESG governance is viewed as fundamental in determining how companies strategically prioritize, monitor, and report on their performance going forward. Integrating ESG governance into corporate practices is crucial for South African companies to foster long-term resilience, stakeholder trust, and sustainable growth in this evolving global landscape."

Notes to editors:

***KPMG surveyed 50 Chief Sustainability Officers or managers in an equivalent role in major companies across multiple countries, territories, and jurisdictions. The research was conducted between July 2023 and January 2024.**

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