Stakeholders are asking questions:

How to tell them a credible ESG story
Stakeholders are increasingly factoring environment, social and governance (ESG) reporting into their assessments of business performance. They have broad expectations. More than 60% of consumers told us their ESG focus areas are: data security and privacy, climate change, product safety and quality, worker health & safety; and racial and gender diversity and inclusion. They want businesses to step up investments in all these areas.

Evolving rules and standards are also pushing to fast track ESG.

• In the US, the Securities and Exchange Commission (SEC) has proposed new rules to enhance and standardize companies’ climate-related disclosures. The proposed disclosures are broadly aligned with frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD).

• In the European Union, US-based companies with entities there will likely have to comply with the European Commission’s Corporate Sustainability Reporting Directive (CSRD).

• At the COP26 conference, the formation of the International Sustainability Standards Board (ISSB) was announced. It is an important step forward toward developing consistent ESG reporting standards and strengthening capital markets.

Different companies are at various stages of tying the elements of ESG into their reporting and incorporating ESG into their broader strategy. But here are key questions for all companies:

• Is your ESG strategy aligned with the objectives of your stakeholders?

• Are you taking clear, actionable steps to enable the operational shift ESG requires?

• Are you leveraging digital tools and automation to tech-enable your ESG initiatives?

• Do you have the data regulators will expect and are you ensuring that information you’re disclosing is consistent, accurate and complete?

Regardless of how you responded to these questions, consider also how your competitors would respond. Seek opportunities to differentiate yourself by addressing your stakeholders’ priorities. Here we focus on how companies can accelerate their transition toward investor-grade reporting.
A path to an ESG future

Current state

- Limited guidance provided on disclosure formats & metrics
- Disparate data sources & offline spreadsheets - data issues addressed ad-hoc
- Data visualization and transformation tools starting to be utilized (i.e. Tableau, Alteryx)
- Limited policies, procedures, and governance controls/certifications
- Investors start to receive more consistent metrics

Evolving

- Clear guidance provided on disclosure formats & metrics
- Most data is defined but not in a central repository
- Data visualization and transformation tools are used to report key metrics - move towards utilizing enterprise reporting architecture
- More mature policies, procedures, and governance controls/certifications
- Investors have access to clear and consistent metrics

Leading

- Reporting and sourcing data through the enterprise reporting system architecture and process
- Central “golden source” of key ESG data and metrics
- Real time reporting and analytics to inform decision making
- Matured and enforced policies, procedures and governance controls/certifications

Responding to investors’ demand for robust and comparable information

Source: How financial institutions can use reporting to effectively tell their ESG story.
ESG is gaining attention at the C-suite level. Our March 2021 Pulse Survey found CFOs across industries stepping up efforts to gather ESG data and identify the frameworks, material issues and metrics to focus on. What really stands out to us is that more than half of the CFOs in the TMT sector tell us they’re prioritizing producing investor-grade ESG information and demonstrating value to stakeholders through ESG reporting. Achieving investor-grade reporting can represent a big step up from current ESG disclosure at many companies, which may not have strong internal controls over collecting, analyzing and reporting their ESG information.

Producing investor-grade ESG information is a priority for 55% of technology, media and telecommunications CFOs

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Source: PwC Pulse Survey March 2021, Base of 182 CFO respondents.
What’s next for ESG reporting?

The SEC’s rulemaking on climate disclosures will help foster comparable, consistent climate information. As that information is publicly reported it’s our belief that stakeholders should expect the same quality they expect from financial disclosures.

With the International Financial Reporting Standards Foundation launching the ISSB, we are moving a step closer to harmonized global ESG reporting rules. This milestone is welcome news to businesses. Senior executives we polled in our 2021 ESG consumer intelligence survey cited lack of reporting standards and regulatory complexity as a bigger obstacle to advancing ESG issues than a lack of attention by senior management, time or resources. We believe the long-term goal should be for the ISSB to broaden beyond climate and include wider societal impact reporting on ESG.

We expect ESG reporting responsibility will continue to shift to the CFO with the CEO retaining overall ownership of the ESG agenda. ESG information is used by investors to an increasing degree, and companies should have controls and processes associated with reporting and disclosure. ESG reporting may become integrated with standard financial disclosure and, if so, it should become part of your compliance and controls program.

With investors increasingly paying attention to ESG disclosures, we recommend that you incorporate ESG reporting into the processes already in place for financial reporting, leveraging existing skills and competencies, controls and reporting architectures.

Three challenges

Companies face evolving global reporting expectations

Different companies are at various stages of tying the elements of ESG into their reporting and incorporating ESG into their broader strategy. Moreover, not everyone is using the same standards and frameworks.
The major standards and frameworks

**Standards**

**Global Reporting Initiative (GRI)**

The GRI provides ESG standards that address disclosures of socially material topics affecting a company’s stakeholders. It also requires that companies determine the issues that are material in consultation with stakeholders.

GRI helps business and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance, and social well-being. This enables real action to create social, environmental, and economic benefits for everyone. The GRI sustainability standards are developed with true multi-stakeholder contributions and rooted in the public interest.

**Sustainability Accounting Standards Board (SASB)**

The SASB recommends topics and metrics for 77 different industries across all three pillars of ESG. These standards provide guidance on how organizations can align their reporting with investor needs and how companies gather standardized data.

The SASB’s mission is to establish and improve industry specific disclosure standards across financially material environmental, social, and governance topics that facilitate communication between companies and investors about decision-useful information.*

**Frameworks:**

**The Carbon Disclosure Project (CDP)**

The CDP supports various users to measure their risks and opportunities on climate change, deforestation, and water security.

CDP is a framework which focuses investors, companies, and cities on taking urgent action to build a truly sustainable economy by measuring and understanding their environmental impact. The CDP has created a system that has resulted in unparalleled engagement on environmental issues worldwide.

**The Task Force on Climate-related Financial Disclosures (TCFD)**

The TCFD provides 11 recommendations across four pillars: governance, strategy, risk management, and metrics & targets.

The TCFD’s mission is to developed recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system’s exposures to climate-related risks.

**Europe**

The European Union has established objectives affecting the definition of sustainable activities (taxonomy) and increasing the disclosures requirements for financial institutions providing investment advice (Sustainable Finance Disclosure Regulation), both of which will be applicable in full after 2021. It has also decided to update its Non-Financial Reporting Directive (NFRD), applicable since 2014, with a targeted adoption of the revised requirements as soon as 2022.

**Others**

The World Economic Forum (WEF) in 2020 launched an effort to move toward common “stakeholder capitalism metrics” for reporting on ESG indicators. A number of business associations have also developed recommendations to help members standardize ESG disclosures with their industries. The National Association of Real Estate Investment Trusts (NAREIT), for instance, produced a guide designed to help members better understand and navigate the ESG reporting frameworks, and the Edison Electric Institute (EEI) launched an ESG template to help member electric companies provide uniform ESG/sustainability information.

*As of June, the SASB and the International Integrated Reporting Council (IIRC) combined to form the Value Reporting Foundation (VRF).

Companies may not have infrastructure to meet investor-grade reporting

Once a company decides what ESG information to report, it then needs to contend with the challenges of how to effectively collect, analyze and report the information accurately. The breadth of ESG data creates significant reporting complexity.

- Necessary data may be sourced from a combination of financial and nonfinancial systems, and in some cases from external vendors. Some of these sources may not currently be subject to effective internal controls.
- Processes for extracting, evaluating and aggregating data for disclosure are largely manual. Multiple spreadsheets are often involved — increasing the risk of poor-quality data making its way into disclosures.
- Once an ESG metric is identified, many companies don’t have the proper governance and reporting structures in place to provide stakeholders a consistent understanding of what the metrics represent (e.g., emissions boundary, assumptions and estimates).
- Traditional IT vendors for reporting processes are still refining enterprise solutions that support ESG data collection, aggregation and reporting for use in analytics tools designed to develop risk profiles or forecasts.
Companies find it hard to understand and report both the ‘inside out’ and ‘outside in’ impacts of ESG issues

What should you include in your ESG report? The identification of what’s material in ESG may be different than financial statement materiality, as the various standards and frameworks have different concepts of materiality. It involves more judgment by management, who may consider input from various stakeholders such as board members, customers and employees.

In addition to determining which standards and frameworks to follow, companies often lack proper governance to:

- Align on a source of truth so that all stakeholders get the relevant information in any medium of reporting.
- Evaluate the impact of ESG goals on long-term value such as their ROI, impact on operations and how they are being achieved. Companies setting net-zero targets, for example, are unlocking finance to enable enterprise and supply chain transformation as well as introducing practices like integrating carbon price into strategic decisions.
- Tell a story about ESG risk and, just as important, new opportunities (innovation, new revenue streams) and what that means for business. Leading companies are beginning to disclose scenario analysis around climate risks and opportunities — and their potential impacts.
Recommendations: Require investor-grade ESG reporting

Applying ESG standards, frameworks and developing metrics and controls over reporting will often involve many different parts of a company’s operations. It will likely take time to develop the appropriate systems and processes. We suggest defining a narrow set of priorities.

• Decide on your ESG reporting strategy and key metrics you’ll disclose.

• Define process and governance steps to have confidence in your reporting.

• Design your reporting architecture and technology to effectively enable your ESG reporting.

• Tell an authentic and coherent story.
Decide on your ESG reporting strategy and the key metrics you’ll disclose

The first step is strategic. Set an overarching approach to ESG. It should be supported by a clear tone from the top, with the CEO and leadership team commitment to encourage buy-in across the entire organization in a cohesive and inclusive way.

- **Know the ESG issues your stakeholders want to understand about your company.** Keep in mind that stakeholders (employees, customers, investors, regulators) may have varying priorities. Also keep in mind that those priorities may change and that regulators are likely to build on existing standards and frameworks. There is, for example, growing momentum toward making biodiversity disclosures part of ESG reporting. A [Taskforce on Nature-related Financial Disclosures (TNFD)](https://www.tnfd.org), similar to the Task Force on Climate-related Financial Disclosures (TCFD), has come together to develop a framework for helping financial institutions and companies report on biodiversity risks related to their activities.

- **Make sure you understand the baseline ESG expectations of each stakeholder group.** Stakeholders have varied expectations. Our [Consumer Intelligence Survey](https://www.csr-magazine.com/) (2021) on ESG issues, for example, found that the top area where consumers want businesses to step up investments is in providing data security and privacy. Tech companies are also increasingly expected to minimize waste and adopt circular economy models, or create closed loop material and resource cycles. Consider how HP is applying [circular design principles](https://www.hp.com/) across its portfolio by refurbishing and reselling many of its products, from computers to cartridges.

  Look for opportunities to differentiate yourself by addressing the priorities of your stakeholders. Carbon neutrality is an important goal not just for the tech industry but for many customers of large cloud infrastructure services providers. This is an opportunity to offer carbon-neutral cloud services to customers looking to address their Scope 3 emissions (upstream and downstream emissions outside the direct control of a company).

- **Determine which ESG issues you consider material.** The telecommunications sector, for example, is vulnerable to extreme heat-related power outages, storm-damaged towers and infrastructure, or flooding of offices resulting in reduced or disrupted service. In its [2021 TCFD report](https://www.verizon.com/), Verizon identified extreme weather events, including cyclones, flooding, heatwaves and wildfire, as an acute physical risk.

  For many companies, it can be difficult to evaluate whether an ESG-related issue is material. Moreover, standards and frameworks have different concepts of materiality. Questions still being discussed at many organizations include: What’s the plan for explaining publicly the extent to which getting diversity, equity and inclusion (DEI) right leads to better decision-making and not getting it right may damage the business? Will Reporting is not just a defensive exercise. Put in place proper governance to confirm your ESG reporting structures are helping you benefit from revenue-generating opportunities (new products, services and markets) as you respond to issues like privacy and climate change.
we develop qualitative statements or quantitative analyses? And, given that we plan to disclose this information for all to see, what commitments are we making going forward?

- Select the appropriate standards or frameworks and define a set of relevant ESG metrics for internal and external reporting. Identify what information to report, how to source it and who the key stakeholders are. Then get buy-in from within the organization. Finally, evaluate — and ideally quantify — the impact of your business on the environment or society and/or the impact of the environment or society on your business (e.g., business risks related to water scarcity). You may want to start tracking some metrics before you’re ready to release them publicly. Be deliberate in your planning. For example, provide clarity and detail around how DE&I is integrated into business operations and organized around intentional goals. Salesforce has identified increasing representation of racially/ethnically diverse minorities as an opportunity for the tech industry. The company notes that these include Black, Hispanic, Native American, Native Hawaiian and other Pacific Islander, and multiracial employees, and not all people of color.

- Consider that ESG is often more than just a reporting matter for companies. You will not only want to understand the reporting environment, but also the potential risks and opportunities that can flow from enhanced ESG commitments. Prioritize which ESG issues you’ll focus on after analyzing ESG impact and expected return on investment.
Define process and governance steps to have confidence in your reporting

Standardized policies, procedures, controls and governance are crucial if you’re going to efficiently manage ESG reporting. Automated workflow and data transformation tools can help make sure that your data is appropriate and your metrics are clearly defined. Through this kind of structured approach to reporting processes and governance, your ESG story can be grounded in objective and reliable data.

• **Establish a clear and controlled ESG reporting process.** Building a sophisticated ESG reporting process requires the same level of diligence as internal controls over financial reporting for Sarbanes-Oxley in the US. Start by constructing a workflow of your ESG reporting process. Assess which systems are currently providing ESG data and what more you need to to aggregate data from across different departments and locations. With that understanding you can start automating data collection, align with frameworks and install controls and checkpoints along the way within a robust enterprise reporting system.

• **Determine how your board will oversee ESG.** Transparently disclose to shareholders and other stakeholders the board’s allocation of ESG oversight responsibility. Many board members have limited understanding of ESG issues. Consider adding a board member who has ESG expertise and providing training to existing board members on ESG issues. If ESG is a new area of focus for the board and the company, your directors may need to assign detailed oversight to specific committees to help the ESG strategy launch smoothly.

Ultimately, ESG issues will be relevant to all committees. The compensation committee, for instance, will be interested in accountability and the audit committee will be interested in the disclosure and metrics. Ask yourself, who will take the lead in overseeing the overall ESG effort? Will it be a specific committee with the right capacity and skills or the full board of directors?

• **Prepare for change.** As the ESG landscape continues to evolve, you’ll need to stay agile, building new capabilities to collect, integrate and report new types of information from new sources. Don’t build processes that may be difficult to change.
Design your reporting architecture and technology

Treat ESG reporting like the integrated effort that it is. Create an architecture that includes data sourcing, aggregation, calculation, validation, reporting and analytics. Leverage existing financial reporting architectures to the greatest degree possible. Map each ESG reporting element to the architecture.

- **Use existing processes and tools to streamline both internal and external reporting.** When you already have established tools in place for other processes, you can save time. You can improve quality by adding ESG components to existing reporting.

- **Make sure reporting flows through both finance and sustainability functions.** Finance departments have a bigger role in carrying out ESG reporting and helping to integrate ESG in operations. In leading organizations, finance functions and sustainability teams work in tandem with finance in overseeing accounting, controls and reliability of financial information.

- **Supplement with additional reporting automation and visualization as needed.** Many vendors have emerged in the ESG reporting space. Enterprise IT providers are enhancing their capabilities to leverage existing functionality for ESG data and reporting. This will help enable ESG reporting to leverage much of the same technology available for financial and regulatory reporting.
Tell an authentic and coherent story

When telling your company’s ESG story, it’s critical to present more than a snapshot of where you are now. Rather, talk about where you want to go next and how you plan to get there. That evolution helps position you to take action, with reporting and data that you can stand behind now and in the future.

• **Prepare to disclose more information about the material risks related to ESG issues:** On climate change, we expect the SEC to remain focused on advancing rules which address: overarching discussion about the prospective risks and material impacts on the business, strategy and outlook caused by climate change; reporting Scope 1 and 2 greenhouse gas emissions and material Scope 3 emissions; Additional qualitative and quantitative climate risk disclosures, including the financial impacts; governance of climate-related risks and risk-management processes; requirement to support plans to comply with companies’ advertised environmental claims (e.g., net-zero commitments).

• **Consider your audience.** Your information will be meaningful for various audiences and jurisdictions. Link all reports to the same underlying source of integrated, centralized, digitized information so that ESG information is consistent across all formats and channels — reports, websites and social media feeds. At the same time, consider developing tearsheets for specific audiences, for example, a succinct industry-specific, metric-driven report for investors interested in understanding the financial materiality of ESG issues. Make sure you have controls and processes in place to deliver these tearsheets in a timely fashion even as you are working on the larger ESG report for a broader audience.

• **Tailor your reporting based on your ambition.** Take time to analyze, internally align on your objectives and come up with a thoughtful reporting plan based on your level of ambition. Are you aiming to simply keep pace with regulatory standards? Proactively address climate risks? Can you position yourself as an ESG leader?
to win in the markets? As part of this assessment, consider what your peers are doing. What will happen if you lag behind your peers? If a particular segment is going to be ranked in quartiles, according to ESG performance, for instance, understand the ramifications of being in the top or bottom quartile.

- **Provide the context.** Without context, ESG data is just that — data. Instead, give meaning to the ESG information you disclose by incorporating it as part of a narrative that reveals your company’s purpose and mission.

**Why tax is a critical ESG metric**

A tax strategy that’s sustainable both for the business and for the wider society builds long-term value for all stakeholders. Companies are under increasing public scrutiny to explain their tax strategies and taxes paid. A total tax contribution study can demonstrate how your company contributes to the integrated economy (both domestically and globally), while a public tax strategy or tax principles can help set out a narrative around business motivations.

Working to develop these messaging documents is a proactive governance move that shows the company is striking the balance between organizational benefit and the broader good. It also showcases your brand as a force for positive change while being a value driver. The transition to a low-carbon economy, for example, involves proposing tax incentives to encourage complementary investments and behaviors. The most sustainable form of tax planning that advisors can offer is to help clients not pay carbon taxes. (For more on the importance of tax as an ESG metric, see [Why aren’t we talking about tax as a cornerstone of sustainable business?](#))
The road ahead

Companies that tell a clear and credible ESG story will not only establish themselves as leaders in the market, they’ll stand to benefit from increased access to capital and the returns associated with that access. By using tech-enabled solutions like ESG Pulse, a PwC Product, you can generate deeper insights to reduce potential risks, gauge your performance against your peers and take action to get ahead. In the longer term, as data and reporting get more regulated and standardized, objective comparisons will become easier. By stepping into the spotlight now with a compelling ESG story, you can take strategic action in a measured way and start to build momentum over time to truly differentiate your company.
How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partners, or a member of PwC’s ESG team.

Casey Herman
ESG Leader
michael.a.herman@pwc.com

Kevin O’Connell
ESG Assurance Leader
kevin.w.oconnell@pwc.com