Study

BARC

The State of ESG & Sustainability Reporting

Challenges, Tools and Outlook

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Content

Preface: Wolters Kluwer – CCH® Tagetik

ESG: More than just sustainability - The impact on data management and reporting

ESG and sustainability have a wide-ranging impact on companies, spanning across various aspects throughout their entire value chains. Corporate compliance and reporting processes are constantly evolving, with new regulatory requirements and mandatory components being introduced. To respond to the new challenges and establish or optimize ESG reporting, it is important to set a company-wide approach from the start.

ESG should be anchored throughout the entire organization following a top-down approach - starting with the office of the CFO for strategy and target formulation, planning, and orientation of the company. ESG must become part of the corporate culture to achieve its full potential, rather than a piecemeal approach. The challenge is that ESG data is often scattered across siloed systems and spreadsheets, making it difficult and time-consuming to aggregate data accurately. To improve data quality and reliability, a platform approach can automate data integration from multiple systems for stakeholders to see the big ESG picture and assess ESG impacts on financial performance.

Equally important, ESG impacts should be assessed, integrated into processes, and key stakeholders identified. Relevant data – financial and non-financial - must be identified and incorporated into the decision-making process. When ESG data is integrated, everyone can see how ESG data interacts and affects financial and other operational information to produce reports and analyze performance. With visibility to ESG KPIs, companies can reduce operational impact, address evolving ESG regulations, improve decisions, and combat risk – reputational, credit, climate, and more. Regulatory requirements are evolving at a rapid pace while the corresponding disclosure and reporting implementations are still in their infancy. To avoid capacity bottlenecks in ESG projects and reap benefits from them, organizations should become „Fit for Purpose“. ESG-compliant reporting requires the right tools with the flexibility to evolve as regulations are updated. With CCH Tagetik ESG & Sustainability Performance Management, organizations get an expert solution that streamlines data management, reporting, and disclosure of KPIs while aligning with continuously evolving ESG regulations.

Jörg Plass,
Director Operations CCH Tagetik
DACH at Wolters Kluwer

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Management Summary

ESG reporting is often a very disruptive process and the typical motivation for doing it is not only driven by regulatory requirements. It has become an important instrument for companies seeking to maintain a good image with their customers, employees and business partners. Typically, companies refer to more than one ESG framework in their reporting and far exceed the required minimum scope.

Due to the variety of standards, stakeholders and options for technical implementation, there is no standard procedure model for ESG reporting in the market yet, and many companies are going above and beyond the minimum regulatory requirements for ESG. It can be a very data and workflow-intensive challenge, especially for manufacturing companies and companies with complex supply chains. This can make the requirements for tool support quite demanding.

ESG as a disruptive change to the disclosure management process is a good opportunity to review the process and its implementation and, if necessary, redesign the overall process.

01 ESG Frameworks and Standards

A variety of ESG frameworks and standards currently exist. Nevertheless, the European Sustainability Reporting Standards, Global Reporting Initiative (GRI) Standards and the IFRS Sustainability Disclosure Standards are identified as the three frameworks and standards that are (or will be) predominantly used. The survey results indicate that many companies currently use more than one framework to disclose ESG-related information and that even companies outside Europe adhere to the European Sustainability Reporting Standards. As there will be no global standardization of ESG disclosure standards in the near future, multinational companies should be prepared to implement several ESG frameworks and standards to fulfill the needs of the various legislators and users.

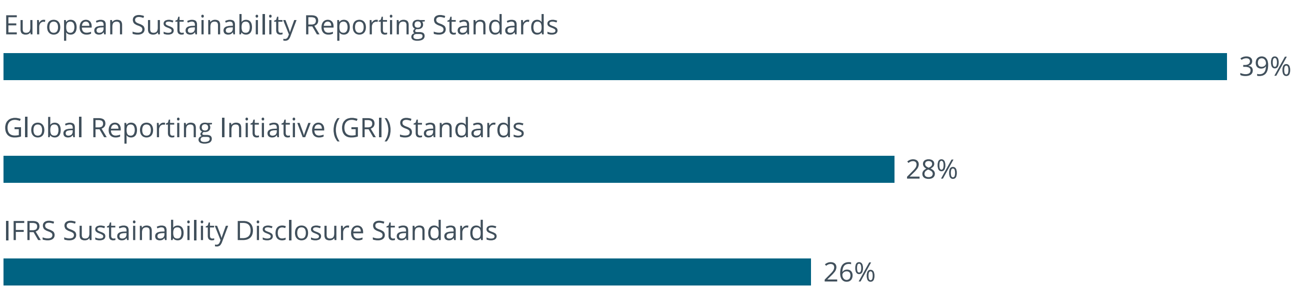


Figure 1: Which ESG standard(s) or framework are you using for ESG reporting? Top 3 (n=265)

02 Implementation Status of ESG Reporting

The need for ESG reporting has already been recognized by all of the companies surveyed, and the majority have already published their first ESG report. Most notably, 80 percent of companies with more than 5,000 employees and 75 percent of North American companies have already published their first ESG report and are considered as pioneers. Especially for European companies, uncertainties surrounding existing standards are resulting in a kind of transition period. However, it is clear that companies outside North America and Europe still have some catching up to do. Only about a third of companies outside Europe and North America have published an ESG report to date.

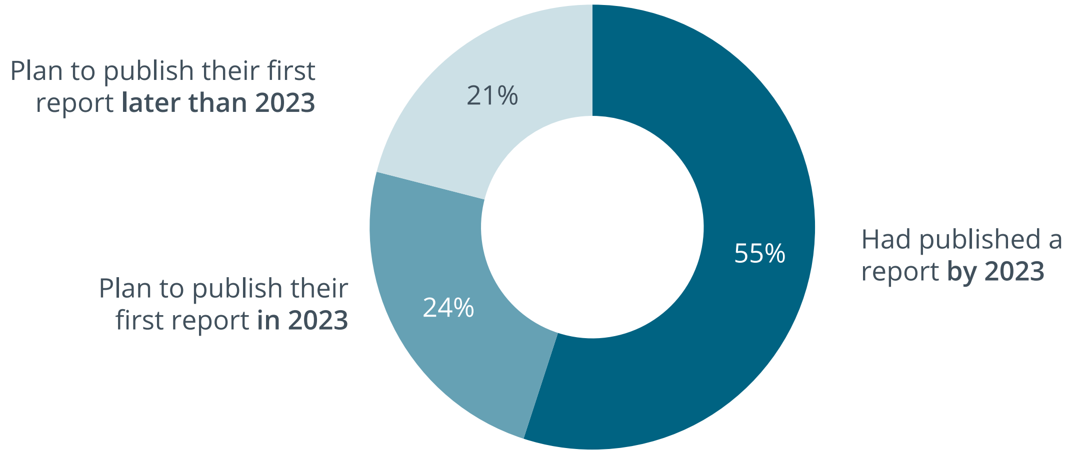


Figure 2: When did your company publish its first ESG report? (n=214)

03 Motivation for ESG Reporting

The main driver for ESG reporting is marketing. Although regional differences are evident, sustainable customer branding is the key driver, especially for North American companies. For European companies, employer branding and compliance with legal standards also play an essential role.

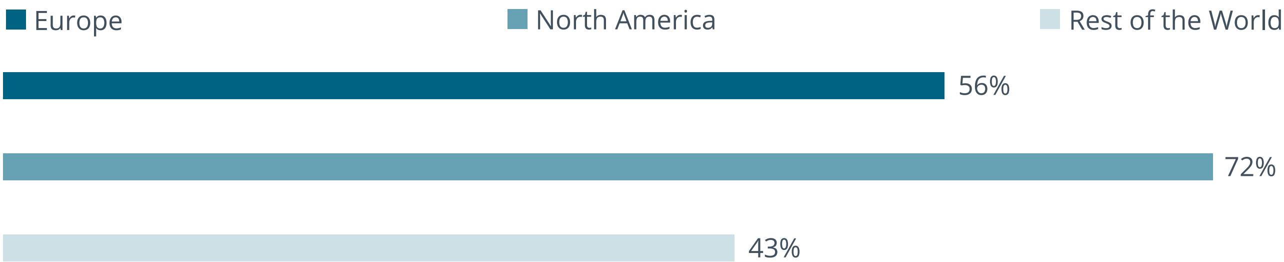


Figure 3: What are the most important drivers of ESG reporting in your company? "Good ESG reporting drives/improves our reputation with our customers", by region (n=268)

04 Organization of ESG Reporting

The organizational anchoring of ESG reporting is being addressed in a number of different ways. However, two approaches have emerged as the most widely adopted: Anchoring in the office of the CFO or in a specialized ESG department. In addition, ESG is anchored in a large number of departments (e.g., Communications, Investor Relations, Quality Management, C-level staff positions, Procurement, Environmental Management, Risk & Compliance etc.). However, there are industry-specific, size-dependent variations.

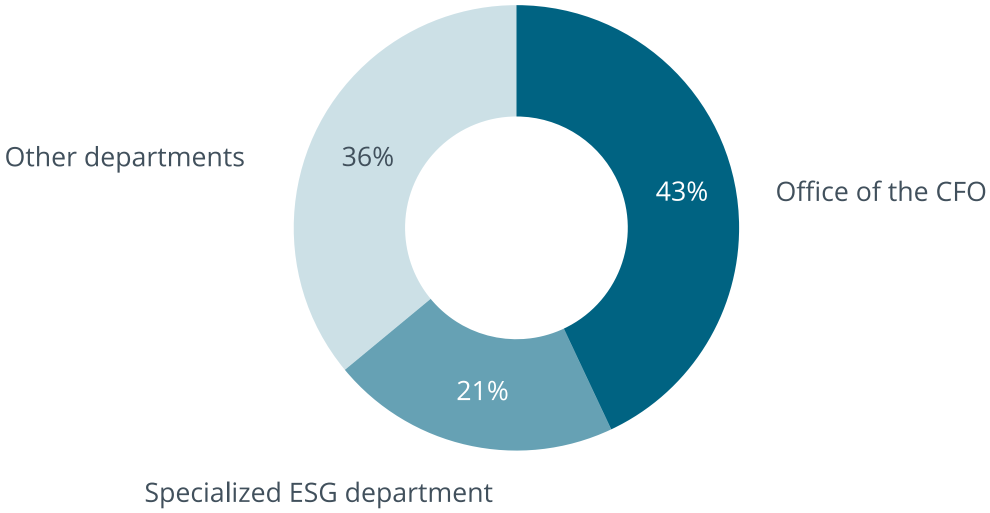


Figure 4: Who is driving ESG reporting in your company? (n=247)

05 Challenges

ESG is a data-intensive task, and many companies seem to underestimate the challenge of collecting data, especially for the environmental KPIs. ESG requires dedicated resources in midsize and large organizations as well as large enterprises. When forming a dedicated department, companies often find they lack the required data integration and data & analytics competencies.

Figure 5: What are the biggest challenges you encounter in running ESG reporting today? Top 3 (n=259)

06 Potential and Ways to Improve ESG Reporting

Across all the process steps of ESG reporting, almost all of the companies surveyed recognize the need for improvement. The need to develop greater internal expertise is acknowledged, and external experts are expected to solve this problem. Thus, ESG is regarded as a new business model for the consulting industry. The problem of ESG data literacy, and therefore the problem of processing the ESG data jungle and developing the associated ESG data competence required, is third in the list of areas for improvement.

07 Technical Implementation of ESG Reporting

ESG adds a lot of complexity to the disclosure management process. The "E" in ESG is especially data-intensive and extends the scope of the disclosure management process heavily. There is no market standard for the implementation of ESG reporting yet. ERP and CPM systems, Word, Excel and BI tools are used in combination and extended by specialized solutions, often developed by start-up companies. There are significant differences between Europe and North America in the priority of the tools used, which probably reflects the more data-intensive European ESG reporting standards.

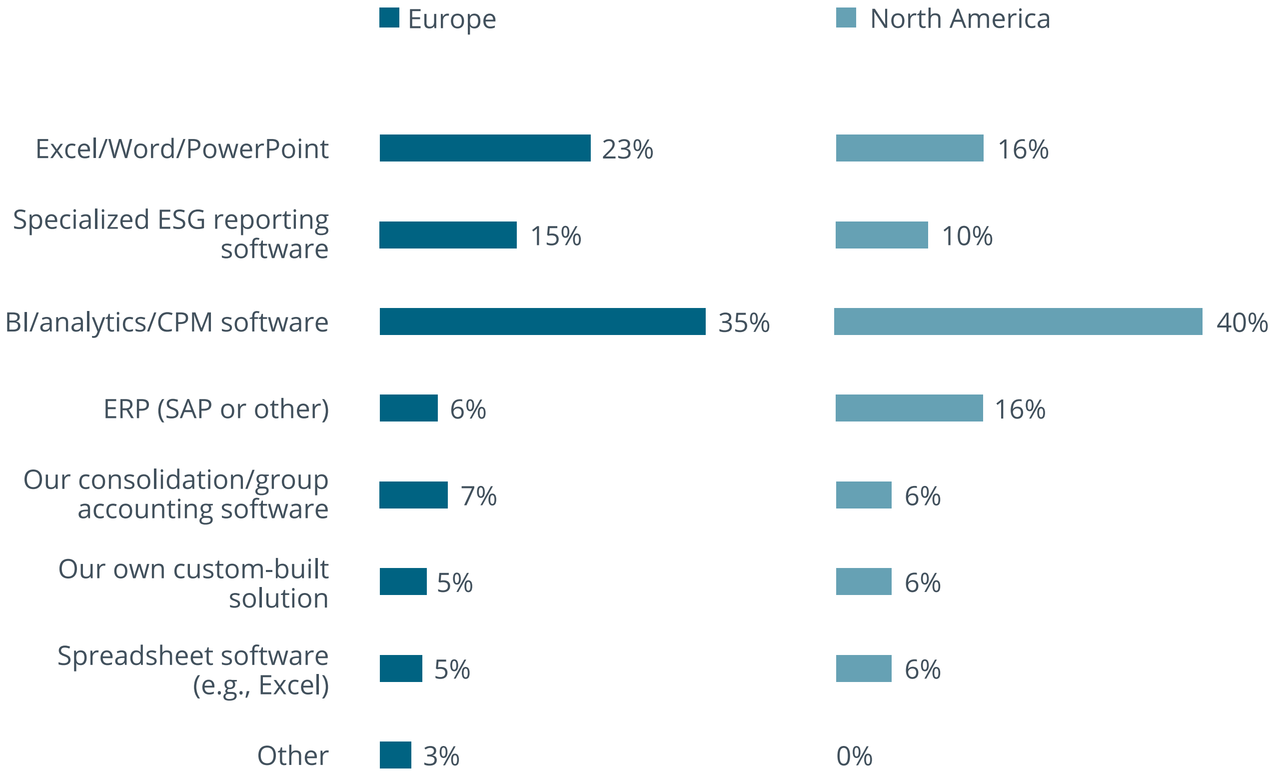


Figure 6: What are you using/planning to use as the main tool for publishing ESG reports? by region (n=248)

Recommendations

Based on the survey results and our consulting experience, we at BARC have formulated the following impulses and recommendations to help you to align with current and future requirements:

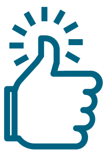
01. ESG Frameworks and Standards

As the global standardization of ESG disclosure standards is not expected to come about in the near future, multinational companies should be prepared to implement several ESG frameworks and standards. However, the effort to implement several frameworks will depend on how well the standard setters collaborate and whether their frameworks and standards allow a kind of building block system. European companies and companies with subsidiaries in Europe will sooner or later have to implement the European Sustainability Standards although, at present, only large companies and listed companies are directly affected. Outside Europe, a lot will depend on whether countries adopt the ISSB's investor-focused approach or EFRAG's multi-stakeholder approach. Nevertheless, ESG reporting continues to evolve. Companies should therefore keep a close eye on regulatory requirements and be prepared to implement more than one ESG framework or standard.

02. Implementation Status of ESG Reporting

ESG is a topic very much in the here and now. The majority of companies surveyed have already published their first ESG report or plan to do so. Large companies and North American companies are more likely to have already produced a report and can therefore be regarded as pioneers. Those just starting out with ESG can learn from the experiences of other companies. The sharing of experience can be obtained, for example, through external consultants.

03. Motivation for ESG Reporting



In the eyes of the companies producing them, ESG reports help to increase sustainable customer branding as well as employer branding. In times of more sustainable consumers, it is essential that ESG reports not only address the needs of legislators and capital providers, but also the needs of customers, prospects and employees. ESG disclosure tools must therefore be able to provide ESG information to not only satisfy regulators and investors but also from a marketing perspective.

04. Organization of ESG Reporting

ESG reporting is more than just a marketing tool. The goal is not simply to produce a report. In the future, ESG must be anchored in the business model and strategy and made measurable in order to exploit its potential but also to identify risks from it. This requires an organizational anchoring that is capable of doing this.

Controlling as part of the office of the CFO would be the natural choice. However, it is apparent that the ESG topic is not currently anchored there. Controlling is thus missing out on the opportunity to act as an ESG business partner. Controlling does not, of course, have responsibility for collecting all ESG data company-wide, but rather represents a coordinating body. ESG data competence centers for the collection and processing of data where it is generated (e.g., carbon dioxide emission in the production area) and a coordinating unit in the office of the CFO (such as the controlling department), which also anchors ESG in the strategy and makes it measurable, would certainly be a model that allows companies to bundle competencies in the right places.

05. Challenges

Consider ESG reporting as an extension to existing data & analytics initiatives and involve existing competence centers in that area, as data interfaces and data collection will play an important role in the project. Do not underestimate the resources needed for ESG initiatives, which are typically not "just another task" that can be handled with existing resources.

06. Need and Ways to Improve ESG Reporting

A lack of internal expertise is often seen as the main driver for companies to seek to improve their existing ESG reporting. For this reason, internal knowledge needs to be built within the company in order to provide stakeholders with adequate ESG information. To accelerate this process, ESG consultants can play an important role. For companies that are required to disclose ESG information, it is also important to address the need for limited or reasonable assurance on ESG information and to select the appropriate auditor or assurance provider on time.

07. Technical Implementation of ESG Reporting

There are different ways and platforms to implement ESG reporting. There is no established industry standard architecture yet, and the data intensity is highly dependent on the individual company's industry sector and business model. Typically, ESG adds a lot of complexity and additional users to the existing disclosure management process and represents a good opportunity to review the overall process and eventually invest in new technologies to support it. We recommend evaluating add-ons for existing CPM solutions, such as consolidation, as well as specialized ESG and disclosure management solutions in parallel.

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01. ESG Frameworks and Standards

ESG stands for Environmental, Social and Governance and refers to a set of criteria used to evaluate the sustainability and societal impact of a company. Finance has been a initial driver for the sustainable reporting trend, although the impact and stakeholders go far beyond finance in the meantime. Many asset managers, investment firms and index providers now offer ESG-focused investment products, which track companies that score well on ESG metrics.

Increased transparency regarding ESG issues is seen as a key element in the transition to a sustainable economy.

ESG performance and compliance is in turn demonstrated by ESG disclosure. Increased transparency regarding ESG issues is seen as a key element in the transition to a sustainable economy. Therefore, companies are expected to account for their environmental as well as social impacts and to disclose and report on their activities.

To provide consistent, reliable and comparable corporate ESG disclosure, a number of initiatives have evolved to define ESG standards and frameworks. All corporate ESG frameworks and standards seek to improve the understanding of the potential implications on corporates associated with ESG risks and opportunities. Some standard setters focus more on the needs of investors and commit to market transparency and disclosure of ESG-related enterprise value risks and opportunities, while others also take into account the needs of stakeholders (e.g., suppliers and customers). However, in general, the aim of all initiatives for corporate ESG disclosure is that risks and opportunities related to ESG become a natural part of a company's risk management and strategic planning processes and that the information disclosed becomes part of the decision-making of investors or other stakeholders and ensures a sustainable economy for the future.

Corporate ESG disclosure initiatives aim to ensure that ESG-related risks and opportunities become part of a company's risk management and strategic planning processes.

Voluntary ESG frameworks and standards

Many initiatives have emerged in recent years to address ESG disclosure requirements. Such frameworks and standards have also been developed in large numbers, but with differences in terms of the topics covered and target groups.

To improve the understanding of ESG disclosure requirements, it is helpful to clarify the distinction between ESG frameworks and standards. Frameworks, in contrast to standards, provide a set of principles of how information is structured and which topics should be covered. Standards provide specific and detailed requirements as to what should be reported for each specific ESG topic (e.g., how information and data are collected and how the information should be reported).

ESG frameworks provide a set of principles on how information is structured and what topics should be covered.
ESG standards provide specific and detailed requirements on what should be reported for each ESG topic.

The **Climate Disclosure Standards Board (CDSB)** was an initiative to create a holistic view of a company's performance. It developed the CDSB framework with the aim of standardizing the reporting of environmental (including climate change) and social information in annual reports to create transparency for investors. In 2022, the CDSB was merged into the IFRS Foundation and is now fully integrated into the ISSB. The CDSB Framework will remain relevant until the ISSB issues sustainability disclosure standards on these topics. In the meantime, the CDSB itself will not publish any further guidance.

To develop recommendations for climate-related financial disclosures, the Financial Stability Board established the **Task Force on Climate-related Financial Disclosures (TCFD)** in 2017. Different to other initiatives, the Task Force focused only on the "E" in ESG and committed to increase market transparency by providing recommendations for climate-related financial disclosures to reduce price risks. The TCFD recommendations were first published in 2017 and are now well established. The disclosure recommendations are divided into four core elements: governance, strategy, risk management, and metrics and targets. For the four core elements, 11 recommended disclosures build the framework that should help users to understand how the reporting company identifies and assesses climate-related risks and opportunities. The TCFD collaborates closely with other standard setters such as ISSB and EFRAG.

The Task Force on Climate-related Financial Disclosures (TCFD) makes recommendations for climate-related financial disclosures to reduce price risk.

The **World Economic Forum's Stakeholder Capitalism Metrics Framework** is a set of metrics aimed at promoting sustainable and responsible business practices. The framework is based on the idea that companies should balance the interests of various stakeholders, including shareholders, employees, customers, suppliers and the broader community, when making business decisions. The framework deals with four kinds of capital: Financial capital reflects a company's financial performance and ability to generate returns for its stakeholders. Manufactured capital encompasses a company's tangible and intangible assets, including technology, intellectual property and brand. Whereas social and relationship capital includes a company's reputation, relationships with stakeholders and its ability to attract and retain talent, natural capital encompasses a company's impact on the environment, including the use of natural resources, emissions and waste. The Stakeholder Capitalism Metrics Framework provides a comprehensive view of a company's performance beyond purely financial results, and aims to help companies integrate sustainability and responsibility into their business strategies.

The **Sustainable Development Goals Disclosure (SDGD)** Recommendations offer an approach to address sustainable development issues aligned with the TCFD and GRI to establish a best practice for corporate reporting on the 17 Sustainable Development Goals of the United Nations (UN).

The Sustainable Development Goals Disclosure (SDGD) recommendations provide an approach to addressing sustainable development issues.

SASB (Sustainability Accounting Standards Board) is a non-profit organization that develops sustainability accounting standards. SASB Standards provide industry-specific standards with the aim of showing how sustainable information impacts a company's financial condition, operating performance and risk profile. As SASB Standards require the determination of the financial materiality of ESG information, they serve the need to disclose information for investors and therefore fulfill regulatory requirements such as those of the US Security Exchange Commission (SEC). SASB Standards enable comparability within industries. The SASB Standards are broken down into 77 industries in 11 different sectors.

SASB (Sustainability Accounting Standards Board) is a non-profit organization that develops industry-specific standards for sustainability accounting. They require the determination of the financial materiality of ESG information.

The **Global Reporting Initiative (GRI)** was established in 1997 and is an international, non-governmental organization which provides ESG standards called GRI Standards. These standards are the most commonly used worldwide and help companies, governments and other organizations to understand and to report on all three impacts of ESG. The standards include universal standards and topic-specific standards such as environmental and social standards. GRI Standards enable disclosures on all three impacts of ESG and address all stakeholders, not only investors. The GRI Standards include a 'double materiality' approach and are therefore not confined to how ESG matters may financially impact a company.

The Global Reporting Initiative (GRI) Standards include universal standards and topic-specific standards. The GRI standards enable disclosures on all three ESG impacts and are aimed at all stakeholders.

Although the above-mentioned voluntary reporting frameworks and standards have led innovation and action in the disclosure of ESG-related information, the resulting inconsistency and fragmentation of frameworks and standards around the globe has increased in complexity, which is costly, inefficient and confusing for users and preparers.

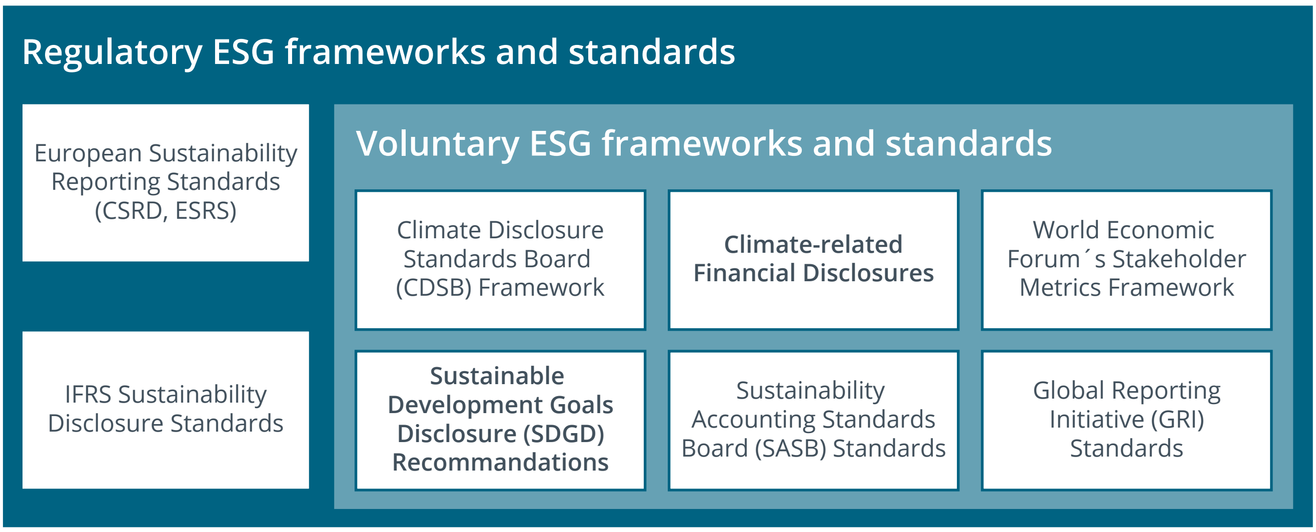

Figure 7: An overview of ESG frameworks and standards

ISSB: a new standard setter to generate an international set of sustainability reporting standards

To answer the call for high quality, transparent, reliable and comparable reporting on ESG matters, the International Financial Reporting Standards (IFRS) Foundation established a new ESG disclosure standard-setting board - the International Sustainability Standards Board (ISSB) - in November 2021. The objective of the **IFRS Sustainability Standards (IFRS S)** issued by the ISSB is to develop worldwide accepted sustainability disclosure standards that provide decision-useful information for investors and provide ESG information that is financially material. The ISSB has not reinvented the wheel but does intend to integrate existing frameworks and standards into the development of its IFRS Sustainability Standards (IFRS S). This is also reflected in the fact that the Value Reporting Foundation (VRF) and the CDSB have been merged into the IFRS Foundation as part of the International Sustainability Standards Board (ISSB). Moreover, the VRF is the result of the merger of the SASB and the International Integrated Reporting Council (IIRC).

The objective of the IFRS Sustainability Standards (IFRS S) is to develop globally accepted standards for the disclosure of sustainability information that provides decision-useful information for investors and provides ESG information that is of financial significance.

To respond quickly to investor needs, in March 2022, the International Sustainability Standards Board (ISSB) published the first two standard drafts (IFRS S1 and S2). Exposure Draft IFRS S1 "General Requirements for Disclosure of Sustainability-Related Financial Information" provides the overall requirements for an entity's sustainability-related financial information disclosure not specifically addressed by another IFRS Sustainability Disclosure Standard. It also addresses information about an entity's sustainability-related governance, strategy and risk management, related metrics and targets. This approach is built on the work of the TCFD.

In addition, the ISSB suggests that until the final adoption of the IFRS S, preparers should use the SASB Standards to identify sustainability-related risks and opportunities. IFRS S1 seeks to create a universal structure of sustainability disclosures and sets out that the SASB Standards will form the basis for the solid and efficient adoption of the IFRS S Disclosure Standards in the coming years. Among other things, IFRS S1 stipulates that sustainability-related information is published as part of general financial reporting. This requirement is intended to ensure that financial statement information and sustainability-related financial information can be considered together and that interrelationships and links between different types of risks and opportunities can be shown.

The IFRS Foundation identified an urgent need for climate-related disclosure and proposed the first draft of a topical standard IFRS S2, which contains regulations on climate-related disclosures. IFRS S2 requires entities to report, among other things, the impact of significant climate-related risks and opportunities on the entity's value and the entity's response and ability to adapt to those risks and opportunities. IFRS S2 is broadly consistent with the Task Force on Climate-related Financial Disclosures (TCFD) reporting recommendations. Nevertheless, there are slight differences. A comparison of TCFD recommendations and IFRS S2 shows that the ISSB places greater

The IFRS Foundation identified an urgent need for climate-related disclosure.

demands on information about strategy, and metrics and targets. It is expected that the ISSB will issue IFRS S1 and IFRS S2 in 2023, although the effective date is yet to be decided.

EFRAG: the new European standard setter

There have been numerous attempts in the past two decades (e.g., Modernization Directive in 2003, the Non-Financial Reporting Directive (NFRD) in 2011) to establish sustainability-related reporting in the regular reporting of companies within the EU. Due to the approved **Corporate Sustainability Reporting Directive (CSRD)** in November 2022, many more companies in the EU will need to prepare extensive sustainability reports as part of their management reports. Under the CSRD, companies with over 250 employees and/or a turnover of more than €40m and/or €20m in total assets are required to publish an annual sustainability report that includes information on their environmental, social and governance (ESG) performance. The European Commission mandated the European Financial Reporting Advisory Group (EFRAG) to set out the detailed European Sustainability Reporting Standards (ESRS). The **European Sustainability Reporting Standards (ESRS)** are an important step towards implementing the Corporate Sustainability Reporting Directive (CSRD). The ESRS specify what companies must disclose in order to comply with the recommendations of the CSRD. Therefore, the ESRS are legally binding for a large number of EU companies.

Under the Corporate Sustainability Reporting Directive (CSRD), companies with a certain number of employees and/or turnover and/or total assets are required to publish an annual sustainability report that includes information on their environmental, social and governance (ESG) performance.

The European Sustainability Reporting Standards (ESRS) are legally binding for a large number of EU companies.

From the beginning of the standard setting process, the European Commission's position was not to develop completely new standards, but to build on the existing and well-established GRI Standards. Therefore, the GRI was actively engaged in the development of the ESRS. Although there are differences between the first set of drafts of ESRS and the GRI Standards, the drafts of the ESRS indicate that the European Union is aligning with the GRI Standards.

The EFRAG released its first set of finalized standards in March 2022, which were mainly influenced by practices from other international standard setters. The overall architecture of the ESRS corresponds to the GRI, TCFD and ISSB requirements and includes conceptual guidelines and cross-cutting standards covering the general requirements (ESRS 1) and general disclosures (ESRS 2). The ESRS also cover standards relating to a specific sustainability topic or environment (ESRS E), social (ESRS S) and governance (ESRS G) matters from a sector-agnostic perspective including implementation measures and performance metrics. It is expected that the European Commission will adopt the ESRS by June 30, 2023. ESRS sector-specific standards are currently under development and are expected to be adopted by June 30, 2024.

The EU also points out that the ESRS go much further than the ISSB standards. Companies not only have to disclose ESG information that has an impact on investors' decisions and is thereof financially material. The ESRS to be adopted also include the 'double materiality' approach and are set to require companies to report on ESG issues relevant to all stakeholders.

Collaboration of standard setters gives hope for the goal of globally harmonized ESG disclosure standards

In recent years, forms of cooperation between the GRI and SASB have resulted in materials to help stakeholders better understand how the GRI and SASB Standards can be used concurrently. Furthermore, the GRI collaborates not only with the EFRAG but also the ISSB. Especially for companies located or with subsidiaries in the EU, the alignment between the ISSB project and the EU is essential. The cooperation of both the EFRAG and the ISSB with the GRI could be essential in this alignment. The concept of a "global baseline" as promoted by the ISSB might be a way forward and, in terms of a building block approach', IFRS S could provide the basis for ESRS.

The concept of a "global baseline" as promoted by the ISSB might be a way forward in a 'building block approach'.

ESG standards and frameworks: which do companies use?

The survey results show that sustainability standards released by the EU (including the still valid NFRD and the CSRD and ESRS), GRI and the IFRS Sustainability Reporting are already regarded as the major ESG standards. At the time of writing, there is still uncertainty as to how and when the IFRS S and the ESRS will eventually be adopted. This might be the reason why some companies in the planning or transformation phase are considering several standards (e.g., the European standards and GRI). In addition, it may be that companies apply or plan to apply different standards or frameworks in some areas of ESG reporting (e.g., SASB Standards in general as well as the climate-related TCFD). For these reasons, multiple answers were not excluded from the survey results.

Companies that already use the SASB Standards, the CSDB Framework or the TCFD Framework can assume that after the adoption of the IFRS Sustainability Disclosure Standards, the standards will correspond to IFRS S, at least in some areas, and are therefore currently a good choice to meet the needs of investors and to keep the effort of converting to IFRS S to a minimum.

In the EU, public companies are currently required to fulfill the requirements of the predecessor of the CSRD, as they do not meet the overall needs of stakeholders and, in line with the directive, companies also use globally accepted ESG standards such as GRI Standards and the TCFD framework. The newly adopted CSRD and likely-to-be-adopted ESRS closely align with the approach and scope of the GRI. Therefore, for the 24 percent of European companies already using GRI, the transition to ESRS will result in relatively low costs to convert. Currently, we can see that cost of conversion for climate-related disclosures from the TCFD to ESRS 2 is also low.

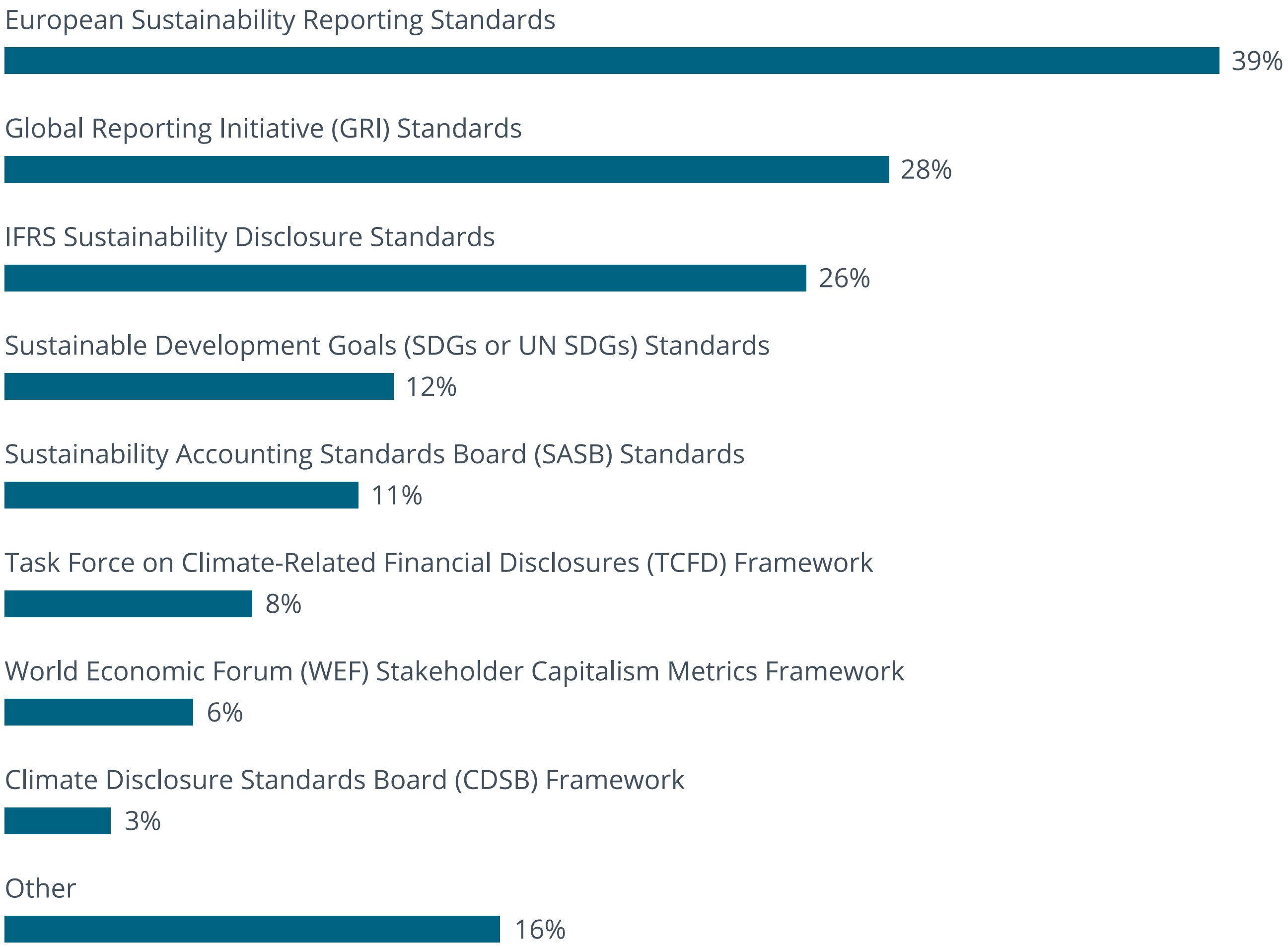

Figure 8: Which ESG standard(s) or framework are you using for ESG reporting? (n=265)

In summary, a variety of ESG standards are in use and many companies have implemented or plan to implement one or several reporting frameworks. Today, 30 percent of the companies surveyed use more than one standard for ESG reporting. The survey results also show that companies that have already introduced ESG reporting have tended to do so on the basis of the EU sustainability requirements, the GRI, SASB Standards or the climate-related TCFD framework. It is also apparent that companies that are planning to introduce ESG reporting use the SASB and TCFD standards comparatively less than the ESRS. 41 percent of the companies surveyed that plan to implement ESG reporting will directly apply the ESRS.

A variety of ESG standards are in use and 30 percent of the companies surveyed have implemented or plan to implement more than one reporting framework.

Furthermore, figure 9 indicates that about half of the European companies surveyed adhere to EU sustainability requirements while 51 percent of North American companies use the GRI Standards. The GRI Standards are also still seen as the relevant standards by 24 percent of the European companies surveyed. As the likely-to-be-adopted ESRS are closely related with the GRI Standards, this might be seen as an indicator that there is a visible tendency that the GRI Standards and ESRS with their multi-stakeholder approach are considered by many to be the standards that best reflect their ESG disclosure needs.

About half of the European companies surveyed adhere to the EU sustainability requirements, while half of the North American companies apply the GRI standards.

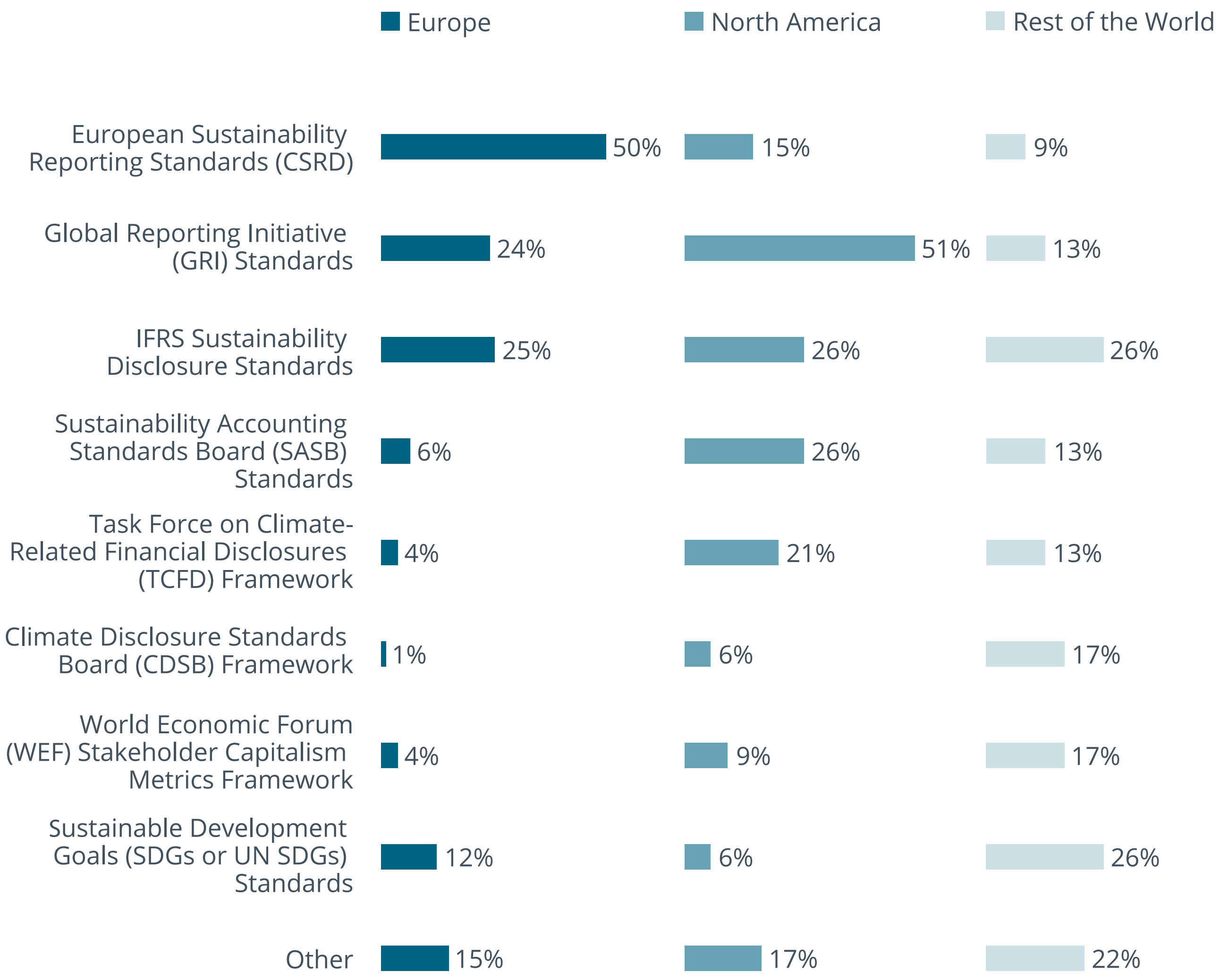

Figure 9: Which ESG standard(s) or framework are companies using for ESG reporting? by region (n=263)

We also see that about 40 percent of European companies with more than 500 employees tend to use the European Sustainability Reporting Standards. This reflects the efforts of the EU to oblige companies with more than 500 employees to demonstrate their commitment to ESG impacts. However, we also see that 34 percent of smaller companies (less than 500 employees) see the EU sustainability standards as relevant to their business, which means that even smaller companies that are not required by law see a need to disclose their ESG-relevant information.

Even smaller companies with fewer than 500 employees see the need to disclose their ESG-related information, although they are not legally required to.

Across most industries (industrial companies, services, banking & finance and IT), the European Sustainability Standards, GRI Standards and IFRS Standards play or will play a significant role. Only the survey results for the public sector are not compatible. Here, the EU sustainability standards play the most important role while the GRI, IFRS S, SASB and Sustainable Development Goals (SDGs) standards also play a role, albeit of significantly less importance.

Although the IFRS S standards have not yet been adopted, it is evident that they will be implemented by around a quarter of European companies (25 percent), US companies (26 percent) and companies in the rest of the world (26 percent). As about half of the companies surveyed use the IFRS Accounting Standards as their main financial reporting standards, it is not surprising that they may have trust in the IFRS Sustainability Standards. But it is also worth mentioning that the ISSB has declared in the draft IFRS S1 that the application of IFRS S does not necessarily require that an entity's financial statements are prepared in accordance with IFRS Financial Accounting Standards.

Competition to become the global standard setter has started – how many standards do companies need to implement in the future?

At the moment, it appears that the ISSB and EFRAG are emerging as the main standard setters. However, they differ in their focus. The IFRS S are aimed solely at investors and only consider ESG information if financially relevant. The ESRS take a multi-stakeholder approach which includes more than just financially relevant information. What they have in common is that they build on proven frameworks and standards. This triggers a kind of harmonization of existing standards with ESRS and IFRS S. In addition, the ISSB and EFRAG want to serve as a template for other countries' ESG disclosure requirements.

However, there appears to be a great deal of uncertainty about which framework or standards should be used to meet future regulatory requirements and minimize the burden of conversion.

Whether or not IFRS S and/or ESRS become the global standard is uncertain at this point. However, especially for global companies, it will be necessary to pay attention to both approaches. For example, a US company with subsidiaries in the EU or globally might have to comply with the SEC, EU and ISSB disclosure requirements.

It is uncertain whether IFRS S and/or ESRS will become the global standard.

02 Implementation Status of ESG Reporting

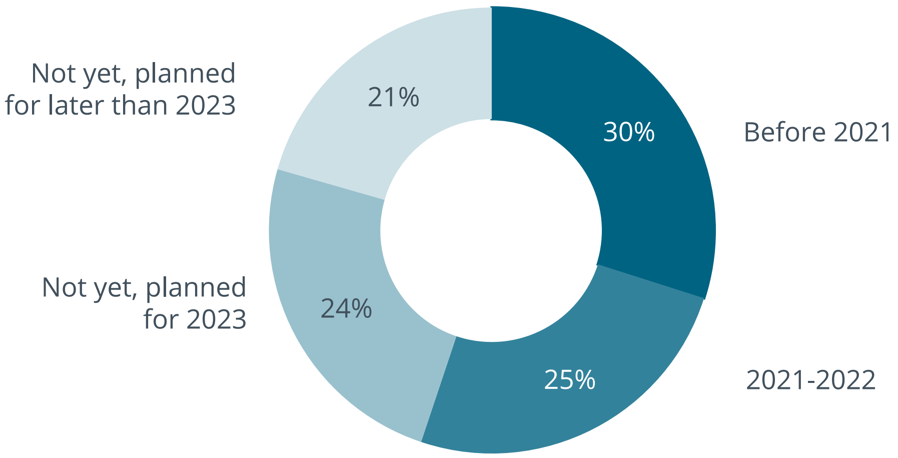

Figure 10: When did your company publish its first ESG report? (n=214)

Alongside digitalization, ESG is the issue that is currently occupying companies the most. 55 percent of the companies surveyed had already published their first ESG report prior to 2023. Additionally, 24 percent are planning to publish their first ESG report in 2023. So only 21 percent intend to publish their first ESG report later than 2023. It is interesting to note that all companies consider ESG reporting necessary. Like financial reporting, ESG reporting is already seen as a must.

More than half of the companies surveyed have already published their first ESG report.

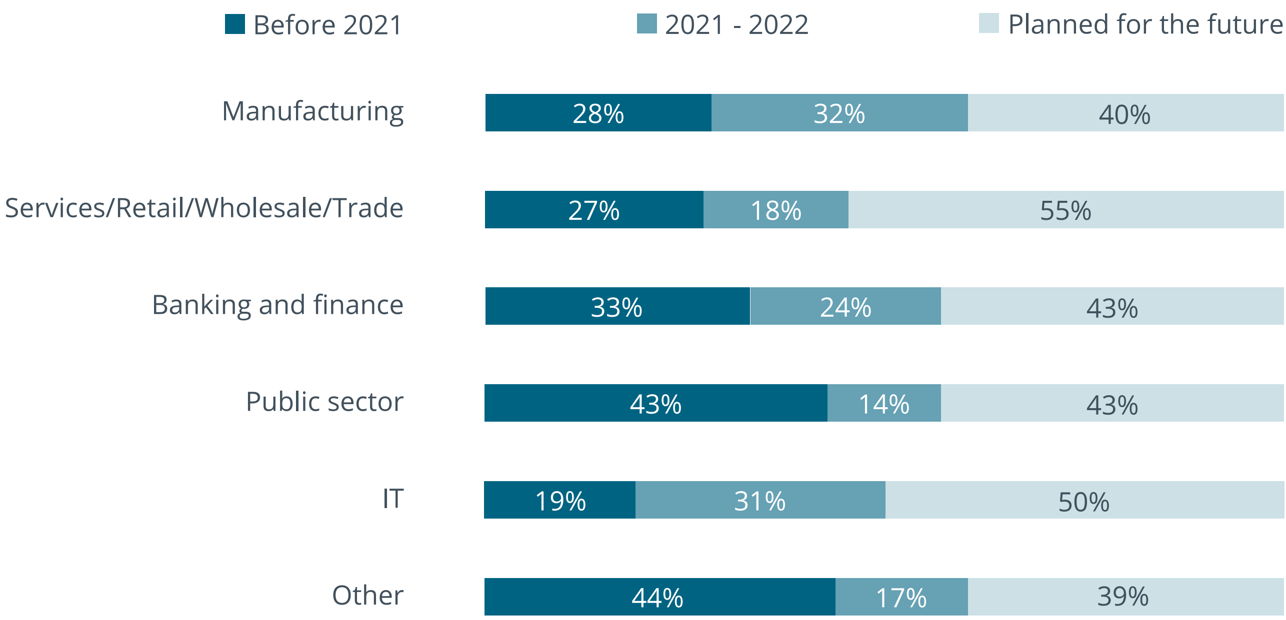

Figure 11: When did your company publish its first ESG report? by industry (n=214)

More than half of the companies surveyed in almost all industry sectors have already published their first ESG report (as of 2022). It is quite interesting that 43 percent of the companies we surveyed in the public sector had already published their first ESG report before 2021 (see figure 11). This makes the public sector something of a pioneer. However, one in three banking and finance companies and companies in industry had already published their first ESG report before 2021. According to the results of the study, the IT sector is a latecomer. 21 percent of IT companies only published their first ESG report in the last two years. The services/retail/wholesale/trade sector has the greatest need to catch up in the coming years. As of 2022, only 45 percent of companies in this sector had published an ESG report.

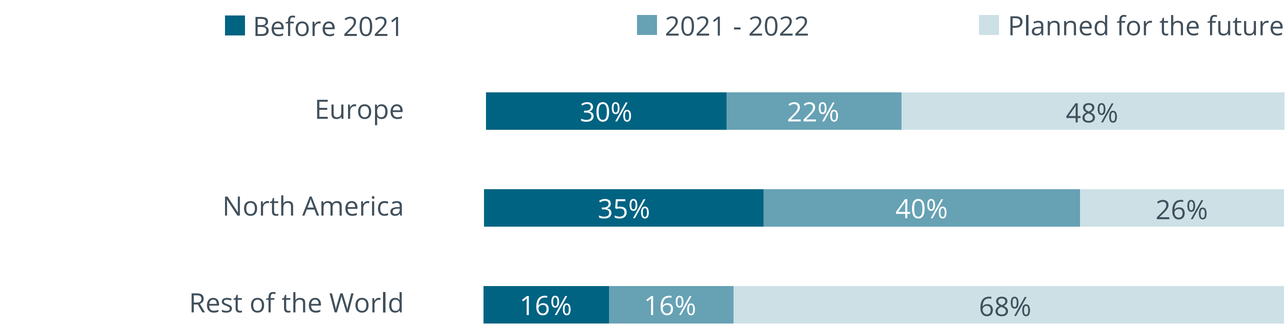

Figure 12: When did your company publish its first ESG report? by region (n=212)

ESG reporting is considered necessary to comply with regulatory requirements, but also to meet the needs of stakeholders for accurate, consistent and comparable ESG information. The EU was considered a pioneer with its sustainability regulations. With its Non-Financial Reporting Directive (NFRD) (predecessor of CSRD), the EU presented its aims to harmonize European sustainability reporting and to increase the relevance, consistency and comparability of non-financial information. The NFRD required listed companies with more than 500 employees to disclose ESG information. Nevertheless, it is not evident that European companies have led the way in publishing ESG reports. Results show that 52 percent of European companies have already prepared financial statements, but that 75 percent of North American companies have also published financial statements. These findings indicate that stricter regulatory requirements are not necessarily the main driver for ESG reporting. It can also be seen that the relative number of European companies compared to North American companies that have published an ESG report for the first time has decreased in the last two years. One reason for this could be that European companies have postponed the implementation of ESG reporting in order to avoid uncertainty about future regulations and to reduce the double burden of future mandatory regulations.

Two out of three of North American companies have already published financial statements. This indicates that stricter regulatory requirements are not necessarily the main driver for ESG reporting.

However, since the adoption of the EU's Corporate Social Responsibility Directive (CSRD) in November 2022, there is more clarity about who is obliged to report on sustainability in the EU. Large non-listed companies will have to publish their first ESG report in 2026 on 2025-year data. A large company – as mentioned above – is a company that meets two of the following three criteria: 250 employees and/or more than €40m turnover and/or €20m in total assets. The EU Commission estimates that around 50,000 companies will be obliged to report on ESG matters. Results also indicate that outside of North America and Europe, ESG reporting appears to be even less common (see figure 12).

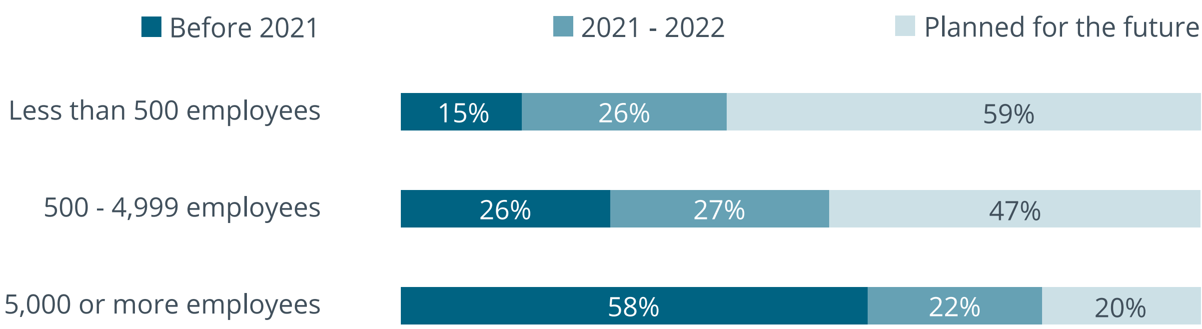

Figure 13: When did your company publish its first ESG report? by company size (n=214)

80 percent of large companies have already published an ESG report. By contrast, only 41 percent of small companies with fewer than 500 employees have done so, significantly lagging behind larger companies. Company size is therefore a key factor in determining whether companies have already addressed the issue. While the incentive to publish an ESG report is likely to have been greater for

Large companies with more than 5,000 employees are pioneers in ESG reporting.

larger companies than for smaller ones, it may also be the case that ESG reporting requires resources that are more readily available in large companies.

03 Motivation for ESG Reporting

ESG reporting provides transparency to stakeholders on a company's environmental, social and corporate governance issues. But why do companies publish ESG reports? One reason might be that they are required by law to disclose ESG information. However, that is not the number one reason. Only 38 percent of the companies surveyed cited compliance with legal standards as the reason for introducing ESG reporting (see figure 14). Apparently, North American companies that are operating in jurisdictions taking the first steps towards mandatory sustainability reporting for climate-related disclosures, such as the USA, are significantly less motivated to publish an ESG report to meet regulatory requirements (see figure 15). However, compliance is an important reason for investing in ESG reporting for 41 percent of European companies, which are comparatively highly regulated. It is also seen that compliance is the main driver for 57 percent of companies in the banking and finance industry, 46 percent of industrial companies and 41 percent of public sector organizations.

> ESG reporting is primarily driven by marketing as it enables sustainable customer and employer branding for companies.

Figure 14: What are the most important drivers of ESG reporting in your company? (n=270)

Nevertheless, and regardless of the jurisdiction, the main reason for ESG reporting is to improve the company's reputation with customers. For 58 percent of all companies surveyed, this is the number one reason. In recent years, the demand for sustainable products has grown enormously. However, this study reveals it is not only about green products or visible social commitment. It is also about ESG reporting that helps to create a sustainable brand image as well as creating and maintaining customer loyalty. Regardless of the size of the company or the industry (with the exception of banking and finance), customer branding is the most important reason for introducing ESG reporting. Customer branding is also by far the most important driver for North American companies. 72 percent of them see improving customer reputation as the driver for ESG reporting, while only 53 percent of European companies agree.

In times of dwindling human resources in many areas, ESG is also playing an increasingly important role in the hiring of employees. ESG disclosures help to communicate a company's environmental and social activities. Sustainability is seen to matter in the job market. After all, sustainable employer branding drives more than a third of the companies surveyed to publish an ESG report. However, there are cultural differences. For example, sustainable employer branding is relevant for only 17 percent of the US companies surveyed, while it plays a role for 41 percent of European companies. In the rest of the world, it matters to 26 percent of companies.

Ahead of all other sectors, sustainable employer branding is seen as an important driver in the retail, wholesale & trade industry and IT sector. Here, 48 percent of the companies surveyed, as well as 42 percent in the IT sector, agree that ESG reporting is a chance to improve the employer's reputation. In all other industries, only about 25 percent of the companies surveyed see sustainable employer branding as a driver for ESG reporting.

The retail, wholesale & trade industry and the IT sector see sustainable employer branding as the most important driver ahead of all other sectors.

Related to customer and employer branding, improved effort in the field of sustainable finance is a key element in promoting increased ambition to fight climate change. Therefore, sustainable finance is important for the EU's Green Deal. In the EU, capital providers are required to assess ESG risk. A way to inform and help investors in making decisions not only from an economic perspective, but also from an environmental and social perspective, is in the form of ESG disclosures. ESG disclosures help to better assess the risk profile of a company. To reduce risk, companies need to disclose ESG data relevant for capital providers to make decisions. The survey results indicate that the EU's Green Deal is already bearing fruit. For the European companies surveyed, attracting capital providers is more relevant than for companies from other regions. For 35 percent of European companies, ESG reporting is important in attracting capital providers. In contrast, only 22 percent of North American companies state that they publish an ESG report to improve their standing in the financial markets.

For North American companies, sustainable employer branding is even more important than for companies from other regions. Meanwhile, it is more important for European companies to comply with regulations and improve their reputation among their employees.

Monitoring improvements in ESG progress is a reason for 31 percent of the companies surveyed to implement ESG reporting. This is only true for 20 percent of North American companies. However, companies outside North America see this aspect as more relevant to the implementation of ESG reporting. They see ESG reporting as an opportunity to improve the sustainability process. This is also in line with the intention of the standard setters to integrate ESG into the strategy and objectives of companies.

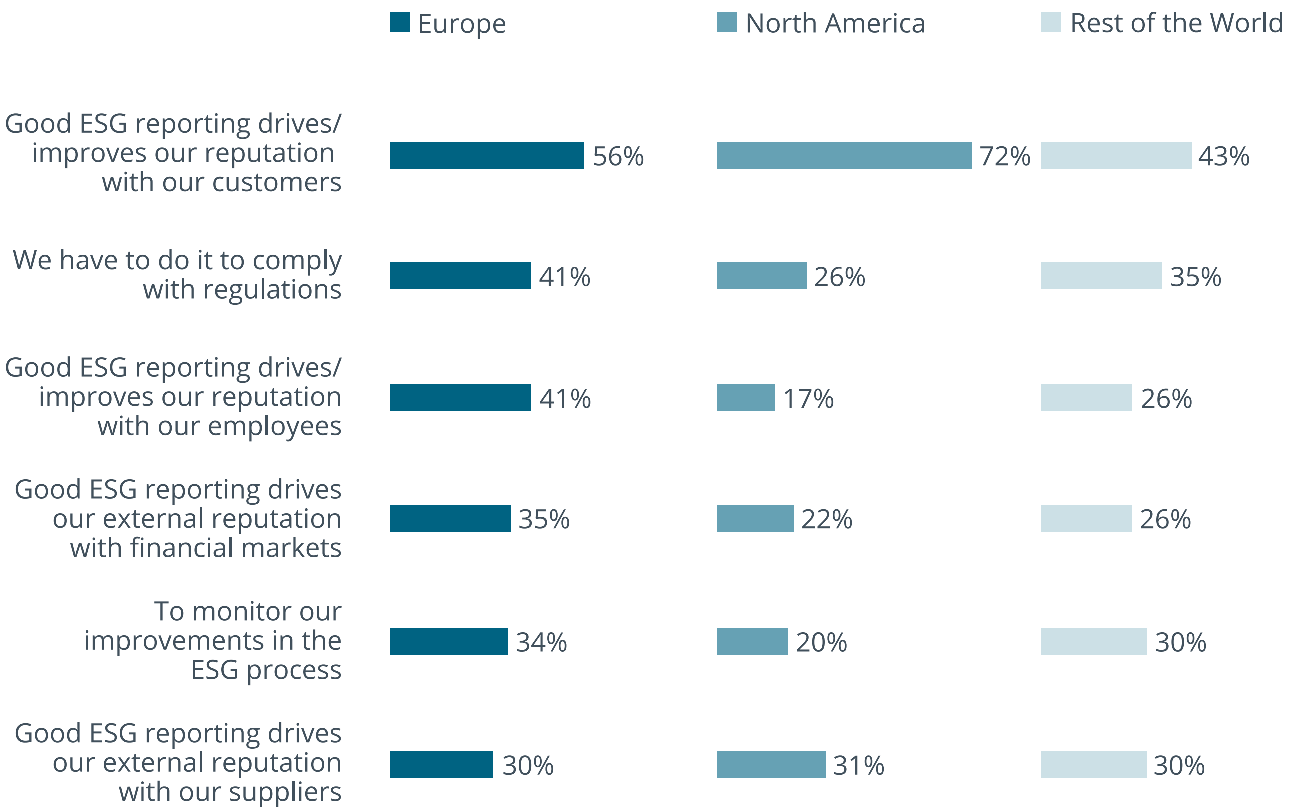

Figure 15: What are the most important drivers of ESG reporting in your company? by region (n=268)

Sustainability is an issue that needs to be considered not only for individual companies, but also along the entire supply chain. This also means that suppliers select their customers based on their sustainability risk. Particularly in supplier markets, companies are forced to convince their suppliers of their sustainable activities. At the same time, customers must be able to provide suppliers with sustainability information so that they can create ESG disclosures for the value chain. It turns out that suppliers are key stakeholders in ESG reporting for 30 percent of the companies surveyed. It is also worth mentioning that no significant regional differences can be identified.

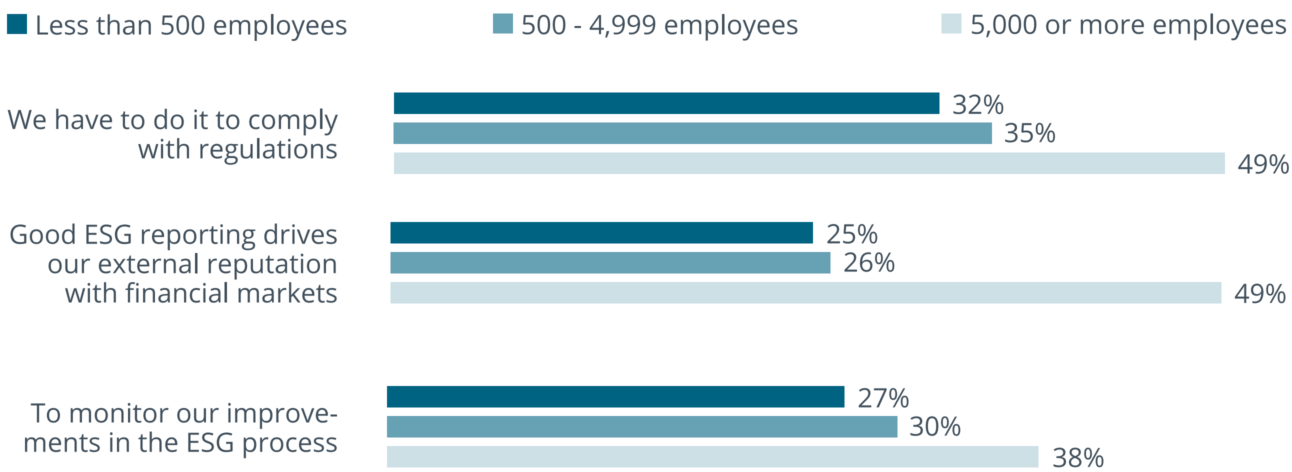

Figure 16: What are the most important drivers of ESG reporting in your company? Selected drivers of ESG reporting, by company size (n=270)

All companies agree that customer branding is the strongest driver. The survey results show that the location of a company has an influence on its motivation to implement ESG reporting. In terms of company size, there are no differences for the most part. The only exceptions are that large companies with more than 5,000 employees see the need to be compliant with legal requirements, that ESG reporting can help to improve access to the capital market and the chance to monitor improvements in the ESG process as more important than small and medium-sized companies.

Large companies see the need for regulatory compliance and improved access to capital markets as more important than small and medium-sized companies.

The survey results also indicate that if ESG reporting is the responsibility of a specialized department within the company, customer and employer branding are seen as much more important in driving ESG reporting than in other companies.

04 Organization of ESG Reporting

Although sustainable customer and employer branding is essential for customers, it can be gathered from the intentions of the standard setters that ESG reporting is more than just a marketing and compliance issue. ESG should be seen as a value driver that is incorporated into strategic and risk management. Therefore, it is necessary to derive targets and metrics to make ESG measurable and controllable. The following questions that companies need to answer show that ESG reporting is more than just a regulatory reporting topic and cost driver:

- How do environmental and social sustainability factors directly affect the business model?
- What market potential and portfolio effects can be leveraged?
- What about the future viability of our products and solutions?
- Is sustainability a growth driver for us?
- How can we measure and evaluate ESG?
- Who is responsible for ESG data collection?

This leads us on to the question of who takes care of ESG reporting. The survey results show that there is no one-size-fits-all solution. The organizational implementation of ESG reporting varies significantly. However, it can be seen that the importance of a specialized ESG/sustainability department is relevant for about one fifth of the companies surveyed (see figure 17).

Currently, 43 percent of the companies surveyed have implemented ESG reporting in the office of the CFO (including departments such as controlling, finance and group accounting/reporting). 21 percent see the need to drive ESG in a specialized ESG department and 36 percent anchor ESG in other departments outside of a specialized department or the CFO's office (see figure 18). It seems there is a variety of options. For example, some companies see the driving force of ESG in the Risk and Compliance Management department, the IT department, the Investor Relations department, the Communications department, the Quality Management department, the Procurement department

43 percent of companies have implemented ESG reporting in the office of the CFO.

or with the Environmental Officer while others set up a specialized C-level staff position outside the CFO's office.

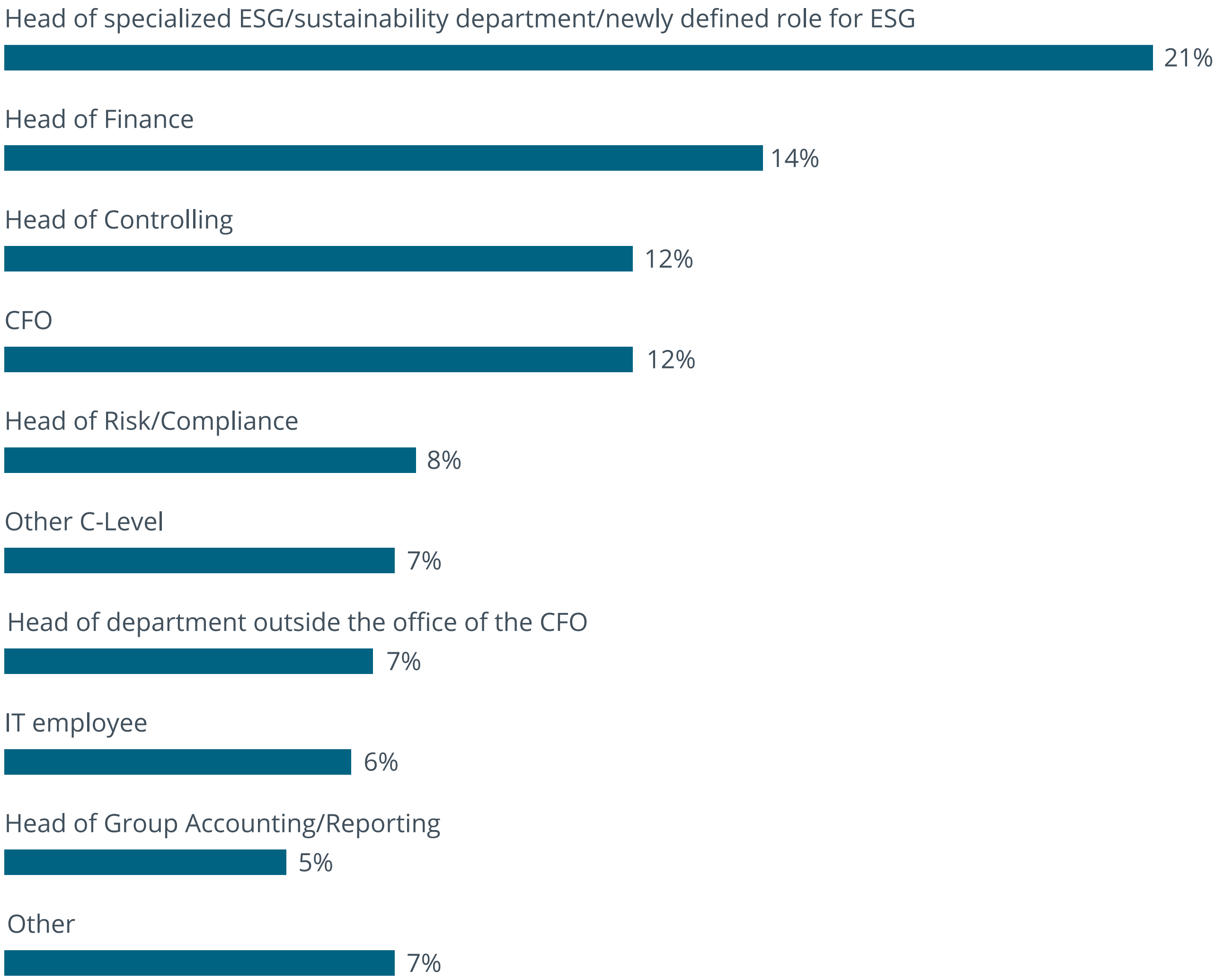

Figure 17: Who is driving ESG reporting in your company? (n=247)

It is somewhat surprising that the topic of sustainability is not driven by the controlling department as part of the office of the CFO. The need to integrate sustainability into the corporate strategy and business model goes hand in hand with the central objectives, but also the methods, of controlling. Controllers can make a valuable contribution to strategy development and planning (e.g., with scenario analyses), in the definition and operationalization of strategic goals and in their transition and integration into the corporate planning and control system. These tasks and methods do not have to be limited to financial aspects. Moreover, ESG impacts and their financial effects also have to be measured and verified by means of KPIs. However, only 12 percent of companies have so far anchored the topic of sustainability in controlling. Even though controlling is a very German-specific topic, only 12 percent of the German companies surveyed see the topic as falling under the remit of the controlling department. These results are also consistent with a study conducted in the German-speaking region in 2022, in which a total of 17 percent of the surveyed companies anchored the topic in the controlling department (see Schäffer (2022), Controller Magazin, p. 4-8).

Sustainability is not driven by the controlling department.

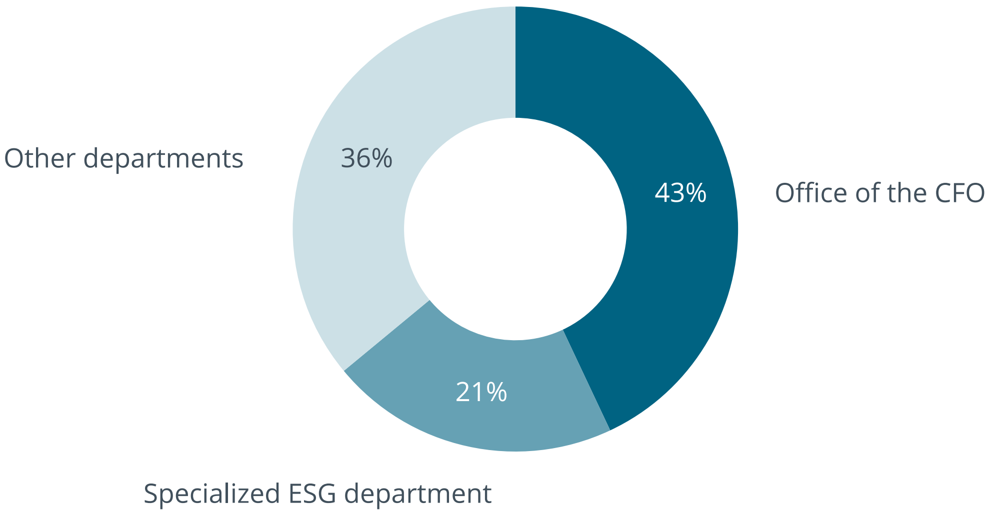

Figure 18: Who is driving ESG reporting in your company? (n=247)

Breaking down the results, we see that there are regional differences in the anchoring of ESG in companies. 25 percent of European companies say that the driving force of ESG is a specialized department, while only 15 percent of North American companies and 5 percent of companies in the rest of the world have felt the need to set up a specialized ESG department.

European companies are more likely to set up a specialized ESG department.

Additionally, there are differences in terms of the industry in which companies operate. In the industrial sector, the majority of ESG issues are managed by the office of the CFO. In banking and finance, where ESG is also very much linked to compliance, ESG is often located outside the office of the CFO or in a specialized ESG department. Meanwhile, 31 percent of companies in the services/retail/wholesale/trade sector have specialized departments for ESG matters.

In the manufacturing industry, most ESG issues are managed by the office of the CFO..

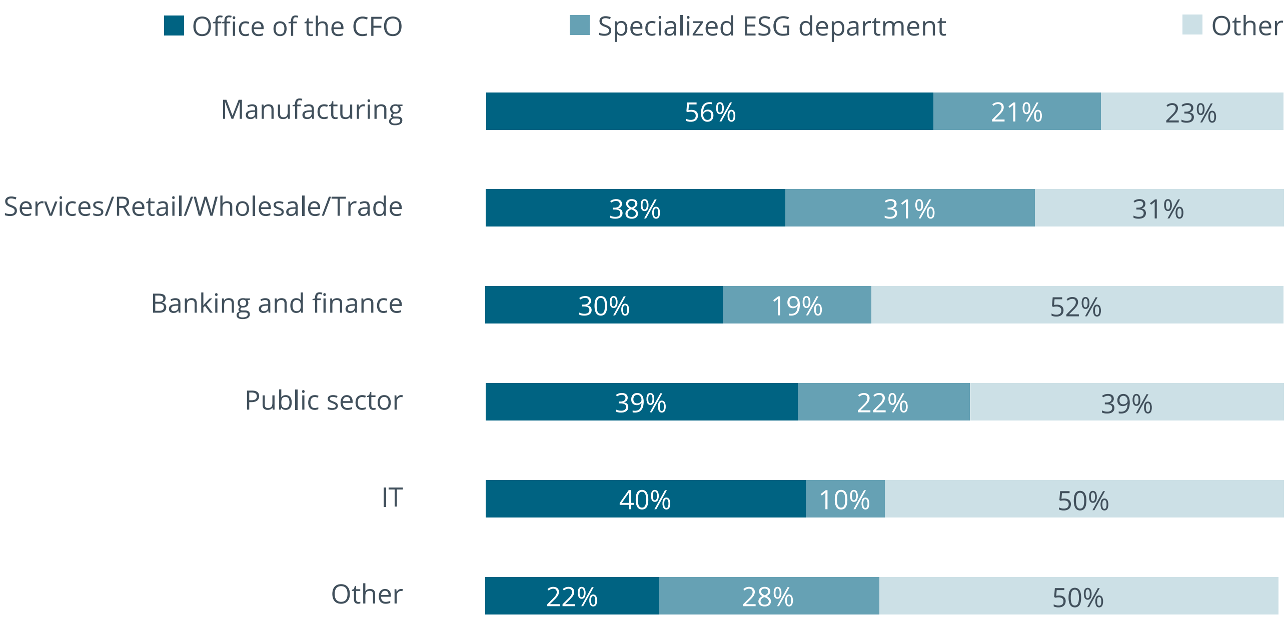

Figure 19: Who is driving ESG reporting in your company? by industry (n=247)

Survey results also indicate that the size of a company impacts the organizational implementation of ESG reporting. The larger the company, the higher the chance that a specialized ESG department is in place. At the same time, it is also evident that there is a decreasing tendency to set up ESG reporting in the office of the CFO in these companies. This may have something to do with the fact that as companies get bigger, more resources become available for ESG reporting. At the same time, it is surprising that ESG reporting does not fall under the remit of the office of the CFO. Of course, this also depends heavily on the role the office of the CFO plays within the company. If it provides strong support in strategy development and contributes a future-oriented perspective (e.g., scenario planning as a business partner), it will also be able to drive the topic of ESG as a coordinating unit. However, in terms of the need to assess the financial impact of ESG, it will ultimately always be the CFO's office that has to deal with ESG issues. Whether the office of the CFO is the driving force or just the supplier of ESG information remains to be seen.

The larger the company, the more likely it is to have a specialized ESG department. At the same time, the tendency to set up ESG reporting in the CFO's office decreases in large companies.

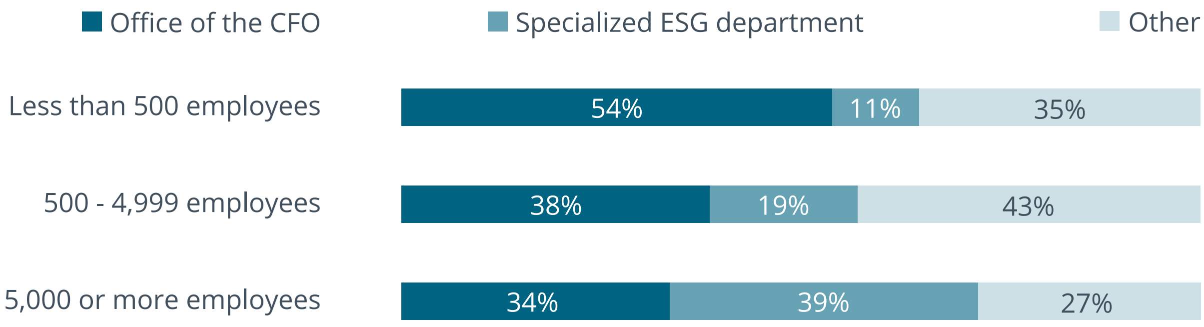

Figure 20: Who is driving ESG reporting in your company? by company size (n=247)

There are differences in whether companies have already implemented ESG reporting or are planning to do so. 86 percent of the companies that plan to introduce ESG intend to do so in the office of the CFO or in a specialized ESG department, which could be interpreted as a concentration in these two central organizational anchors and drivers of ESG.

Most of the companies that plan to introduce ESG intend to do so in the office of the CFO or in a specialized ESG department.

05 Challenges

ESG can be – with the exception of many parts of the notes in a financial statement – quite a data-intensive topic. It is therefore unsurprising that data-related issues are top of the list of challenges companies face when implementing ESG reporting. The data needed, especially for the environmental chapters of ESG, has typically not been previously scrutinized by the departments responsible for disclosing the books, and in most cases it is too complex and voluminous to be handled in manual, Excel-oriented workflows. In many companies, new, separate data marts must be built or existing data infrastructures have to undergo major updates to cover ESG.

The number one issue (lack of data quality and reliability) tops the list of challenges for almost all data-intensive applications and therefore comes as no surprise. The second issue (too many different data sources) is more specific to ESG, and mainly the "E" in ESG. Adding ESG to a disclosure management process multiplies the number of data sources in that disclosure management process in many cases. That is why good and flexible interface functionality is taken very seriously by most of the software vendors addressing the ESG reporting market.

Data-related challenges, such as poor data quality and reliability as well as too many different data sources, are the biggest problems for companies.

"Lack of interest", "lack of awareness in departments that have to deliver data" and "time pressure" are three organizational issues that make it into the top 10 and show that the resource intensity of ESG has been underestimated by many companies. "Too many manual tasks" and "poor software support" reflect the need for professional software support in that area, especially for companies attempting to address ESG reporting with their existing infrastructure (e.g., using Word and Excel only).

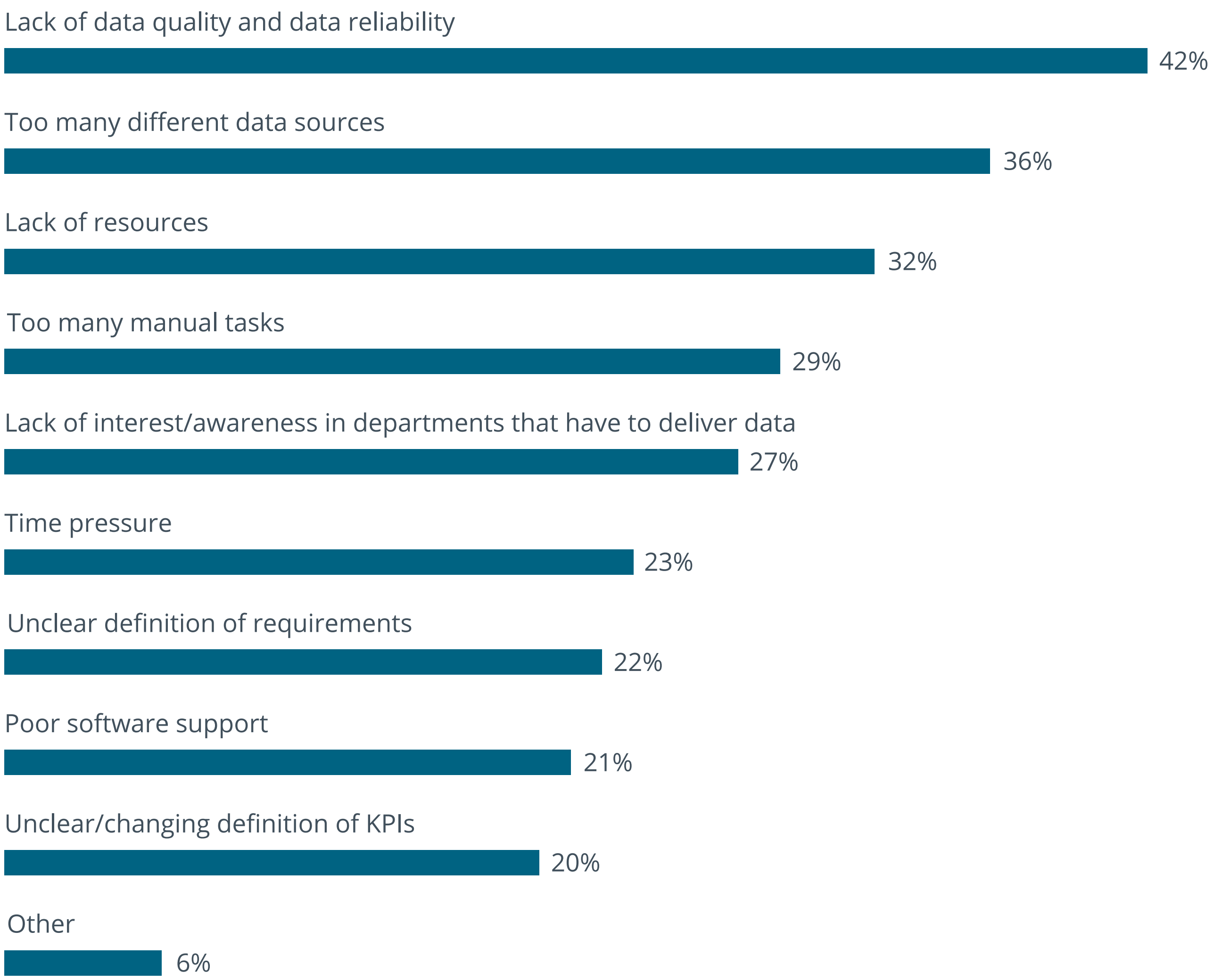

Figure 21: What are the biggest challenges you encounter in running ESG reporting today? (n=259)

Comparing laggards and leaders, the biggest challenges for laggards are a "lack of resources" and "unclear definition of requirements". It seems that laggards do not take ESG too seriously and therefore dedicate fewer resources in general and less effort to defining goals than leaders. On the other hand, leaders seem to complain about more challenges: they are much more likely to have issues with "too many manual tasks" or "time pressure", which perhaps reflects the more advanced goal-setting for ESG reporting by companies where the topic has a higher priority.

The biggest challenges for laggards is a lack of resources.

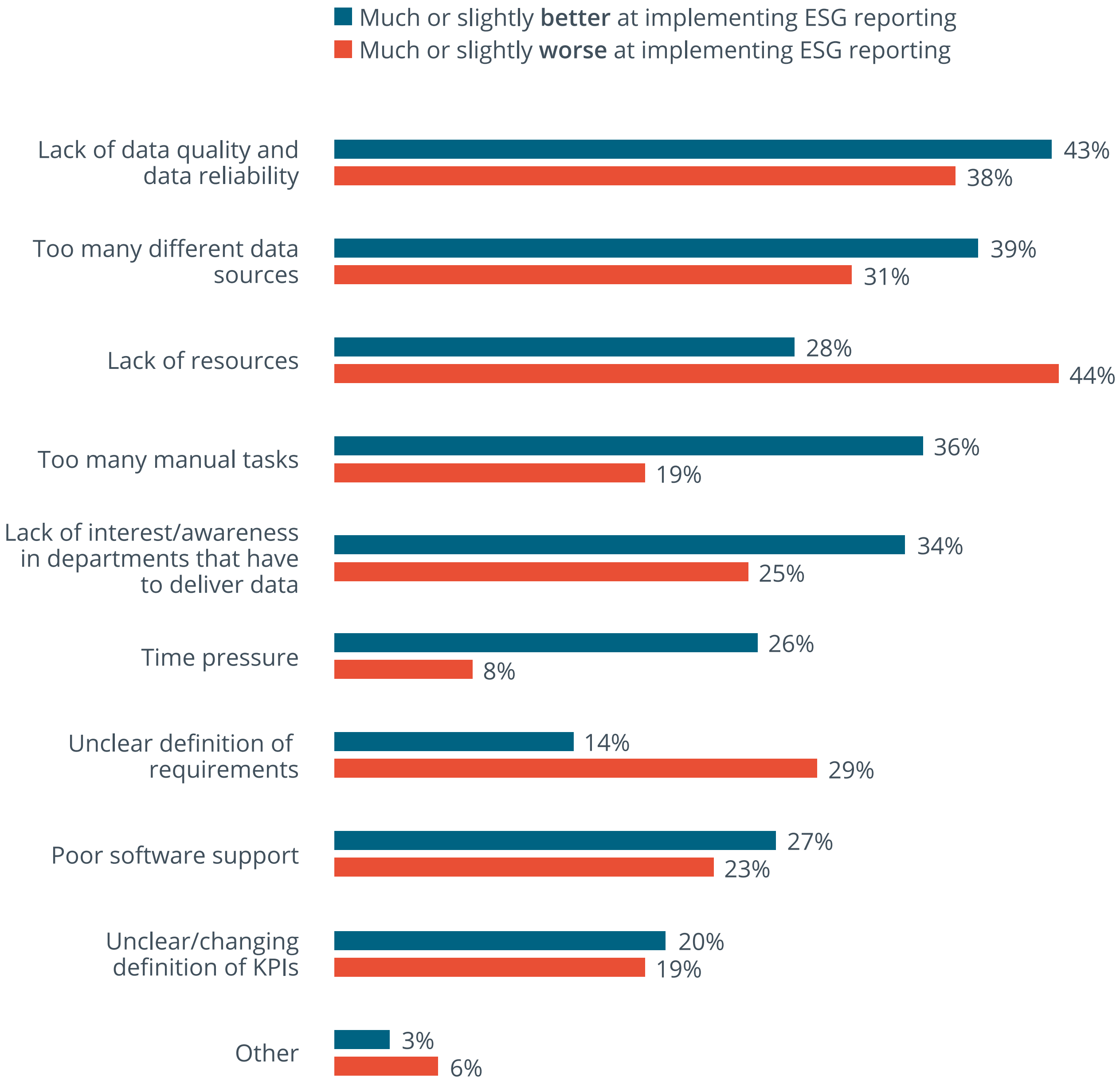

Figure 22: What are the biggest challenges you encounter in running ESG reporting today? by leaders vs laggards (n=227)

Looking at the differences between Europe and North America, it is interesting to note that the main challenges of the two regions are totally different (see figure 23). While North American companies see "lack of interest" and "too many manual tasks" as major challenges, it is the data issues that cause more headaches for European companies. We believe that the more detailed European reporting standards for ESG are the main reason behind these differing points of view.

European companies struggle more with data issues, while North American companies see "lack of interest" and "too many manual tasks" as major challenges.

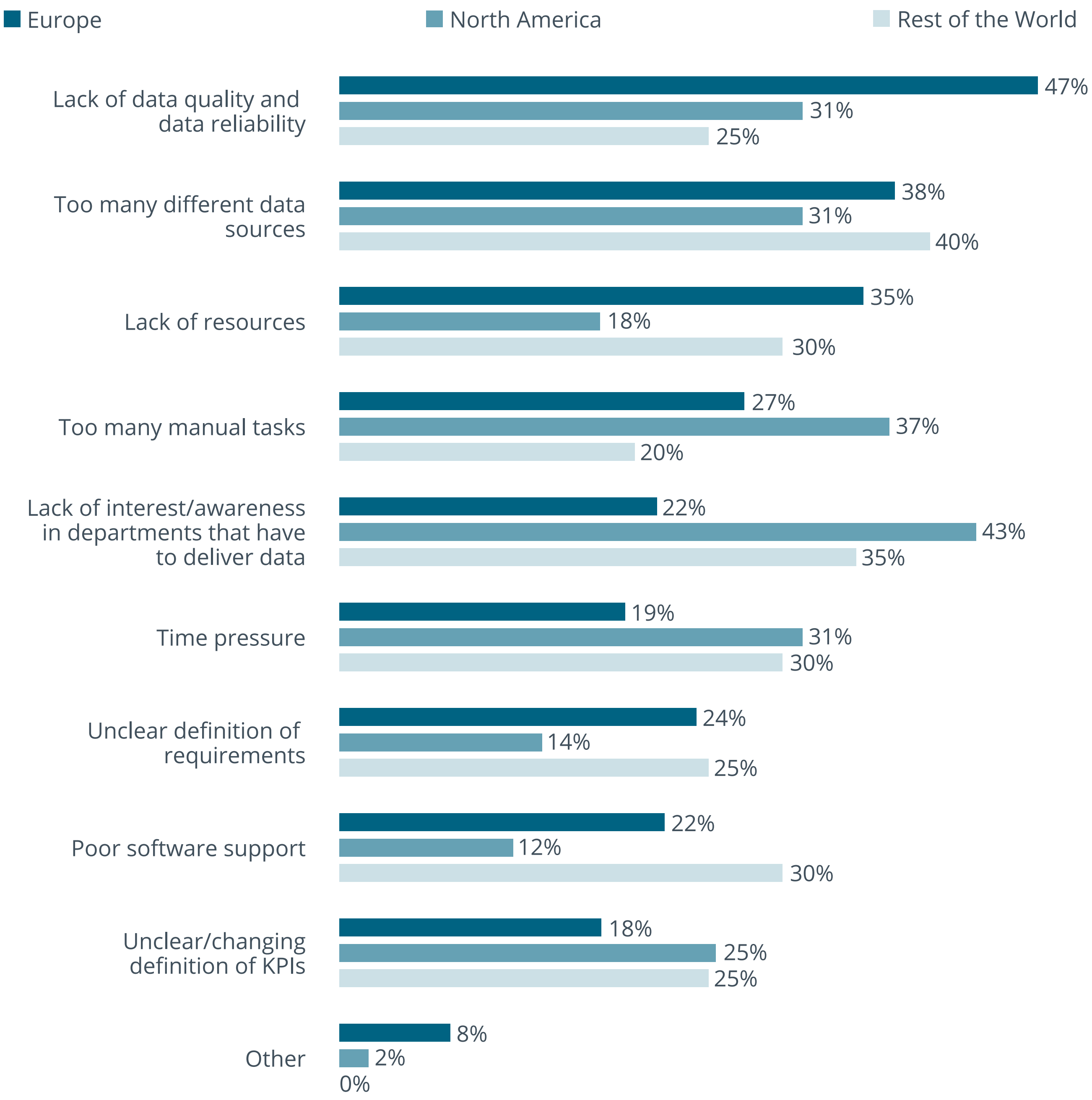

Figure 23: What are the biggest challenges you encounter in running ESG reporting today? by region (n=257)

Looking at the challenges by company size, most of the differences can be explained away quite logically (see figure 24). For example, the fact that the number of data sources and manual tasks tend to increase in line with company size is natural, and therefore the number of companies that see those issues as critical rises accordingly. "Time pressure" seems to be felt more in small companies, where ESG reporting is most likely covered without additional dedicated resources, typically extending the to-do list of the CFO's office.

The challenge with a large number of data sources and manual tasks increases with company size.

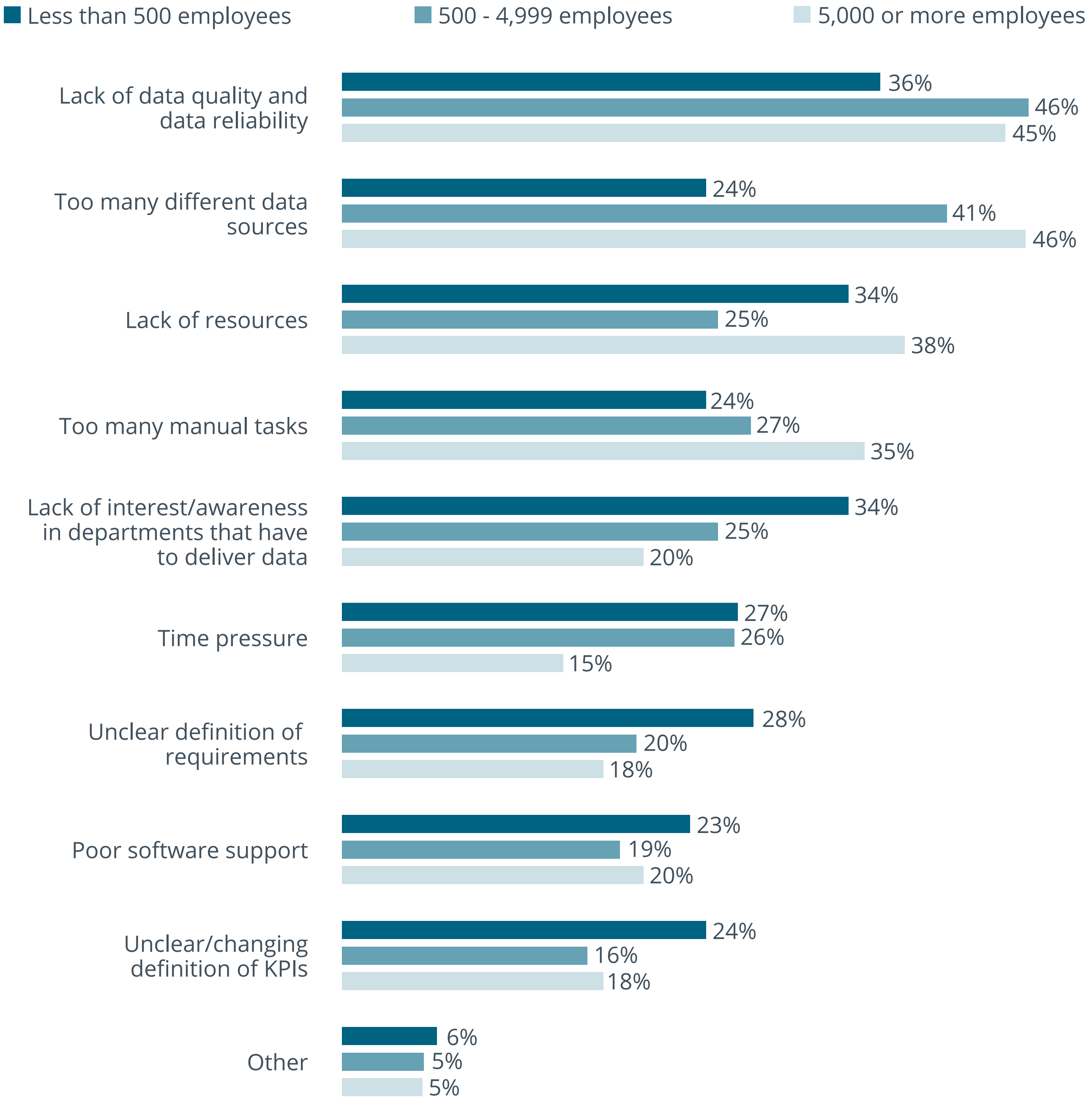

Figure 24: What are the biggest challenges you encounter in running ESG reporting today? by company size (n=259)

There are some notable differences between organizations in which the office of the CFO runs ESG initiatives and companies with specialized departments. Obviously, companies that add the topic to the agenda of the office of the CFO tend to underestimate the resources needed for ESG (see figure 25). On the other hand, the office of the CFO seems to have fewer problems with data quality and interfaces. We believe this is because many data integration and data management tasks are already performed by the office of the CFO these days, so it has evolved into something of a competence center for business intelligence in recent years.

Companies where the CFO's office is responsible for ESG reporting tend to underestimate the resources required. On the other hand, specialized ESG departments seem to have more data issues.

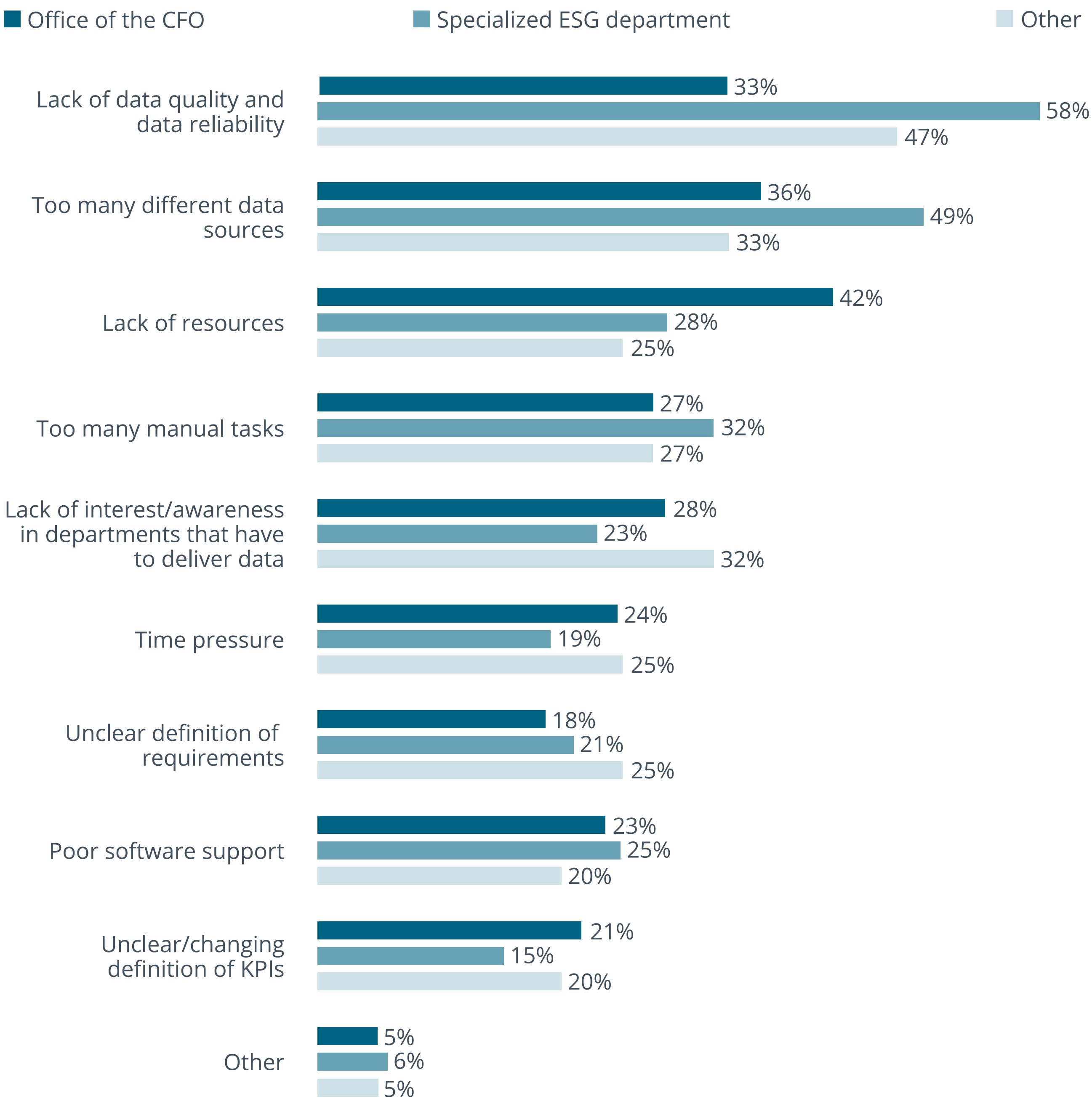

Figure 25: What are the biggest challenges you encounter in running ESG reporting today? by "Who is driving ESG reporting in your company?" (n=237)

06 Potential and Ways to Improve ESG Reporting

We asked survey participants about the following three sub-processes to discover what might help to improve ESG reporting:

- Collecting and integrating data from various sources
- Aggregating, calculating ESG KPIs and publishing reports
- Measuring the financial impact of ESG activities

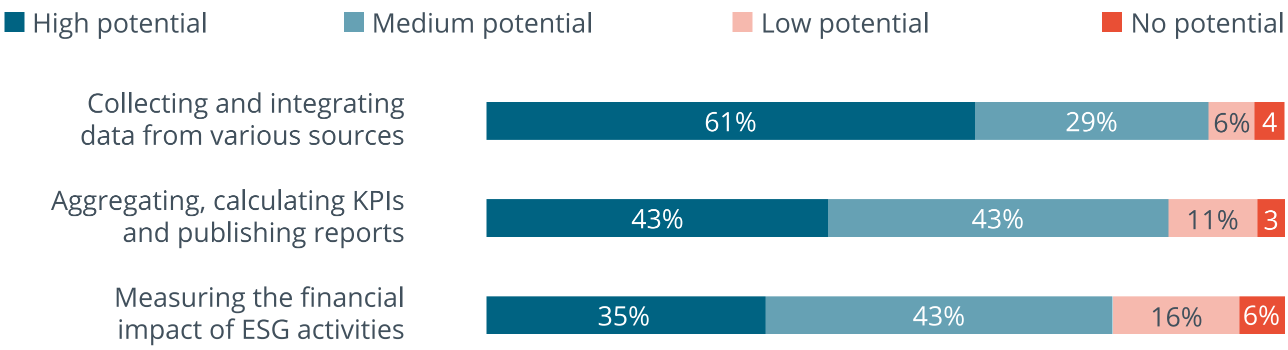

Figure 26: How much potential for improvement do you see in the following steps? (n=267)

The phase with the highest potential to be improved is the collection and integration of data from various sources. 90 percent of the companies surveyed recognize a need for improvement here. Overall, it is clear that the entire process of ESG reporting in most companies is not yet fully developed and therefore needs to be improved. Only a few companies see no need for improvement in any of the aforementioned areas.

All companies that have already implemented ESG reporting see a need for improvement in all sub-processes of the ESG process, especially in the collection and integration of data.

It is worth noting that the length of time a company has been reporting on ESG has no influence on whether they see potential for improvement. In general, those that see no potential at all are the ones that are still in the planning phase and have not yet published an ESG report. On the flipside, it is the companies that already do ESG reporting that see room for improvement. Even those that consider themselves as leaders recognize the need for improvement in the three phases of ESG reporting in a similar way to laggards.

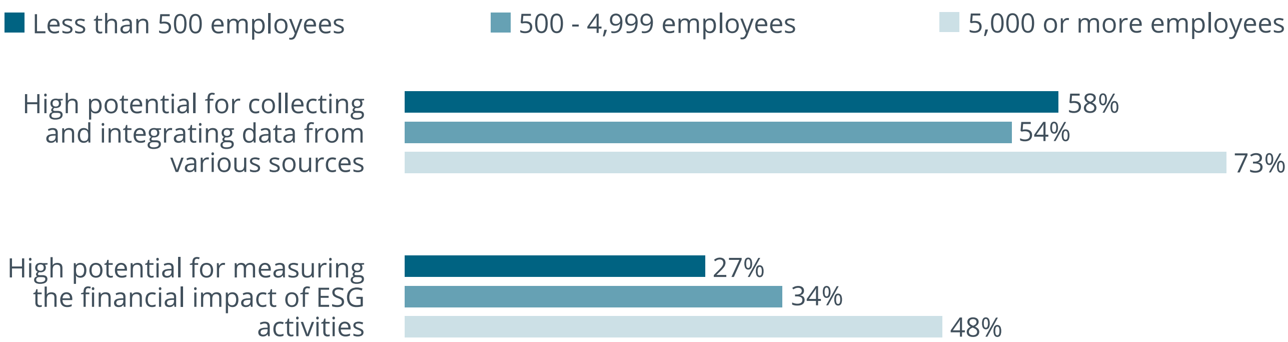

Figure 27: How much potential for improvement do you see in the following steps? Selected steps by company size (n=267 and n=265)

The survey results show no significant differences in terms of industry either. However, in contrast to small and medium-sized companies, large companies with more than 5,000 employees see more potential to improve the way they measure the financial impact of ESG activities and also in collecting and integrating data from various sources. Complexity seems to increase in line with company size, and with it the need for improvement.

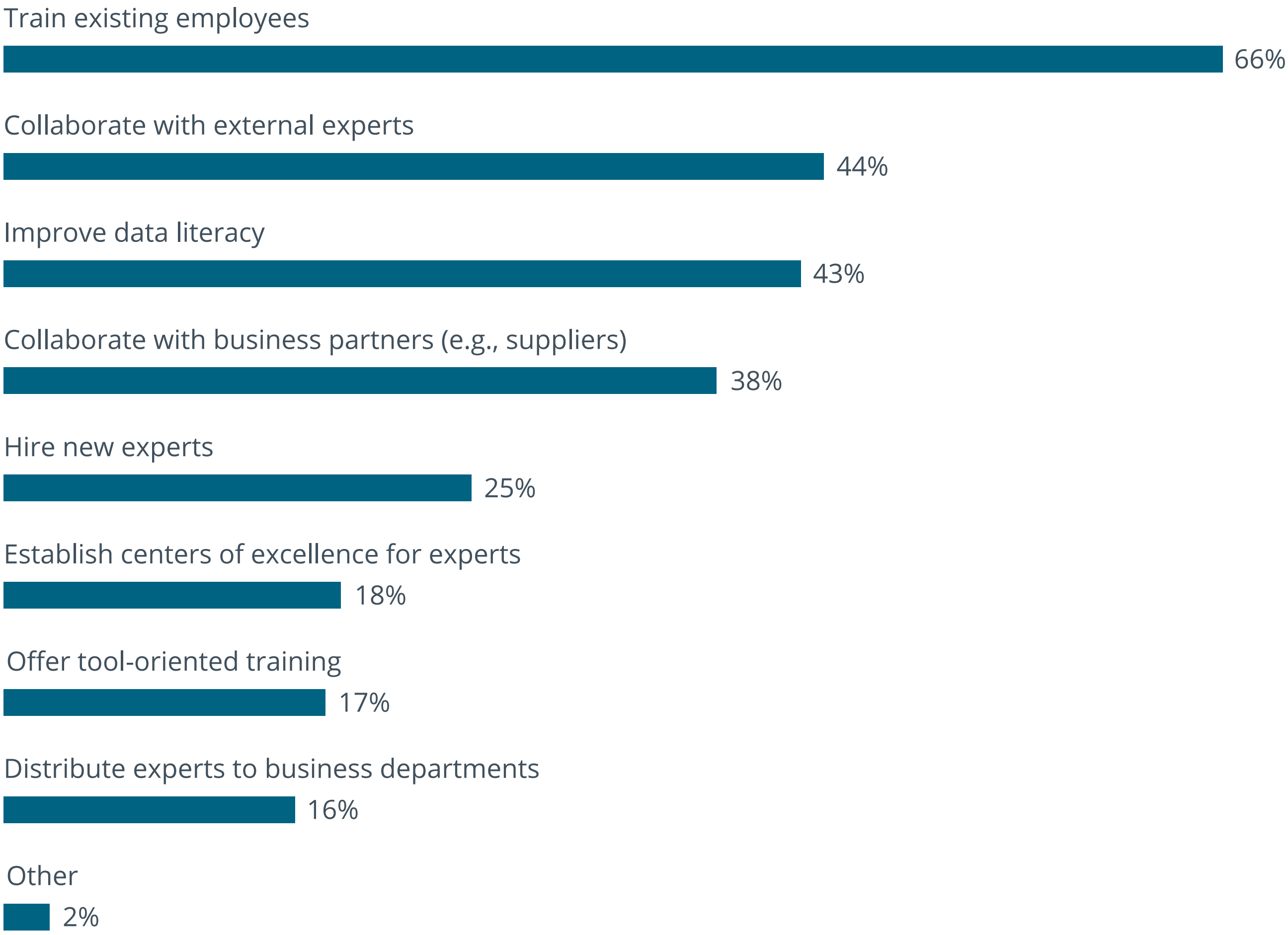

Figure 28: How do you plan to improve your organization's ability to successfully implement ESG? (n=242)

What steps can be taken to improve ESG reporting? Interestingly, improvements to the data landscape and software are not perceived as the main avenues for progress. Instead, 66 percent of the companies surveyed see potential for improvement by training their existing employees. This lack of internal expertise is perceived as a problem that should be counterbalanced by external expertise. For this reason, collaboration with external experts is identified as the second best option to improve ESG reporting. 44 percent of the companies surveyed see potential for improvement by collaborating with external experts rather than by hiring ESG experts or even establishing a separate center of excellence for experts. This may be because there are currently few ESG experts outside the consulting firms. It may also be that companies see the need for additional expertise only during the implementation phase and when adapting to, for example, new ESG reporting regulations. Similarly, consultants are often in demand when new financial accounting standards are introduced. External experts offer the opportunity for knowledge transfer and the sharing of their experience. However, as in financial reporting, ongoing ESG reporting is carried out by internal staff.

> The lack of internal expertise can be compensated by external expertise.

It is noteworthy that companies that consider themselves as best-in-class see significantly less potential for improvement in staff training than others. Only 41 percent of the leading companies recognize a need for improvement in employee training. 32 percent also see less need to work with external experts than other companies. This may be because employee training has already taken place and it is felt that external consultants are not required. Differences can also be seen in the fact that leading companies see the potential to improve ESG reporting through collaboration with other business partners. This can be taken as an indicator that leading companies are already addressing ESG for the entire value chain.

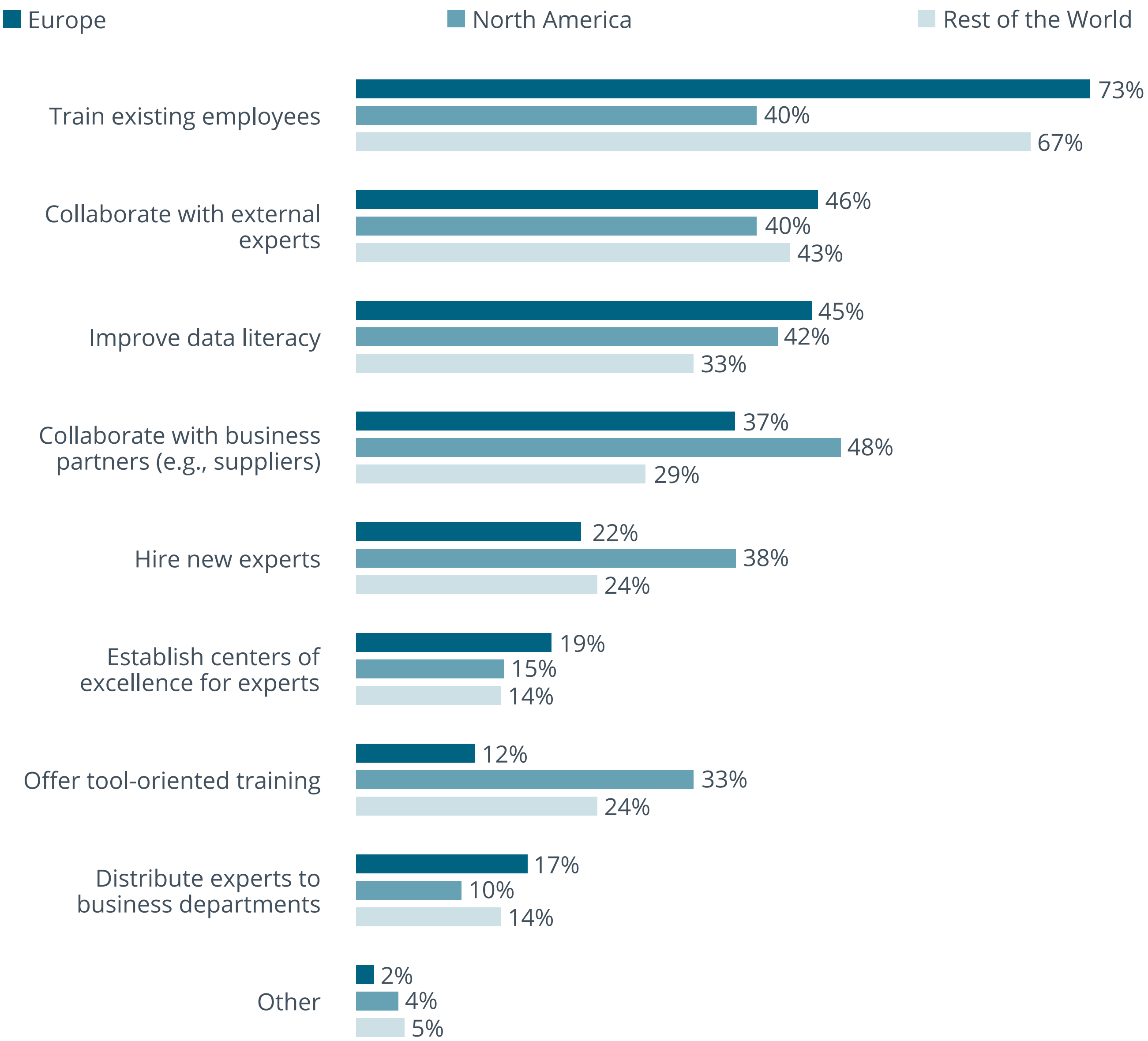

Figure 29: How do you plan to improve your organization's ability to successfully implement ESG? by region (n= 240)

Regional differences only exist to the extent that North American companies are more likely to hire new in-house experts. However, training existing employees is less important to North American companies. Meanwhile, the need to involve external experts is viewed as equally important across all regions.

Building up ESG know-how is essential, especially in the early stages. However, due to ongoing regulatory changes, it is vital to stay up to date with developments. Therefore, employee training is essential even in companies that have been publishing ESG reports for several years. 57 percent of the companies that have been publishing ESG reports for several years also see potential for improvement in data literacy.

In all company sizes, few differences can be identified regarding the potential for improving ESG reporting. 76 percent of companies with more than 5,000 employees compared to 56 percent with less than 500 employees and 66 percent with 500 - 4,999 employees see the potential to improve ESG reporting by training existing employees. Improving data literacy is considered relevant by 31 percent of companies with less than 500 employees, 48 percent with 500 - 4,999 employees and 51 percent with over 5,000 employees.

Large companies see more potential for improving ESG reporting by training their employees.

07 Technological Implementation of ESG

There is currently no dominant or logical technical platform where ESG software implementations take place. Generally speaking, there are a couple of possible places in which ESG, or at least part of it, could be implemented.

Besides the mostly smaller companies that try to implement ESG reporting entirely with Word and Excel (which actually do play an important role in almost all ESG implementations at some point), there are three main options:

To implement ESG reporting, there are three main options (besides Word and Excel): ERP, add-ons to the financial reporting/group accounting solution and specialized ESG reporting solutions.

- ERP: As much of the relevant data is produced and maintained there already, some companies consider their ERP system as a good place to implement ESG. Some ERP vendors offer add-on modules for ESG or have announced they will be releasing such add-ons in the future. Generally, doing reporting in ERP systems directly without a separate database for analytics is not the best choice, as we have learned from the experiences of several of our customers. Such platforms are typically not suitable for the individual data modeling required for more advanced ESG scenarios.
- Add-on to the financial reporting / group accounting solution: Many companies have already invested in CPM suites or specialized disclosure management solutions which provide functionality for disclosing financial reports. This is quite a natural place to add ESG functionality, although especially the “E” in ESG requires a lot of complexity in terms of data structure, interfaces to new source systems and workflows. That is why many of the leading CPM and group accounting vendors such as Workiva, Board, OneStream, Tagetik and others have started to build their own ESG add-ons which not only cover the taxonomy and the general disclosure workflow, but also bring in data models as templates for sub-systems (e.g., carbon accounting).
- Specialized ESG reporting solutions: The functionality required for ESG reporting has opened up a new opportunity for start-up software companies fully focused on ESG reporting. These include Greenomy, Envoria, Cubemos and many others. Most cover core ESG data collection, calculation and monitoring and rely on existing

solutions for the last mile of the disclosure management process. With this positioning, they are a natural partner for disclosure management point solutions such as Amana, ns.publish, fire.sys and many others, as the combined offering covers the whole process.

Additionally, there are a couple of point solutions in the market covering part of the functionality required. Carbon accounting, which is probably the most complex part of the ESG reporting process, is a typical example. These companies often partner with other players in the ecosystem.

This has led to a situation in which a large number of vendors are marketing solutions for ESG, sometimes offering the complete value chain, but more often only part of the process. The net result is that the market is tricky to navigate. Also, several interesting partnerships have been struck whereby point solutions go to market in partnership with leading ERP or CPM vendors.

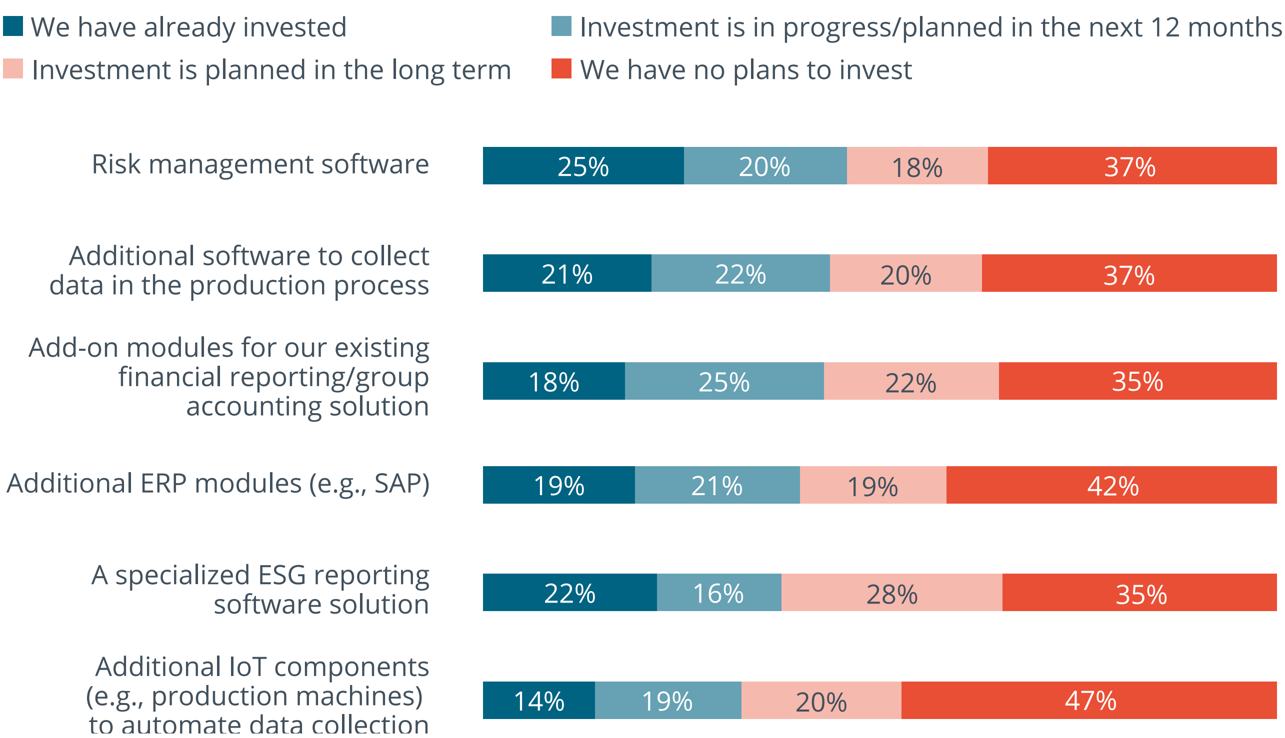

Figure 30: Have you invested (or do you plan to invest) in any of the following software solutions for ESG reporting? (n=253)

In our study, we asked which of the options are being considered or have been considered as a platform for ESG reporting. As we can see, the market has not decided where to go yet, and we believe this situation will remain the same for some time. A couple of different solution categories are fighting for market share.

None of the options has yet been able to become established in the market as a platform for ESG reporting.

BARC believes that the CPM / group accounting vendors and specialized ESG solutions will be the main players in this field in the future. Specialized solutions have their clear benefits in more complex scenarios (e.g., in production companies where a lot of complex environmental data is collected and the data structures are typically quite complex, requiring a separate data model for the “E” in ESG).

We also see CPM / group accounting vendors – including specialized disclosure management solutions – addressing the ESG market very actively and professionally. As the disclosure process is already covered with these solutions in most user companies, ESG is a natural extension of that. In addition, those companies have a very good and trusted relationship with the office of the CFO as the typical buying center for ESG reporting.

Comparing leading companies to laggards, there is a clear picture within those companies that have already implemented at least the first phase of ESG reporting: The companies that believe they are much better or slightly better at implementing ESG reporting prefer specialized solutions, while laggards can be found mainly in the two other groups.

Leading companies prefer specialized solutions.

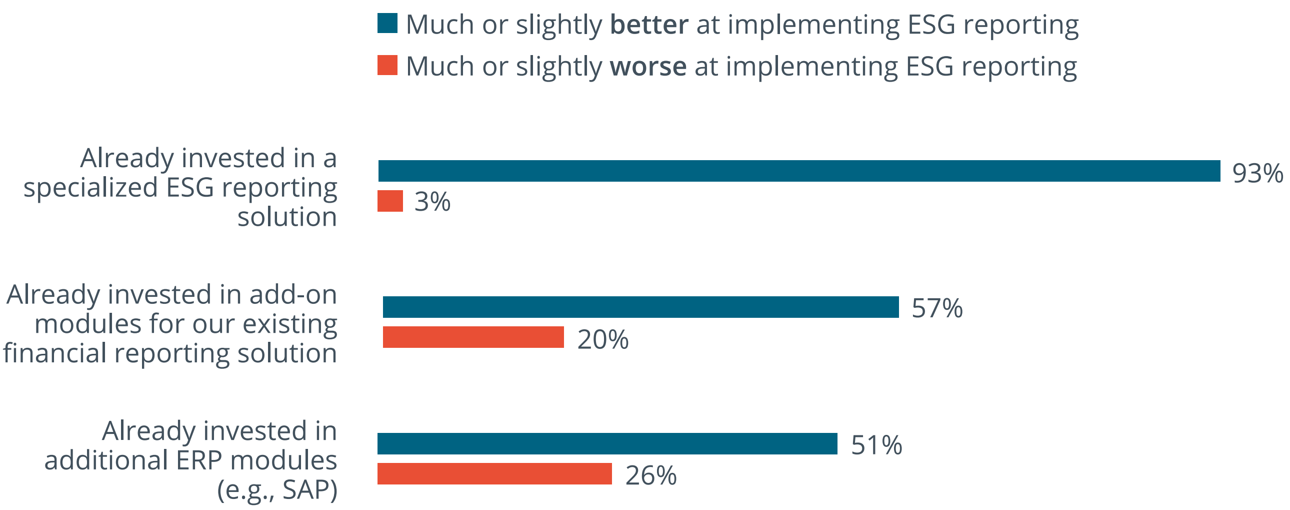

Figure 31: Have you invested (or do you plan to invest) in any of the following software solutions for ESG reporting? Selected solutions by leaders vs laggards (n=253; n=248 and n=237)

This could reflect the fact that those companies where ESG reporting is considered highly important and that have invested early in the people and technology typically have more complex ESG data structures and therefore predominantly choose specialized solutions with their more sophisticated data models.

Comparing the last mile of ESG reporting, the publishing of the reports, there are some differences between Europe and North America, the two main regions covered in our study.

It is interesting to see that in North America, companies are much more likely to try to add ESG reporting to their existing ERP solution, while specialized ESG solutions are much preferred in Europe, as is Word/Excel (see figure 32).

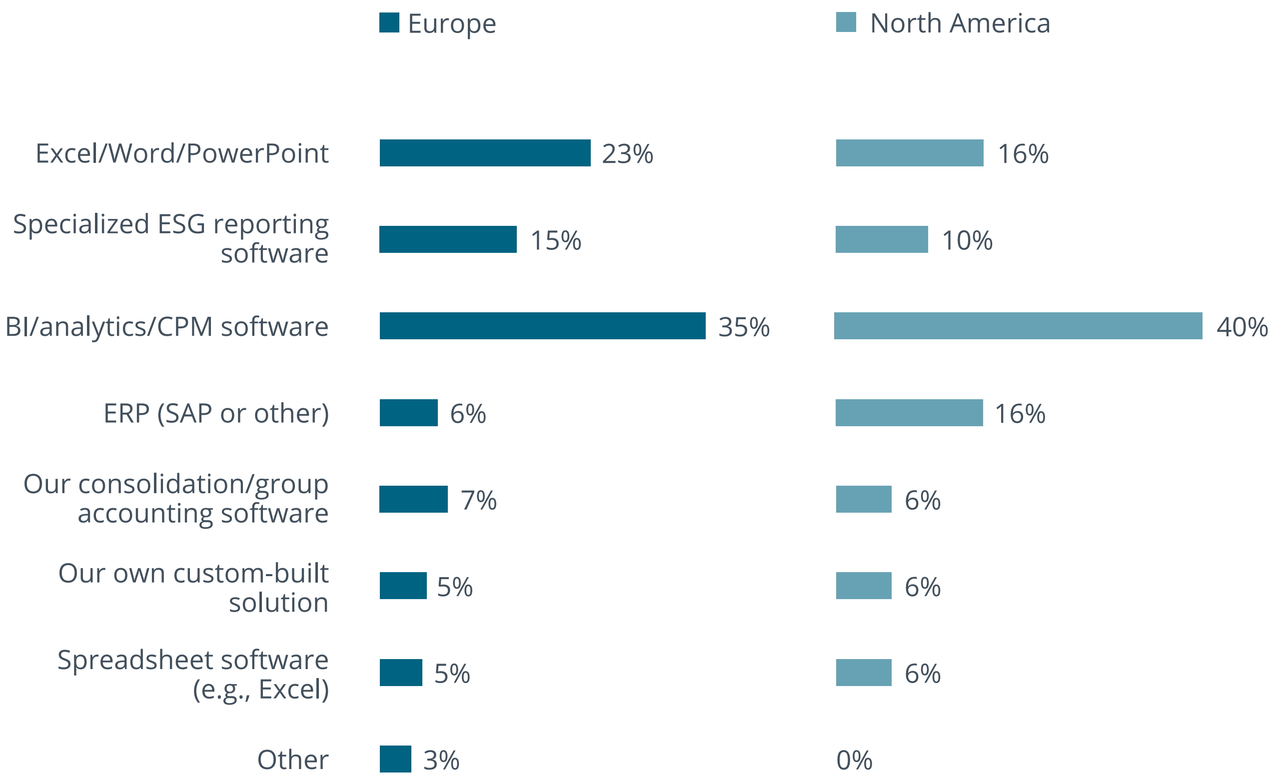

Figure 32: What are you using/planning to use as the main tool for publishing ESG reports? by region (n=248)

We interpret the higher share of Excel/Word/PowerPoint usage in Europe as a cultural difference: European reporting culture is driven more by customization and individuality, while standards are more popular in North America. One could argue that Excel/Word/PowerPoint is also the natural choice of small companies, but this is not true as the breakdown by company size shows:

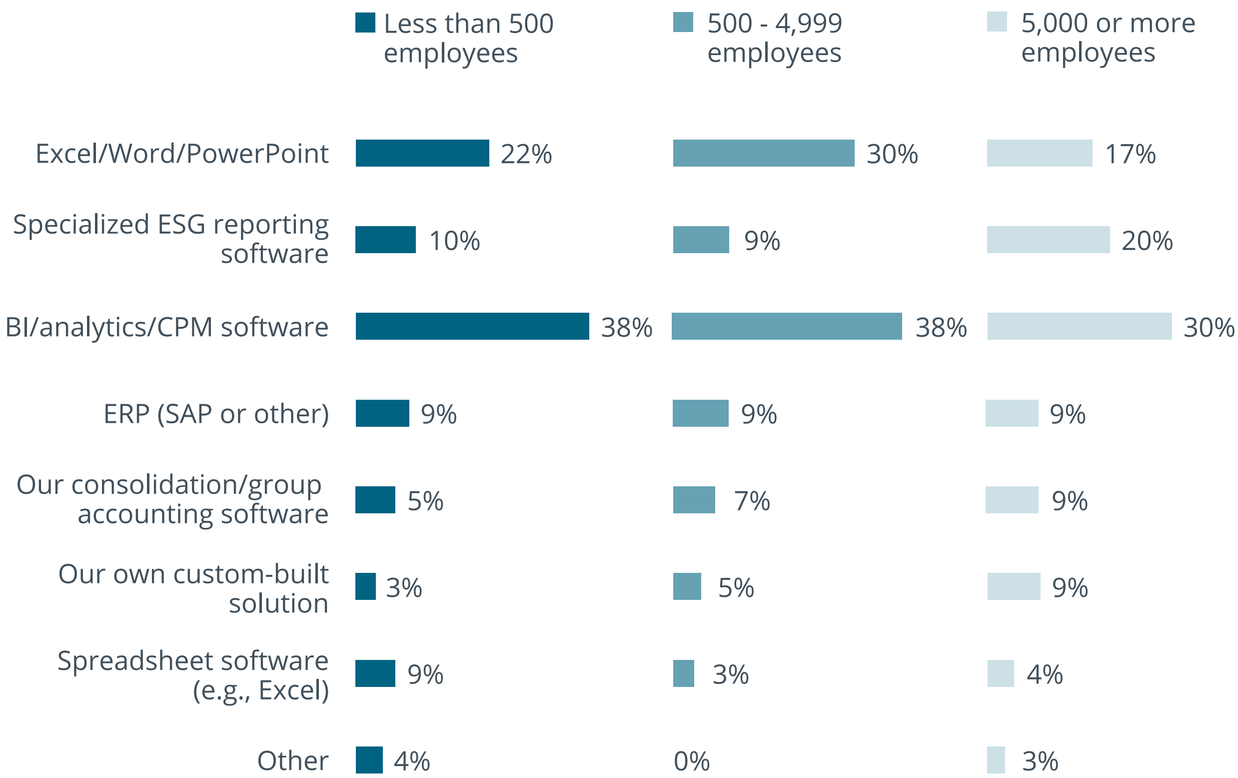

Figure 33: What are you using/planning to use as the main tool for publishing ESG reports? by company size (n=250)

Excel usage is highest in midsize companies. Generally the differences are small, but with one exception: Specialized ESG reporting solutions are preferred mainly by big companies with more than 5,000 employees, which makes sense as the complexity of ESG data models is greater in larger organizations.

Excel usage is highest in midsize companies. Specialized ESG reporting solutions are preferred mainly by large companies.

In terms of the people responsible for ESG reporting, there are two big differences in choices of technology. Not surprisingly, the idea of using the ERP system for ESG is popular in the office of the CFO, while specialized departments tend to select specialized solutions more often.

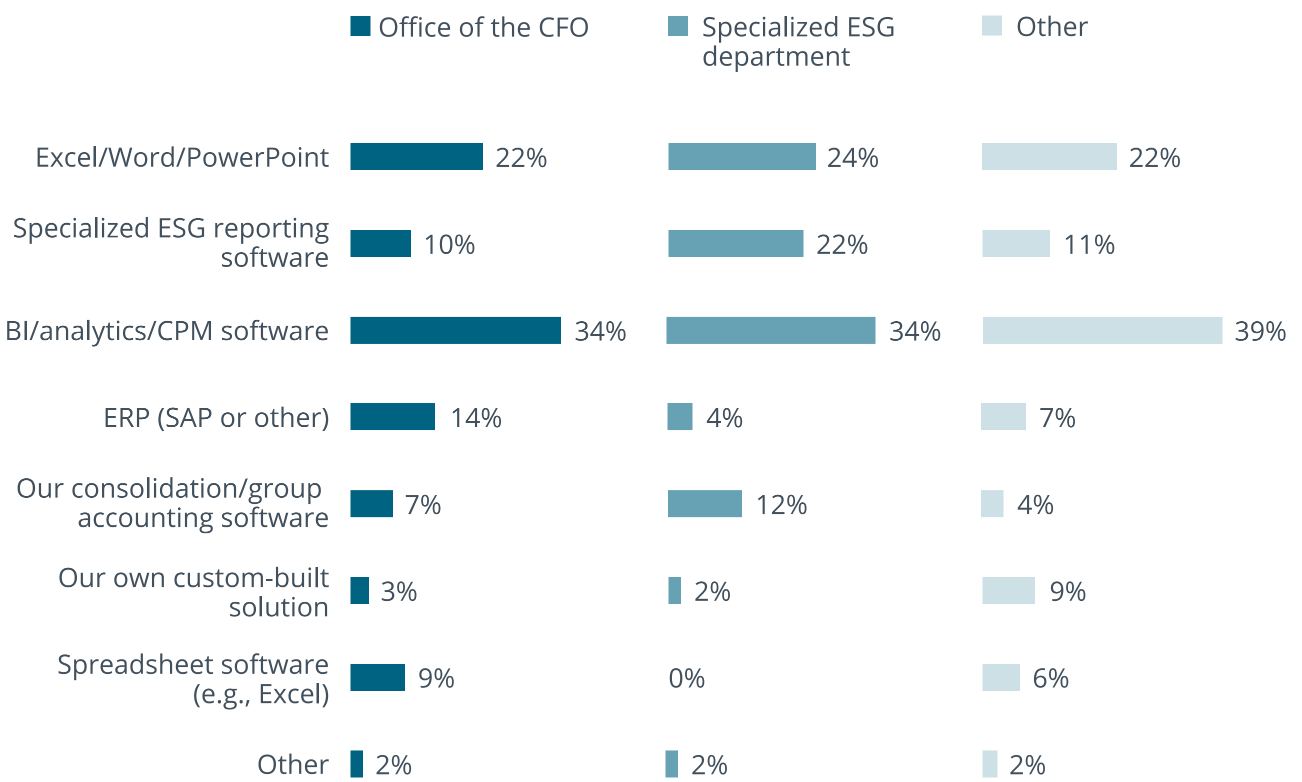

Figure 34: What are you using/planning to use as the main tool for publishing ESG reports? by " Who is driving ESG reporting in your company?" (n=234)

Data collection for ESG projects

We divided the process of producing ESG reporting into two major steps in our survey: Data collection and the publishing of reports.

Data collection includes the modeling of a data model for ESG as well as the collection of data from various source systems while publishing includes the workflows for bringing the data together in a formatted document, quality assurance and the production of the reports. The calculation of KPIs is included in both steps. As an example, the calculation of more complex KPIs (e.g., carbon accounting) is typically done in the first step, whereas simple calculation (e.g., percentage of management by gender) is typically done in the publishing step.

The ESG data collection process appears to be the most time-consuming and also has the most potential for improvement in the overall ESG process.

We pay particular attention to the ESG data collection process, as this sub-process appears to be the most time-consuming and is also seen as having by far the highest potential for improvement in the overall ESG process by the participants in the study.

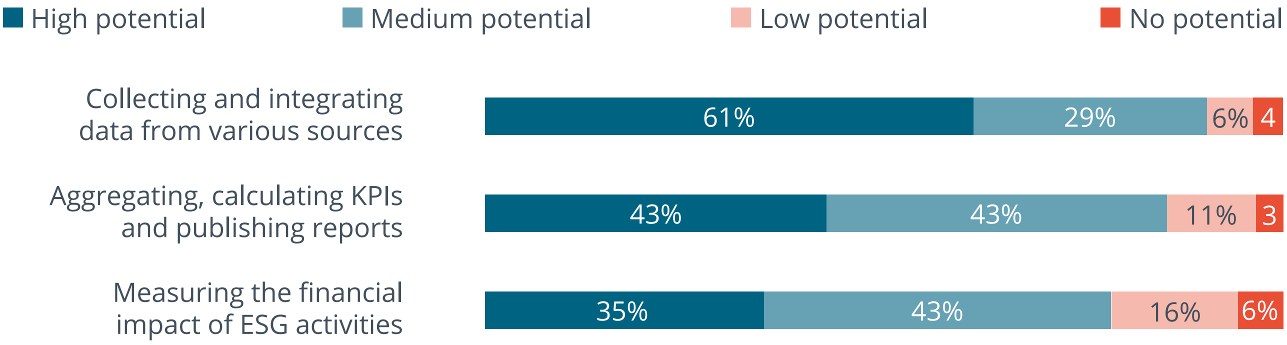

Figure 35: How much potential for improvement do you see in the following steps? (n=267)

Due to the complex nature of ESG reporting structures, there is no one-size-fits-all instrument for data collection. Various data sources have to be combined, some of them with very small data volumes and simple structures. Therefore, it is no surprise that Excel plays a major role in the data collection process. The breakdown by company size shows once again that this is not an issue exclusive to small companies – Excel is used mainly or frequently in more than 80 percent of companies of all sizes. For the majority of the very small companies surveyed, it is the main tool of choice, whereas more than half of large companies use it at least frequently.

Figure 36: How often do you use the following technologies in the data collection process? Usage of "Excel sheets" by company size (n=259)

Given the error prone process of collecting data with Excel, it is to be hoped that this is only used for the simple parts of the process described – although our experience suggests otherwise. In the survey, 84 percent of participants claimed they use Excel "mainly" or "frequently". This indicates huge potential for further automation in the fine-tuning of the ESG data collection process.

Excel is most often used for data collection, especially by small companies.

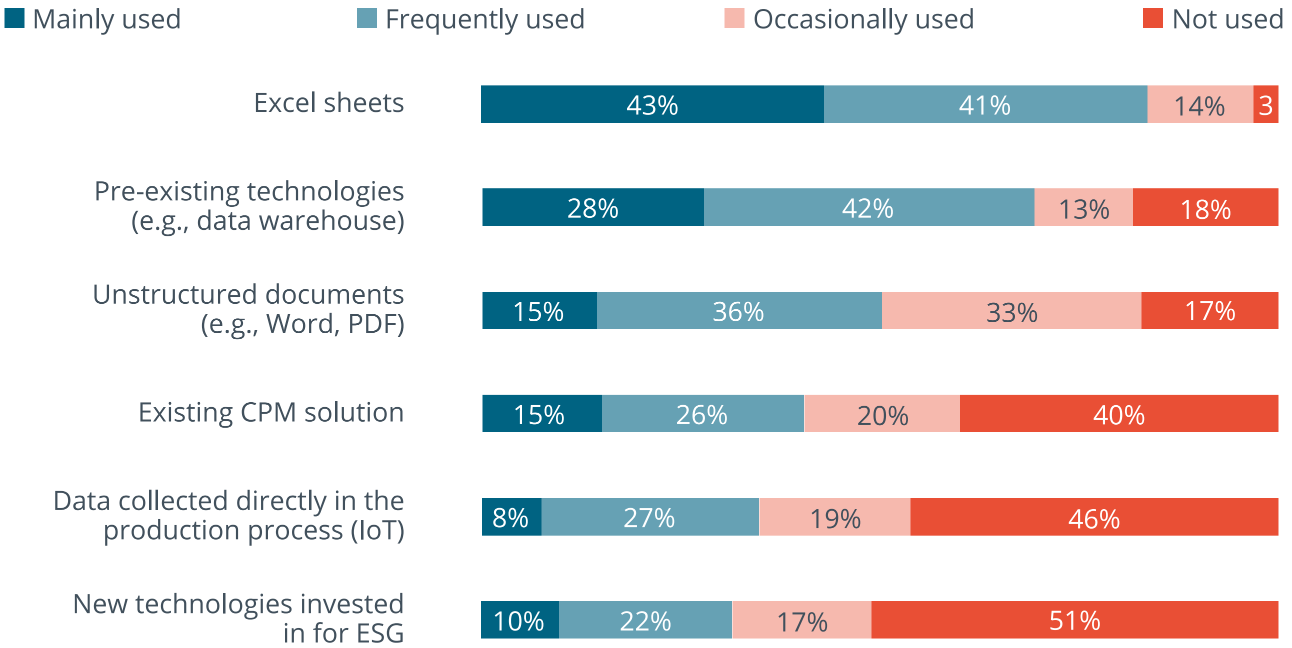

Figure 37: How often do you use the following technologies in the data collection process? (n=259)

The breakdown into leading companies and laggards shows that investing in new, specialized ESG modules clearly pays off. There is a strong correlation between the perceived quality of ESG reporting projects and the buying behavior for specialized ESG software.

Leaders often use new technologies for ESG data collection.

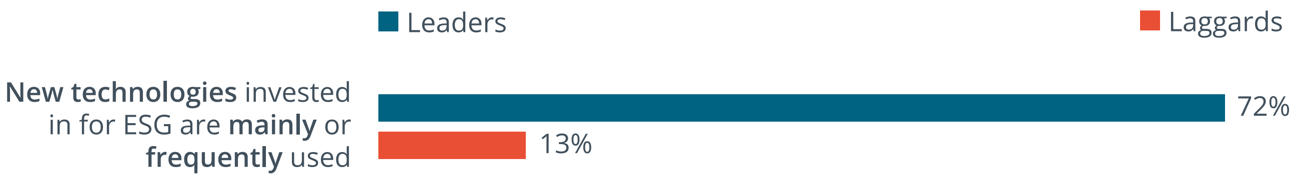

Figure 38: How often do you use the following technologies in the data collection process? Usage of "New technologies invested in for ESG" by leaders vs laggards (n= 236)

Our assumption is that many of the new technologies for ESG reporting are used in the area of automation, which is one of the major challenges in this topic. "Bad software support" and "too many data sources" are both in the top 4 list of challenges faced by the participants in our survey. This shows that the automation of data collection seems to be one of the biggest challenges that often cannot be handled properly within the existing software infrastructure.

ESG brings additional requirements that in most cases cannot be covered by existing technology.

Methodology and Demographics

This worldwide online study was conducted from November 2022 to January 2023. It was promoted within the BARC panel, via websites and to newsletter distribution lists. A total of 283 people took part, representing a variety of different roles, industries and sizes.

Due to rounding, totals may not add up precisely. The selection of the answer option "Don't know" is not taken into account in the sample size stated below each chart and is also hidden in the charts.

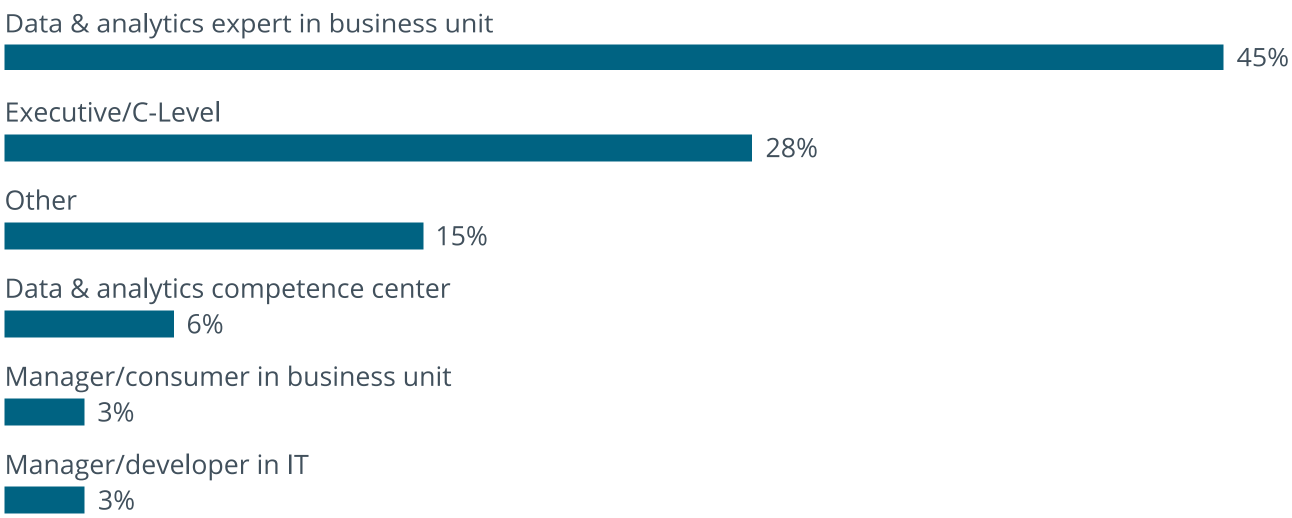

Figure 39: What is your role in the company? (n=272)

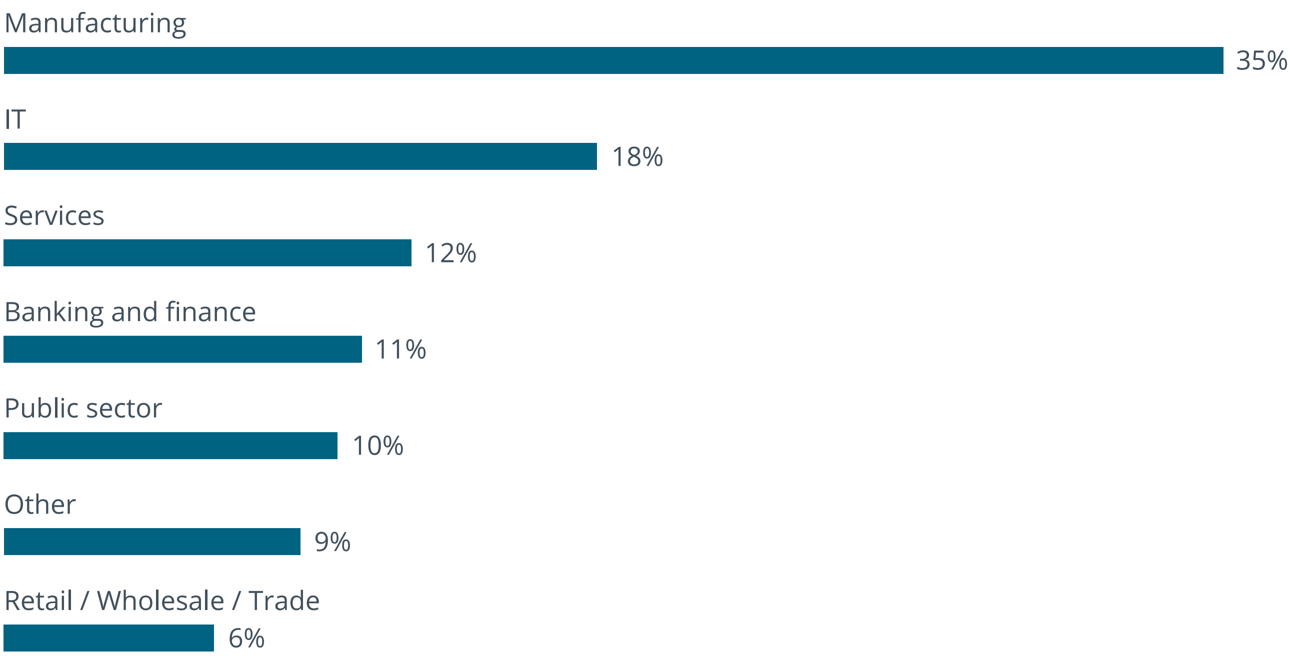

Figure 40: Which of the following best describes your organization's industry sector? (n=272)

Figure 41: How many employees does your company have? (n=272)

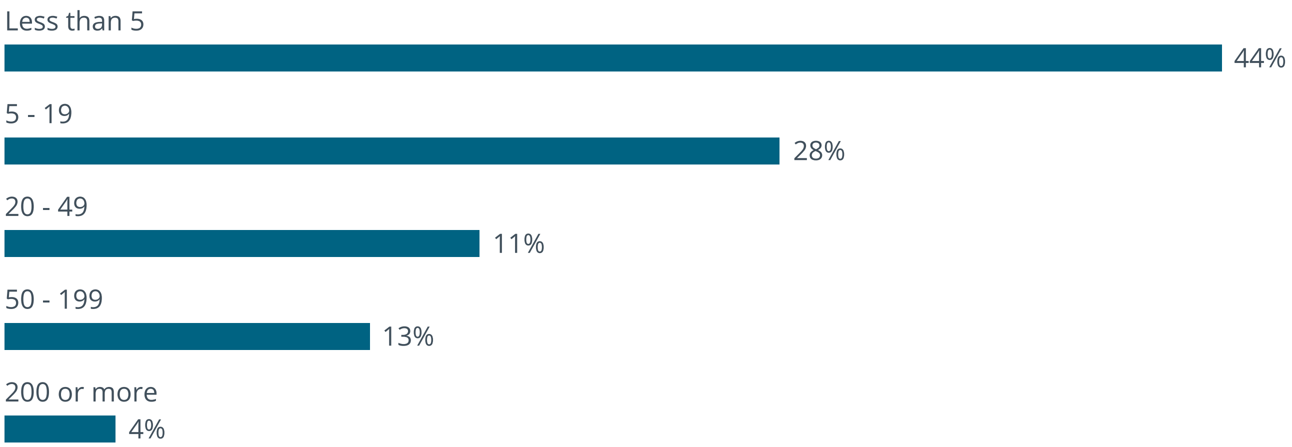

Figure 42: How many subsidiaries are part of your group reporting? (n=250)

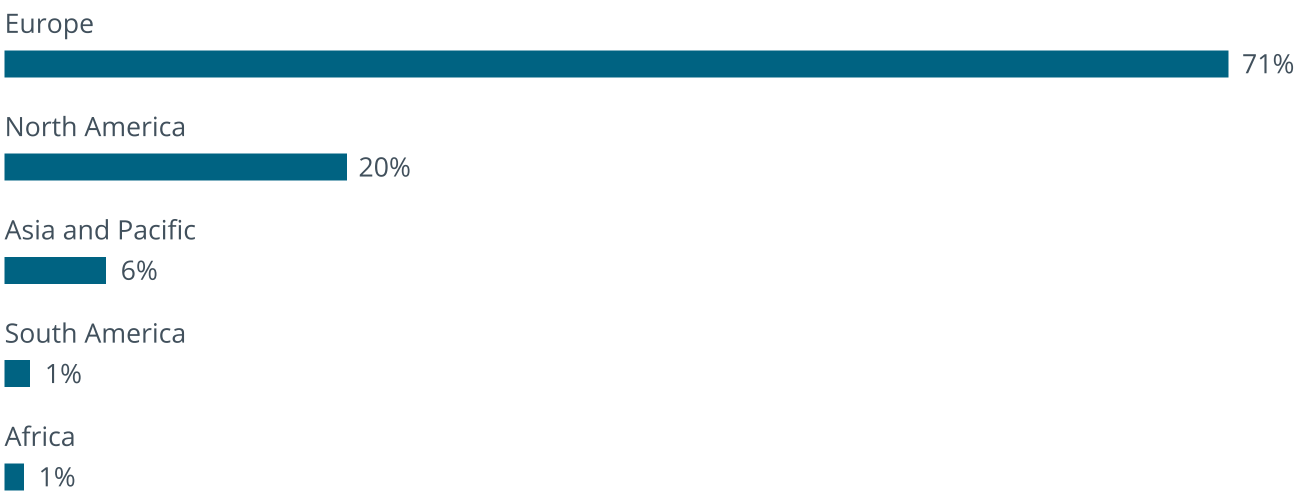

Figure 43: In which region are you located? (n=270)

Leaders vs Laggards

We have divided the sample into "leading companies" and "laggard companies" in order to analyze differences in dealing with market dynamics. This differentiation was based on the question "How would you rate your company´s implementation of ESG reporting compared to similar companies?". Companies that stated that they were much better at implementing of ESG reporting than their competitors are referred to as "leaders" (17 percent), while those that stated that they were somewhat or much worse than their competitors are classified as "laggards" (21 percent).

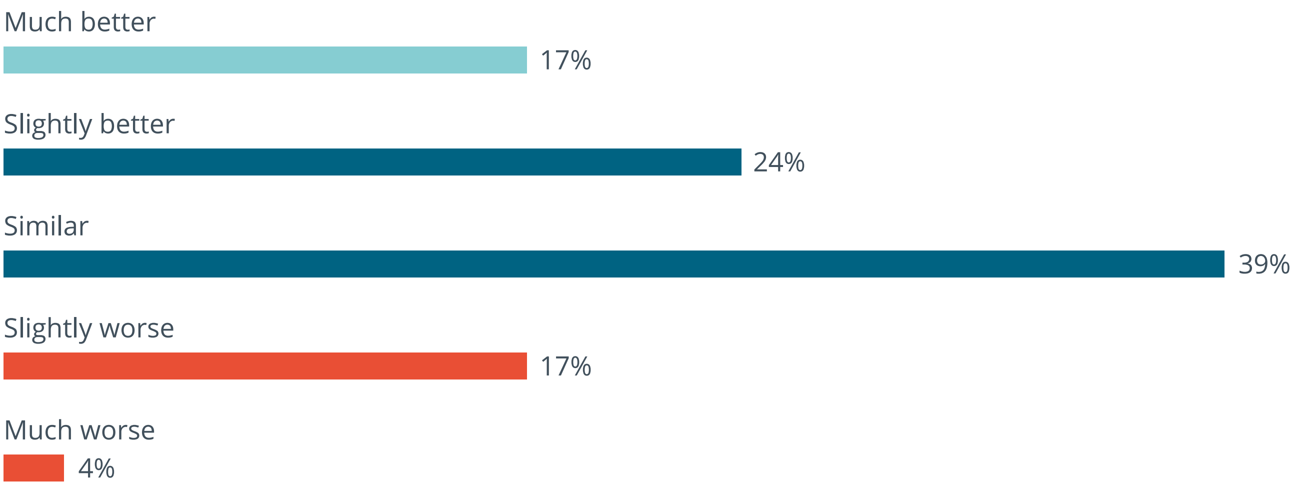

Figure 44: How would you rate your company´s implementation of ESG reporting compared to similar companies? (n=233)

BARC

Data Decisions. Built on BARC.

BARC is one of Europe's leading analyst firms for business software, focusing on the areas of data, business intelligence (BI) and analytics. The company was founded in 1999 as a spin-off of the chair of Business Administration and Information Systems at the University of Würzburg, Germany. Today, BARC combines empirical and theoretical research, technical expertise and practical experience, and a constant exchange with all market participants to provide market-leading research publications, events and advisory.

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Stefan Sexl has more than 30 years experience in the field of Business Intelligence and CPM and was managing director and co-founder of several leading vendors and consultancies including MIS AG, Darmstadt and pmOne AG, Munich. He has an in-depth understanding and knowledge of the central European markets for data and analytics. As a fellow at BARC, he now specializes in reporting, CPM and Data & Analytics ecosystems.

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