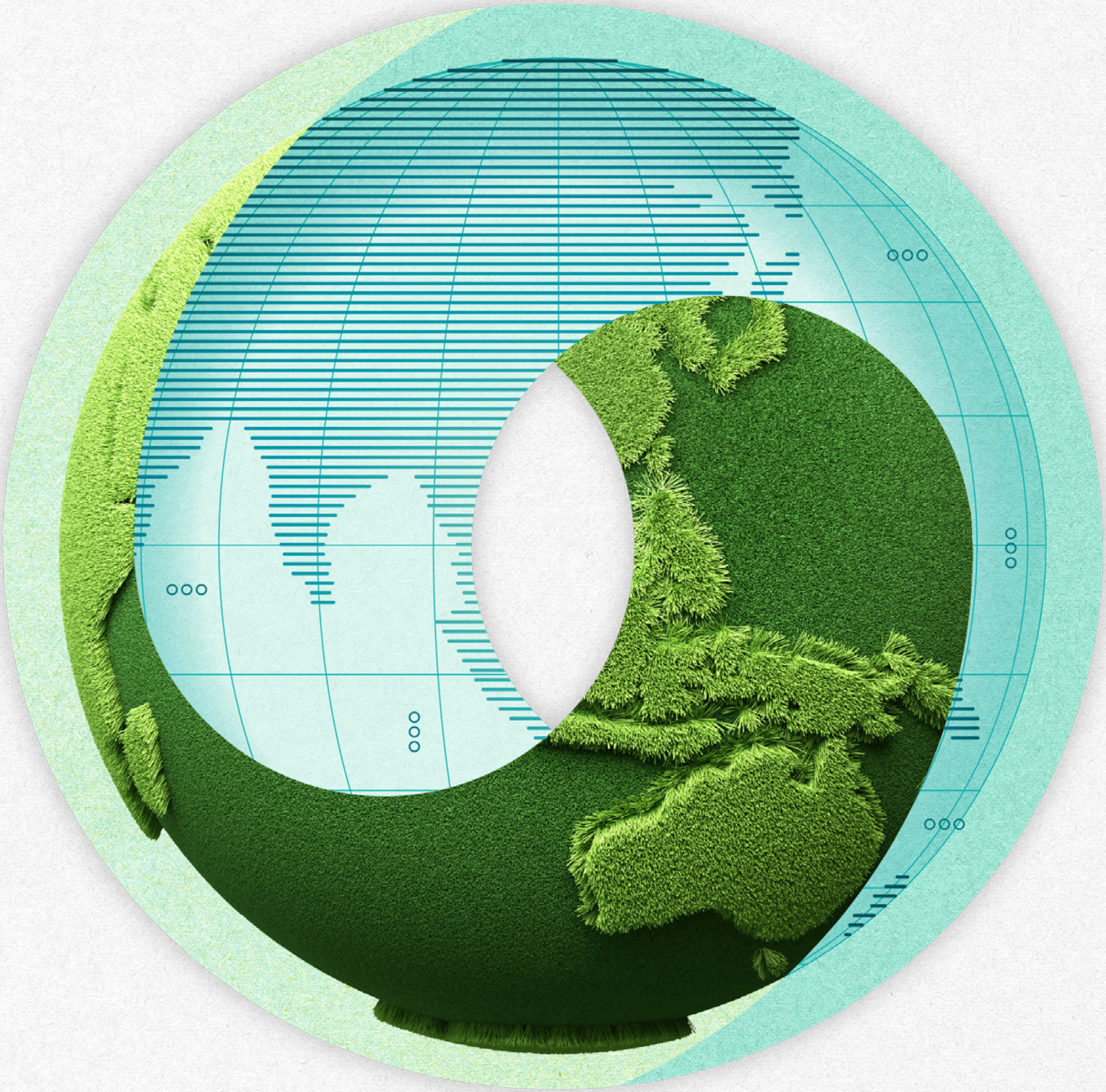

How CFOs drive impact and realise value

Sustainability Reporting Impact and Value Creation

Asia Pacific Mandatory Sustainability Reporting Series: Paper 3

As boards and leadership teams focus on sustainability, there is a significant opportunity to create positive impacts – such as competitive advantage, differentiation, and increased stakeholder value – by applying the right lens.

With the introduction of mandatory sustainability disclosures, the visibility of sustainability performance is increasing. CFOs can play a key role in supporting sustainability ambition, by not only meeting reporting disclosure requirements but also realising additional organisational benefits.

This instalment in our series on assurance-ready sustainability reporting examines moving beyond compliance to create business value, critically looking to answer the question of how CFOs can harness robust sustainability data and insight to drive better business decisions.

What needs to be done?

Across Asia Pacific, governments and regulators are adopting global sustainability reporting standards. For impacted organisations, these set a new standard for sustainability reporting and transparency across financial and non-financial assessments.

Many organisations are lifting their sustainability ambitions and investment. Currently, 45% of organisations in Deloitte's global CxO sustainability report identify sustainability as a key driver of their overall strategy, and 85% report increasing investment[i]. Yet only 35% view sustainability reporting as a driver of strategic goals, with 53% seeing it primarily as a compliance exercise[ii].

Building a robust sustainability reporting capability is no small feat, but CFOs can improve sustainability data and insight and use this as the bridge for leaders to unlock value from their compliance efforts. As with many previous transformations, such as digitising paper-based systems or cloud adoption, what may at first appear primarily as compliance and cost-driven can go on to create substantial value (Figure 1).

Figure 1. Going beyond compliance to value creation

Regulatory compliance

- Sustainability reporting requirements will increase in scope
- Reporting is more than disclosing impact, it needs to cover risk mitigations, opportunity realisation, financial impacts and strategy.

Short-term imperative

ESG data and insights

- Automated and repeatable reporting processes
- High quality data with a single source of truth
- Organisation-wide data ownership and data fluency
- Sustainability data is used across the organisation with a high degree of self-service.

The bridge to unlocking value

Value creation

- Sustainability can be an organisational value driver and a clarifying component of strategic and operational decision-making
- Verifiable sustainability data can help create value for shareholders, employees, customers and the environment.

Long-term motivation

i. Deloitte, CxO Sustainability Survey, 2024
ii. Deloitte, ESG Reporting Benchmark, 2024

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Where to look for value?

There is a wide range of sustainability ambition, and very different levels of maturity for organisations across the region. Wherever your organisation is, from starting the journey or leading a sustainability transformation, there are clear pathways to value (Figure 2).

An important question for the CFO is at what stage of the compliance project should they start to plan for value creation? The practical approaches for each organisation will differ according to their business and maturity, however, at each stage of the compliance project a connection should be made to the value that can be delivered.

Figure 2. Connecting sustainability reporting to value creation

		Drive positive outcomes	Mitigate downside risk
Shareholder value	Revenue growth	• Acquire new customers through new products/services and addressing new needs • Attract premium pricing within category • Defend position as customers rely on suppliers to improve their ESG performance • Identify and implement the monetisation of outputs of sustainable practices e.g. ESG data, renewable energy, recycled raw materials.	• Regulatory fines and litigation • Reputational impacts.
	Operating margins and asset efficiency	• Reduce waste and cost by increasing material, water, and energy efficiency.	• Excessive input costs.
	Cost of and access to capital	• Increased appetite for sustainable investment and debt finance • Increased business resilience.	• High cost of capital • Negative ESG ratings.
Employee value	Employee returns	• Top talent attraction • Improved engagement and retention through alignment with employee values • Clarity on future skill and capability needs informed by changing conditions.	• Talent turnover and hiring costs • Poor health and safety • Impaired productivity.
Customer and public value	Customer and societal returns	• Improve competitive position through developing social programs and understanding of local communities • Improve impact of business on customers and communities driving loyalty and profile • Enhance brand value and reporting through transparency on impact and performance.	• Lack of social licence to operate • Economic and infrastructure erosion • Greenwashing accusation and complaint.
Environmental value	Environmental returns	• Clarify physical risk profiles and clear mitigation plans • Ongoing access to critical resources.	• GHG Emissions • Resource depletion • Physical risk to assets.

Shareholder value

- **Building an effective reporting model:** The requirements for sustainability reporting are complex and will continue to grow. Building the core reporting capabilities can reduce long-term complexity and cost. Reaching the finish line on time and meeting the right standards not only mitigates the risk of regulatory sanctions but also enhances your organisation's reputation, attracting stakeholders and reinforcing trust.
- **Long-term value creation:** Value creation opportunities will vary from organisation to organisation. These could range from identifying emerging consumer trends to addressing potential stranded or exposed product-lines and assets. Thirty-five per cent of organisations are already seeing increased revenue from sustainability initiatives, and another 35% reporting business innovation[iii].
- **Cost efficiency:** Increasing the focus on sustainability impacts, asset utilisation and supply-chain offers opportunities to drive efficiency. Many organisations are already beginning to reap rewards from energy efficiency, waste management efforts and increased collaboration in supply chains, and 36% expect to realise cost-savings from sustainability efforts over the next five years[iv].
- **Better access to investment and funding:** Investor scrutiny of sustainability risks and performance is becoming an important focus for capital and debt markets. ESG-screened investments grew to $30.3 trillion in 2022, approximately 25% of global assets under management[v]. Approaches like ESG screening and the Principles for Responsible Investment have the potential to become stronger with increasing disclosure.

Employee value

- **Employee engagement:** There is strong workforce engagement around sustainability, with employees in organisations with a 'people and planet' focus twice as likely to be engaged[vi]. Sustainability reporting can engage more employees and make tangible efforts more visible.
- **Capability and growth:** Investment in capability development to meet sustainability challenges is an important part of the reporting roadmap. This can arm employees with the skills they need for future challenges, position the organisation as a leader, and serve as a magnet for talent.

Customer and public value

- **Enhancing brand value and reputation:** Supporting sustainability claims with verifiable data and performance is increasingly important as disclosures become visible across organisations. Those that go further can reap benefits from public and customer perception, with 36% of organisations aiming to impact customer satisfaction with sustainability initiatives[vii].
- **Positive social and environmental impact:** As more organisations adopt a holistic approach to financial and non-financial impacts, the value of positive social and environmental impact is being recognised. More initiatives are targeting wellbeing and resilience of communities for their own value, as well as the opportunities for down-stream financial and reputational benefits.

iii. Deloitte, CxO Sustainability Survey, 2024

iv. Deloitte, CxO Sustainability Survey, 2024

v. Global Sustainable Investment Alliance (GSIA), Global Sustainable Investment Review, 2022 https://www.gsi-alliance.org/wp-content/uploads/2023/12/GSIA-Report-2022.pdf

vi. Deloitte, CxO Sustainability report, 2023; Engaged employees are asking their leaders to take climate action, 2024

vii. Deloitte, CxO Sustainability Survey, 2024

Environmental value

- **Stronger business resilience:** Clarifying sustainability impacts and emerging risks will help build business resilience over time. A clear example for many organisations is to ensure that climate scenario planning is linked to business continuity and resilience as well as strategy development. Thirty-six per cent of organisations are reporting increased business resilience because of sustainability efforts today[viii].
- **Improved risk management:** Sustainability reporting offers an opportunity to enhance existing risk management practices with a focus on a wider range of risks and impacts across the organisation's footprint. Scenario planning and stress-testing will play an important role in addressing uncertainties and adaptation plans.
- **Reducing footprint impact:** By increasing the focus on resource use, emissions and waste, organisations can take more action through enhanced monitoring and measurement. The key is to increase the visibility of data inside the organisation and across supply chains and integrate these insights into the decision-making and operating functions of the organisation.

viii. Deloitte, CxO Sustainability Survey, 2024

How to get there?

Across this series, we have identified the need for organisations to focus on getting to the finish line with assurance-ready sustainability reporting. The near-term benefits are clear: building an effective reporting function and third-party assurance will help mitigate financial and legal risks. Beyond compliance, the reporting efforts can help make an organisation's sustainability performance more robust and verifiable.

Across the region, there is increasing visibility and scrutiny of sustainability efforts – and increasing ambition and investment into sustainability strategies. Reporting can help make these efforts measurable and more tangible.

By adopting a more holistic approach to both financial and non-financial impacts, organisations can make better decisions to create value. However, the opportunity cost of not fully utilising this approach is significant; failing to do so could mean missing out on enhanced decision-making, competitive advantage, and long-term value creation.

Compliance is not optional, but clear leadership can unlock strategic value from sustainability reporting. While many companies face similar challenges, those with the right mindset can turn these into opportunities. That is where CFOs can truly lead.

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Methodology

Deloitte ESG benchmark

Deloitte ESG benchmark is based on surveys of 19 clients around the world. The survey focused on experiences, efforts and challenges around ESG reporting to key market trends. This was complemented by interviews with 14 Deloitte project teams to qualitatively understand challenges firms are facing around ESG reporting.

The benchmark is focused on six ESG reporting themes and four priority areas that firms are facing challenges in.

Deloitte 2024 CxO Sustainability Report

The report is based on a survey of 2,103 C-level executives, conducted by KS&R Inc. on behalf of Deloitte, and was administered in a double-blind manner during May and June 2024, ensuring impartiality and confidentiality for both respondents and researchers. The survey polled respondents from 27 countries: 46% from Europe/Middle East/South Africa, 17% from North America, 9% from Latin America, and 28% from Asia-Pacific. All major industry sectors were represented in our sample. Additionally, KS&R and Deloitte conducted select, one-on-one interviews with global industry leaders.

Limitations

While every effort was made to ensure the reliability and validity of the data, it is important to acknowledge some limitations. The selection of clients and executives, while rigorous, may not fully capture the diversity of perspectives within every industry or region. Additionally, while the double-blind process was meticulously followed, there may still be inherent biases that could influence the findings. These limitations are considered in our analysis and interpretation of the data.