

The CFO's building blocks for success

Sustainability Reporting Operating Model

Asia Pacific Mandatory Sustainability
Reporting Series: Paper 2

The bar for sustainability action is set high and expectations are steadily rising. As sustainability disclosure regimes roll out across Asia Pacific, organisations must back up their ambitions with robust data and transparent reporting.

In our first paper, *What CFOs need to know today*, we explored the critical role CFOs play in crafting a clear sustainability reporting plan that not only meets compliance requirements but also drives value.

In this second instalment, we delve deeper into the essential areas where organisations must focus – across people, processes, and data – to evolve their reporting capability. By identifying key areas that need to mature and implementing targeted, pragmatic interventions, organisations can meet compliance deadlines while laying the groundwork for long-term sustainability success.

What needs to be done?

Mandatory sustainability reporting requirements are new and complex. They combine a high degree of visibility and obligation on the business with challenging requirements on a relatively new topic. And some organisations face expectations to go beyond the minimum. Unsurprisingly, few organisations report that they are ready to meet the increased standards, or are confident in their underlying capabilities and processes.

Whether you are starting out or have reporting functions in place, organisations recognise the need to embed and mature their approach. Where your organisation is starting from can determine the next critical steps (Figure 1).

Figure 1. Different starting points need different action plans

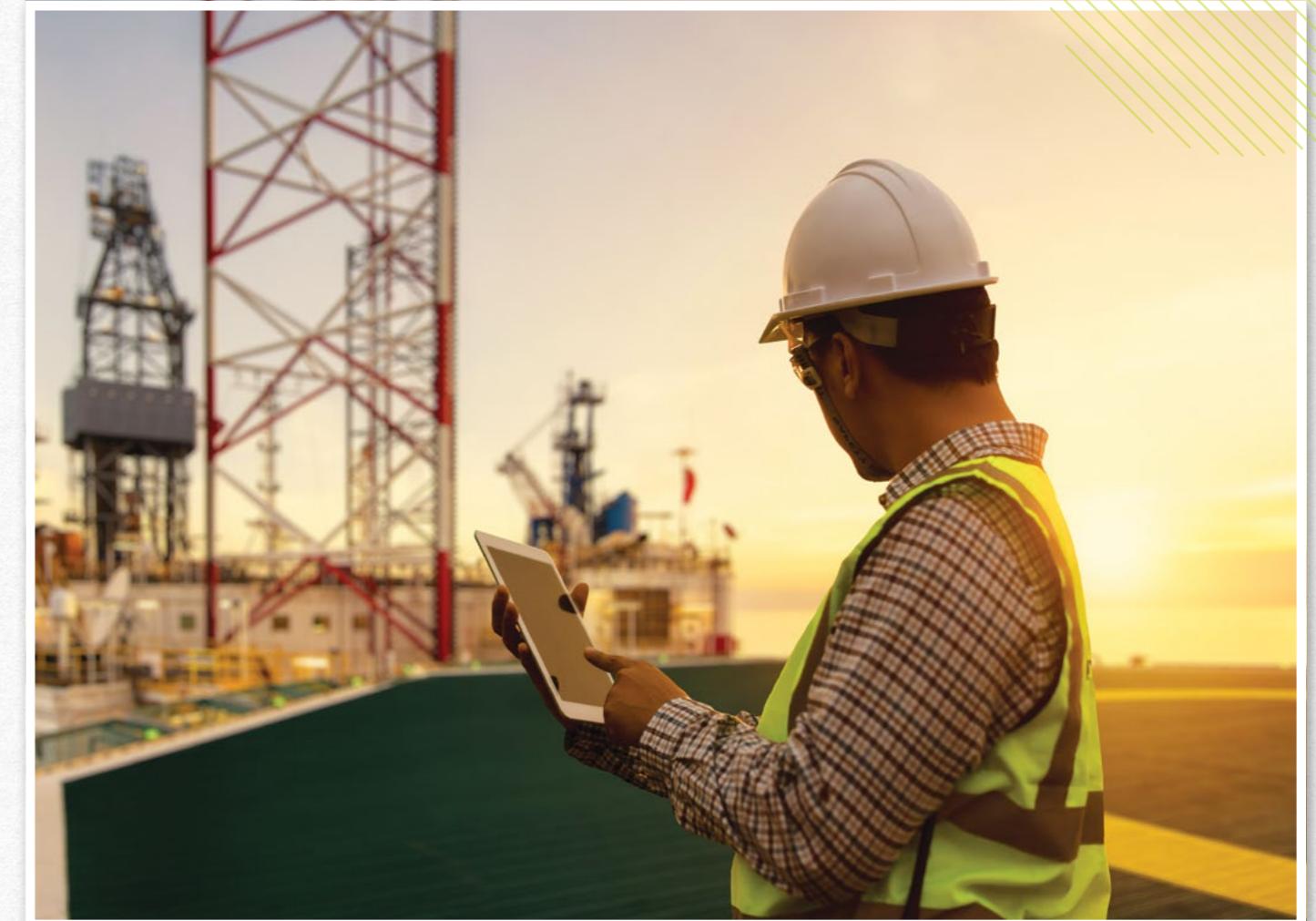
Readiness	Data management	Reporting	Performance management
"I need to understand how sustainability reporting requirements apply to my organisation and how prepared we are to comply. And, I need to understand if we have the capability and subject matter expertise (SME) to do that."	"I need to ensure we have the people, processes and technology to manage our ESG data to produce robust information and comply with reporting requirements."	"I need to publish substantially more ESG disclosures for regulators, ESG raters and annual reports, but lack capabilities to gain economies of scale."	"I need to improve ESG performance in the eyes of investors and ESG raters/rankers, but lack the necessary people, processes and technology to do so."
Priority steps to address at each stage			
Assess reporting requirements	Internal controls	Prepare regulatory findings	Diagnose performance challenges
Compliance action plan	Automate data collection	More efficient report writing	Optimise performance
Clarify ESG strategy	Automate calculations	Better stakeholder management	Scale ESG business planning
Assess resource and capability requirements	Scale resource and capability development		

Immediate uplift required

Sustainability and climate disclosure standards offer a clear end objective: robust information about significant sustainability and climate-related risks and opportunities and their financial and non-financial impacts, including:

- The governance processes, controls and procedures to monitor and manage sustainability risks and opportunities.
- The approach to addressing sustainability-related risks and opportunities that impact business model and strategy.
- The metrics and targets that are used to assess, manage and monitor sustainability risks and opportunities.

For many organisations, achieving compliance should not be under-estimated. Deloitte's worldwide ESG reporting benchmark showed organisations identifying capability gaps across people, process and data. And many leaders are not clear where to begin in the face of complex requirements and competing priorities. Yet at each stage of maturity, CFOs need to provide a clear path to meet reporting obligations.



What does my organisation need to address?

Different organisations' approaches to sustainability reporting show a common set of capabilities is needed to build an effective model: leadership (see the first paper in this series); operating model; governance; and data. At each phase of maturity there are clear steps to build towards reporting readiness (Figure 2). As organisations

start out assessing their reporting readiness, they need to understand the requirements and capabilities for effective and repeatable reporting. As they progress in the compliance project, consideration needs to be given to the business value being delivered through the reporting model and insights.

Figure 2. Building a mature model for sustainability reporting

Leadership & ambition	Readiness	Realise	Perform
 Leadership & ambition	How ready is your business to achieve reporting compliance?	Do you have the right building blocks for your reporting operating model?	Are you set up to drive business value from sustainability reporting?
 Operating model	<ul style="list-style-type: none"> • Increase leadership visibility on sustainability reporting requirements • Establish vision for upcoming reporting requirements • Define reporting strategy across mandatory, voluntary and international considerations • Assess and validate reporting requirements. 	<ul style="list-style-type: none"> • Define clear accountability and responsibility • Validate historic sustainability goals and commitments • Align on roadmap and ambition with the board and relevant stakeholders. 	<ul style="list-style-type: none"> • Generate insights beyond compliance • Embed sustainability into wider strategy, planning and risk processes • Tie sustainability performance to remuneration.
 Governance & controls	<ul style="list-style-type: none"> • Understand sustainability reporting considerations and impacts across functions • Assess and plan for resource, skill and capability needs. 	<ul style="list-style-type: none"> • Address skill and capability gaps through internal transfer, training and external support • Define model – centre of excellence or hub and spoke • Clarify roles and responsibilities defined in job descriptions and KPIs. 	<ul style="list-style-type: none"> • Embed operating model to support expanded reporting requirements and resource needs • Understand ongoing resource and skill requirements for expanded reporting scope.
 Data	<ul style="list-style-type: none"> • Assess current process, controls and governance to identify key gaps • Set up sustainability reporting project structure and governance • Perform disclosure gap analysis. 	<ul style="list-style-type: none"> • Develop a fit-for-purpose controls environment • Define governance structure and accountabilities including change governance • Design reporting and integrate ESG information into financial statements • Test assurance readiness and obtain assurance. 	<ul style="list-style-type: none"> • Integrate sustainability into overall governance structures • Include sustainability accountability and responsibility across business functions.
	<ul style="list-style-type: none"> • Assess data and availability and access • Identify common reporting data requirements and standards • Assess data sources, systems and tools in use. 	<ul style="list-style-type: none"> • Develop data acquisition plan to close gaps • Align data management to ownership and control structures • Consolidate data to centralised systems for wider reporting • Implement reporting solution. 	<ul style="list-style-type: none"> • Address skill gaps in data analysis and management • Implement technology solutions that support sustainability reporting and performance • Lean into external data gaps with industry peers or subject matter experts.

Operating model: Securing people resources and capability

Building the people, capability and skills to deliver reporting is critical. Today, 60% of organisations can't forecast the number of people needed to meet their emerging sustainability reporting workload, and more than half of those that do, expect to double resources.ⁱ

Securing resources:

- Understanding the workload requirement and securing resources to build and operate reporting is the critical first step. Many organisations are embedding sustainability expertise into the business, but this needs to be balanced with a centralised expert hub and oversight for reporting. Others are developing centres of excellence in the sustainability or finance functions but need to increase the level of finance or sustainability skills, respectively. No matter which approach you choose, update job descriptions with clear responsibilities and KPIs to maintain clarity in expectations and line management.

Client Spotlight

Accelerating client capability development

A client in Asia Pacific was faced with capability challenges for their sustainability reporting effort. Their goal was to build a future-fit team ready for the regulatory landscape and able to deliver a comprehensive sustainability reporting framework across a global operation. To address the skills and capability needs, the client enlisted Deloitte's Sustainability Academy to develop learner-centric pathways for 2,500 employees. A special focus was adopted for legal entity controllers with specific accountabilities and learning needs. This approach helped the client to stay ahead of the curve in sustainability reporting, positively impacted employee retention, and position the brand as a leader for finance professionals. With over 200 pieces of content, and a customisable capability framework, Deloitte's Sustainability Academy can be quickly tailored to different organisations' needs.

Build capability:

- With limited appetite or availability to acquire talent, most businesses are looking to train and reallocate existing employees. With knowledge and skills gaps across sustainability, data and financial reporting processes, organisations need to develop capability development plans that cover both broad sustainability awareness and role-specific expertise. But with complex requirements, targeted external hires and expert support may be needed.

Governance and controls: Achieving a fit-for-purpose framework

With new regulatory expectations, it is not surprising that more than 50% of organisations report that they are not yet confident in the controls for their sustainability reportingⁱⁱ.

Process and control framework:

- Organisations need to align financial and non-financial reporting processes and controls to ensure sustainability information is relevant, accurate, and supports assurance standards. Know-how and process across strategy, risk and finance can bring existing best practices to the emerging reporting model. Some organisations are using known control frameworks like the Committee of Sponsoring Organisations (COSO) framework or leveraging Sarbanes-Oxley processes to shape their approach.
- Reporting teams can use sustainability, risk and finance teams as an SME hub to challenge and review practices, processes and controls. Where there are gaps in technical expertise consider external subject matter expert support to help build out the process.

Governance:

- Embedding sustainability reporting into business decision-making is a mandatory part of many standards. Many organisations can start with existing climate-related governance processes and extend these to broader sustainability considerations. And organisations need to review existing forums and policies across strategy, risk and operations to integrate sustainability into wider business decision-making. New approaches can be aligned to the organisation's maturity and refined over time.

i. Deloitte, ESG Reporting Benchmark, 2024

ii. Deloitte, ESG Reporting Benchmark, 2024

Data: Understanding data requirements and management

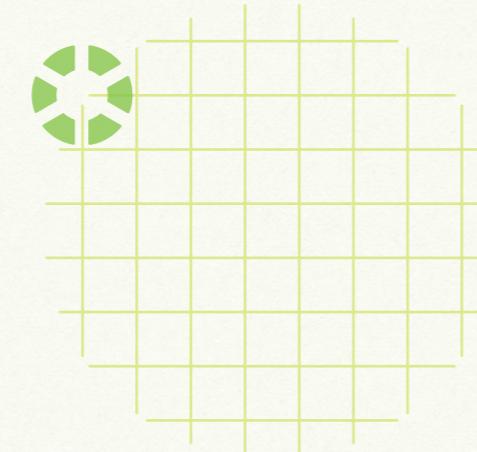
Given the complexity of sustainability reporting standards and the involvement of multiple regimes across their operations, many clients are navigating the details to fully understand the data and requirements needed for them to comply.

Availability, accessibility and assurance:

- More than 45% of organisations have identified data gaps impacting their reporting capabilityⁱⁱⁱ. However, even if the organisation holds the data it needs, this is often in multiple systems across geographies and with multiple standards. Data often lacks the quality and controls required to meet assurance standards. A first step is to establish where and how material data is stored and define common standards, then address the data ownership, controls and governance.

Leading the change

Sustainability reporting compliance can be complex depending on regimes, and it is better to walk before you run. Use existing data, processes and architecture, and build capability where you have gaps. A clear plan can help teams understand and implement changes. And don't forget, culture change can be as important as technical delivery to achieve compliance and organisational behaviour change.



CFOs need to take the lead on cutting through complexity to build an effective reporting model.

Achieving compliance will require organisations to make targeted investments in their people, process, and data management capabilities.

Our next instalment looks at how CFOs can build on reporting foundations to create business value beyond compliance.

- Companies can leverage external frameworks and tools to help them understand how to structure and report on different data and information. However, for organisations that are starting out, expert opinion on disclosure requirements and standards can help identify where they need to focus most. In the first paper in this series, we introduced Deloitte's SustainNext™ capability that combines Generative AI with expert review to help accelerate reporting assessments.

Technology readiness:

- Data acquisition, consolidation and automation will be key capabilities to efficiently manage sustainability data for reporting. Instead of investing in entirely new systems to meet sustainability needs, many organisations are opting to leverage their existing systems, making targeted investments to address capability gaps. While a variety of tools and platforms are emerging, there is still no universally recognised gold standard.

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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.