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Andrea Vogel: 'Understanding the environmental footprint is crucial for informed decision making'

The value of integrating sustainability into business strategy

What are the major challenges in sustainability reporting, and what could be solid solutions? How can CFOs leverage technology to enhance sustainability reporting and decision making? And how to demonstrate to investors that a company's focus extends beyond products to include sustainable impacts? Andrea Vogel, partner at Deloitte Consulting Netherlands and expert in Digital and Sustainable Finance, shares her views.

Andrea Vogel is a partner at Deloitte Consulting Netherlands. She advises CFOs and their finance communities to navigate and guide them through the current disruptive and challenging environment. Also, she supports them to transform the finance function and build on the future of sustainable finance. Andrea studied Financial Accounting at Nyenrode Business Universiteit. Before joining Deloitte, she worked as a partner at EY for many years, e.g., as CFO Advisory Practice Leader, and at Accenture the Netherlands, leading the CFO and Enterprise Value consulting practice.

An unexpected outcome

According to the CFO Survey, 41% of CFOs feel that they are 50% or more prepared for sustainability requirements. This is a rather unexpected outcome. Andrea: 'While some CFOs report that they are halfway ready, there are still crucial issues such as poor data quality and manual processes that companies are struggling with. Many companies put their trust in invoices and metres for data accuracy, but as compliance deadlines approach, the confidence in these methods to measure non-financial data decreases. We see that CFOs are attempting to navigate this complex landscape, balancing necessary compliance with the need for improved data quality and transparency.'

Repercussions from clients and consumers

Many CFOs believe that the wave of sustainability requirements, driven by regulations such as the CSRD, is manageable, even though achieving compliance is still very much a matter of manual processes. However, ensuring compliance for auditor approval can be challenging, due to the poor data quality mentioned above, and the risk of qualified opinions from auditors—which might indicate issues that need to be addressed. Andrea: 'Moreover, the real concern is the potential repercussions from investors, employees and consumers. Especially if competitors are outperforming you. Companies that do not align with green practices can expect unfavourable reactions in the capital markets, which tend to favour the most sustainable (and profitable) companies. Also, customers increasingly prefer environmentally responsible options.'

Human expertise and AI tools
As sustainability requirements will keep evolving, new sustainability requirements on more complex sustainability topics will be phasing in from existing regulations over the next few years. Andrea emphasises that it is pivotal for CFOs to look upon ESRS standards as a kind of IFRS standards for non-financial data. This requires in-house or hired expertise in policy writing and compliance. AI tools can also help CFOs to stay informed and knowledgeable, as they are able to read, sort, and apply all relevant legislation by topic, domain and geography.

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New processes for data collection and tracking
In order to tackle data availability and quality challenges, companies need to design new processes for data collection and tracking throughout the value chain. Andrea: 'This includes configuring ERP systems to record and manage data effectively. Companies need to innovate around processes, for instance for Scope 3 emissions, translating carbon footprints into financial metrics as well as for circular business models. New technological solutions and processes are essential, as current systems do not support these requirements.'

Critical KPIs
There is some concern that companies might struggle to meet CSRD and EU Taxonomy compliance deadlines. This is where the Finance department comes in. To mitigate risks and manage workload, Finance should prioritise the identification of critical ESG KPIs, those that are most important for their strategy, to make sure that sustainability reporting is aligned with strategic goals. These KPIs should be core to the strategy, and companies would want to show progress and impact on these strategic KPIs. In order to measure the performance of these critical KPIs companies will need more granular and transactional data, a more rigorous reporting process and a higher reporting frequency than other less critical KPIs that are being reported on with less frequency and have a focus on compliance instead of performance.

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Embedding sustainability from the start
Also, CFOs can leverage technology to enhance sustainability reporting and decision making. They should ensure that new ERP implementations include sustainability reporting from the start, so sustainability is integrated into the financial strategies. Andrea: 'Although ERP technology vendors are developing sustainability solutions, they do not yet bring the end-toend solutions, so companies need to also rely on point solutions for specific functionalities. Although the technology landscape is complex it still is crucial to embed sustainability reporting elements already during the design phase.'

An organisational priority
What role can CFOs play to prioritise sustainability across the entire organisation? 'Their role in developing sustainability performance metrics involves bridging financial control with sustainability expertise. While sustainability experts focus on sustainability activities in line with strategies set to reach the targets agreed upon, CFOs can bring a compliance and performance management perspective, ensuring that metrics are aligned, controlled and showing progress.' Currently, Sustainability and Finance often operate in silos, but there is a need for integration. 'CFOs should drive the alignment of compliance with value-driven perspectives, ensuring that sustainability metrics contribute strategically

to the organisation. I believe that in time, the shift towards driving sustainable value and impact will become more prominent on the corporate agenda.'

Impact on the entire value chain
Sustainability reports can also improve internal decision making processes. The use of reports for internal decision making begins with capital expenditure (CAPEX) decisions that consider both the social and the sustainable impact of investments. Decisions may vary, depending on the cost implications and whether the associated ESG KPIs are positively or negatively impacted. When it comes to cost reduction programs, the procurement process should not only evaluate cost measurements on price and quantity but also on environmental impact, especially when they offer cheaper products with potentially environmental harmful materials. Andrea: 'Understanding the environmental footprint is crucial for informed decision making and for steering suppliers towards better choices, which will ultimately impact the entire value chain. This requires accurate and comprehensive data on a supplier and in many cases, on a product level.'

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Partnering
In industries such as construction and utilities, where material choices can affect infrastructure longevity, the availability of sustainability data is key. Andrea: 'Companies like GASUNIE already account for these long-term impacts in their decision-making processes. I might also require partnering with ecosystem players across the value chain to drive significant improvements. The involvement of the right partners is essential to demonstrate to all stakeholders that a company's focus extends beyond products to include sustainable impacts. Achieving a positive return on investment (ROI) should align with creating positive sustainability impacts, reinforcing the value of integrating sustainability into business strategy.'