Navigating ESG reporting: Strategy, challenges, and consumer industry insights

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Sam: Welcome to *Consumer Speaks*, a Deloitte podcast series, where you'll hear industry specialists share their perspectives and insights on emerging topics impacting the consumer industry. I'm Sam Loughry, the leader of our Consumer Industry Audit & Assurance practice of Deloitte & Touche LLP. I'm joined by Wendy Ralston, Consumer Products & Retail ESG lead champion and Audit & Assurance partner at Deloitte & Touche LLP; and Kate Wiese, Audit & Assurance senior manager at Deloitte & Touche LLP.

Today, we'll be diving deeper into our recently published consumer industry ESG report and discussing recent trends and shifts in ESG reporting within the consumer industry. Thank you both for joining us today. Wendy, let me start with you. Environmental, social, and governance—or ESG—has been a hot topic in the corporate world over the past several years, particularly with the proposed financial reporting requirements around the world.

To get this discussion kicked off, can you explain what ESG reporting entails and why it has become an important focus for businesses today?

Wendy: Absolutely, Sam. ESG reporting has historically been voluntary. There has been little comparability due to either a lack of reporting standards or inconsistently applied reporting standards. Most companies that report ESG metrics today do so through their annual sustainability reports. While those reports are not required by any regulatory body, they are a chance for a company to tell their own ESG story and strategy.

Also, stakeholders are interested in this information—customers, suppliers, investors, and employees, to name a few. So, the reporting is also being driven and almost required by those stakeholders. That's now changing due to regulatory requirements. For example, the SEC [Securities and Exchange Commission] has passed ESG reporting requirements focused primarily on environmental topics. The state of California has done the same, and those rules in California apply to any public or private company doing business in the state. Most urgently, the EU has mandated ESG reporting under CSRD, or the Corporate Sustainability Reporting Directive, that covers all three aspects of ESG. That rule applies to companies with European operations and subsidiaries. So, US companies likely have to comply with the standards, assuming they have European subsidiaries. That reporting starts as early as 2025. California and SEC rules have been paused for now, but that's not likely to last.

Sam: Well, it'll be interesting to watch how consumer companies leverage ESG reporting as a catalyst to drive their business strategies and market position. With that said, it's not always going to be easy. Kate, can you share some common challenges companies face when starting on their ESG reporting journey?

Kate: Sure, Sam. And maybe the first challenge is how do you define ESG? We heard you mention at the top of this discussion, ESG stands for environmental, social, and governance. But what exactly does that mean in terms of the topics that are covered? It could be anything from climate change to employee health and safety to something like business conduct. Different ESG topics are going to be important to different stakeholders or to different companies. Those in the consumer space, for example, may identify the safety of their consumers as an important topic, but that may not be relevant to other companies.

And this is really why we encourage companies who are just starting their ESG reporting journey to conduct a materiality assessment, and that is just going to enable companies to identify the importance of ESG topics to stakeholders and to your business, which, in turn, can help them prioritize those reporting efforts.

Sam: Deloitte recently issued our 2024 consumer industry ESG report, and through our analysis, we found that nearly a third, or about 30%, of consumer companies have already completed their evaluation of steps to move to reasonable level of assurance. And then another 61% have actually gotten the process started. Kate, can you share a little more about the strategies you've seen clients implement to effectively gather and report the ESG data?

Kate: Yeah, it's been interesting, Sam. I'd say the strategies we've seen really revolve around investing in technology and also defining a clear governance structure for ESG reporting. Most consumer executives cited ESG data quality as a top challenge. They're trying to identify solutions for that specifically. In ESG reporting today, much of the data collection is manual, and that just leaves companies open to human error in the reporting process. We're starting to see this shift from a manual to an automated data collection, data aggregation, and then ultimately in the reporting process.

Companies are taking a look at their current state and questioning, how can we use technology as an enabler to get data faster, and then build in internal controls into that tech-enabled process.

And then maybe just the second thing I'd highlight is around defining the governance to identify who within management is accountable for the quality of that ESG data. Often, we're seeing companies hire for a dedicated role, such as an ESG controller, but others have established more of a cross-functional working group with clear roles and responsibilities to help to manage and improve the challenges around the ESG reporting process.

Wendy: And Kate, if you don't mind, I'd like to just add a few other thoughts. Collecting data from different parts of the value chain is a definite challenge for companies. For example, in scope 3 reporting, companies may be looking for emissions data from supply chain partners. Now, generally, this isn't going to be data that companies already have on hand, so they may need to make numerous requests from supply chain partners to round out their reporting. Additionally, we've heard of many companies getting so many requests for this type of data that they've started to set up portals on their websites for that information to be requested.

Sam: As mentioned earlier, ESG reporting and regulations not only impact the company's internal stakeholders, but there are also external expectations coming from their actual customers. Wendy, how do you see customer expectations influencing ESG initiatives in the industry?

Wendy: Yeah, Sam, while consumer expectations continue to drive ESG initiatives, our survey indicates that they're not a top driver. Companies feel most pressure regarding their organization's ESG reporting and disclosure policy comes from the board of directors primarily at approximately 56%, then ESG rating agencies a little over 40%, followed by investors and customers at 39% and 33%, respectively. Further, I continue to hear that while customers and consumers are focused on ESG, most don't yet seem willing to pay for their suppliers to implement more environmentally friendly products and processes, which is somewhat minimizing the consumer impact on ESG to date.

Sam: Huh. That surprises me a little. I would have expected that consumers would be one of the top three drivers, given those recent trends you just talked about of popularity of both sustainability and green products. Let me switch gears back to how companies are preparing internally. Wendy, can you speak to any of the assurance trends in ESG reporting today as compared to financial reporting?

Wendy: Sure. Assurance trends in ESG unsurprisingly are less mature, just given the relative newness of that information. Commonly, there may be a lack of insight into the controls and current processes over ESG reporting, be it either third party or internally prepared information.

This certainly highlights the need for assurance readiness. Even for companies that have undertaken voluntary reporting to date, they frequently lack the robust process and controls over gathering and summarizing that data the way it exists for financial reporting information today. Also, the standards that seek assurance today are mostly voluntary, but that is about to shift with enacted regulatory requirements.

And generally, those who have sought assurance today, or in the past, have done so on a specific set of metrics versus a full report. Many companies have received some level of verification of data, but that doesn't quite rise to the level of limited or even reasonable assurance that may be required or is often required by these new regulations—CSRD, SEC, California rules, to name a few. We do expect, though, that these new regulations will certainly bring standardization in the information over which assurance is obtained in the near future.

Sam: For those companies looking to prepare for assurance required under these regulations that Wendy mentioned, Kate, what are some of the things they should be aware of?

Kate: Consumer executives should know that many of these regulations have requirements not just to seek assurance, but requirements for the assurance provider itself. It's not just, here are the activities you need to do today to prepare for regulated disclosure and assurance in the future. But really identifying the assurance provider that meets those requirements; for example, confirming that your assurance provider is independent of your company.

Many of these ESG reporting requirements are going to be integrated with the financial reporting requirements. The SEC climate rule, for example, would require climate-related disclosures within the company's Form 10-K or 10-Q filing. Given that integrated nature of reporting, we're seeing many companies contemplate the move to an assurance provider that's consistent with the auditor of their financial statements. So effectively a public accounting firm. Why is that important? It's that public accounting firms are required to conduct their assurance engagements in accordance with the AICPA attestation standards. And that just means there's a certain level of requirements that that assurance provider needs to adhere to when performing their services.

And many of those requirements are consistent with the requirements from the regulations we're seeing. To echo what Wendy said around the assurance readiness assessments, just to the extent companies have not yet engaged in discussions with their auditor today, I would encourage them to do so to understand what may be required in an ESG assurance engagement and potentially even to conduct one of those assurance readiness assessments.

Sam: To close out the discussion today, I want to ask both of you, what advice are you giving to companies that are just beginning to navigate their ESG reporting journey?

Wendy: Yep. Happy to start. I would say, begin with where you are, with what you have, and develop a roadmap. Generally, a Disclosure Gap Assessment is one of the first items in the roadmap to identify what do you need to disclose, and do you have what you need today? Also, I'd say don't underestimate the data that you'll need and the time it will take to gather and review that information. Kate, thoughts from you?

Kate: Yeah, thanks, Wendy. I would just add that the ESG reporting landscape can be overwhelming at times, so maybe bringing it back to the discussion we had at the very beginning around materiality. Start with a materiality assessment as the foundation for your ESG reporting, engage with those stakeholders, perform a thorough analysis, and then you can really prioritize your efforts around the results of that assessment.

Sam: Well, that's our time for today. Thank you, Wendy and Kate, for joining the discussion and providing an overview of ESG reporting and its critical role in business strategies. It goes without saying that the practical advice that each of you gave for companies at the beginning of their ESG journey will go a long way.

We hope today's insights will help your business navigate the recent trends and shifts in ESG reporting.

For more consumer insights and the full 2024 consumer industry ESG report, please visit our website at deloitte.com or email me, Sam Loughry, at sloughry@deloitte.com. Thank you for listening to ***Consumer Speaks***, sponsored by Deloitte's Audit & Assurance business. Until next time, take care.