



## The colliding disciplines of Ethics & Compliance (E&C) and Environmental, Social and Governance (ESG)

Are you thinking about the compliance and ethics implications of your sustainability commitments and goals?

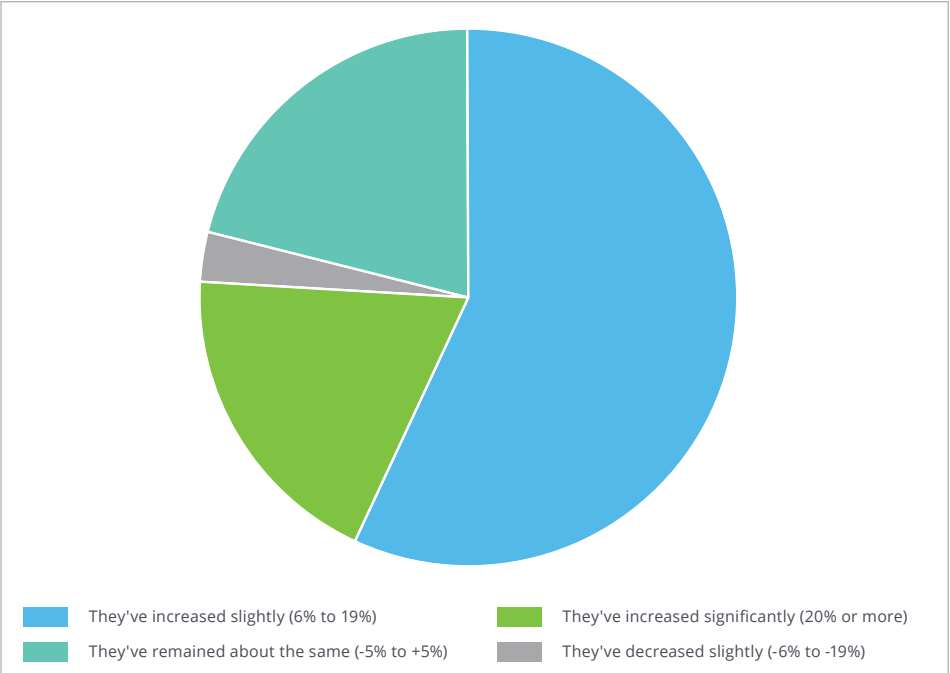
## The interconnection of E&C with ESG

As organizations strive to innovate and operate within the bounds of the rapidly evolving sustainability landscape, it is advantageous to realize that sustainability spans the organization. It helps enable stakeholders to maintain transparency into how companies are executing against their environmental sustainability agendas as they implement numerous initiatives across the organization. Broad, enterprise-wide sustainability strategies necessitate a cohesive and coordinated approach, compelling many functions to bring their capabilities to respond to ESG risks and opportunities.

The role of the E&C function is becoming increasingly vital in driving assurance and safeguarding the organization from sustainability-related risks and helping maneuver associated opportunities. Chief Ethics & Compliance Officers at Deloitte's recent energy industry roundtable

unanimously observed the need for establishing an elevated sustainability purpose for E&C within the organization to drive strategic outcomes. In this paper, we explore the opportunities available for E&C to drive value and advance the ESG agenda by tapping into its core tenets.

Despite pressure from regulatory, investor, consumer, and corporate stakeholders, many organizations are still maturing their understanding of the complexity of the full sustainability journey from reporting, performance, capital allocation, risk and opportunity management, and implementation of programs and initiatives. Deloitte's 2023 CxO Sustainability survey revealed that 56% of organizations have slightly (6% to 19%) increased their sustainability investments over the last year, with a notable 19% increasing their investments by 20% or more.<sup>1</sup>



Source: SEC.

With sustainability investments on the rise, it is essential for organizations to have clear accountability and line of sight on future initiatives. During recent roundtable discussions, participants revealed that a limited number of organizations have a mature governance model in place to oversee their end-to-end sustainability priorities. A common understanding and clear communication on accountability with an underlying risk-based approach is critical to strategic decision-making and performance measurement (e.g., measuring and leveraging specific metrics and KPIs for decision-making) in the sustainability space. Establishing a clear accountability structure is essential for managing risk exposure and catalyzing innovative practices that generate foresight to navigate through the dynamic sustainability landscape.

Herein also emerges an opportunity for E&C leaders to continue to demonstrate true business relationship and increased collaboration—both with different business functions and with the centralized corporate sustainability arm of their organizations. In alignment with the strategic framework established by corporate strategy, this unfolds as an opportunity for leaders across E&C and centralized sustainability functions (such as Chief Sustainability Officers or Vice President/Directors of Corporate Sustainability) to work in unison to drive enterprise-wide governance and a cohesive operating model for sustainability, built upon corporate strategy.





This interconnection creates a role for E&C to play in all three aspects of ESG: mitigating risks in the goal-setting process, activating social equity both internally and externally, and observing that corporate governance practices are in place to drive standardization in response to sustainability performance ratings. The urgency to clarify roles and responsibilities, increase transparency, influence better governance, and bridge the accountability gap in sustainability initiatives is pressing, making the intersection of ethics, compliance, sustainability, and corporate strategy an essential focus for today's leaders.

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## Advancements in ESG across business functions and the future-state intersections with compliance

ESG is advancing within the organization primarily through the evolution of the corporate sustainability function, and there are growing expectations surrounding many business functions in raising compliance standards.

### Business functions and their roles in ESG

Conditions that will trigger presumption of insufficient liquidity on a current basis				
	 Corporate sustainability	 Ethics & Compliance	 Legal	 Finance & accounting
<b>Current state role</b>	Corporate sustainability pioneers the design and activation of ESG strategies, aligning sustainability and corporate strategies to drive growth and decrease risk. This includes defining the near- and long-term sustainability goals beyond establishing emissions reduction (e.g., scope 1, 2 and 3) targets and publishing disclosures. Their role also extends to facilitating and driving ESG performance and reporting initiatives across the enterprise.	E&C, in many cases, is responsible for the integration of social and governance metrics within control frameworks, helping to ensure enterprise-wide accountability and adherence to evolving ESG commitments.	Legal serves as the organization's guardian, facilitating specific ESG disclosures and advising on potential ESG-related legal pitfalls.	Finance focuses on ESG risks reporting and mitigation across financial and accounting spectrums, incorporating ESG-related risks into annual reporting and regulatory filings, investor engagement, pricing, forecasting and budgeting, capital-allocation, and annual reporting.
<b>Future state intersection with E&amp;C</b>	Corporate sustainability, in conjunction with corporate strategy, supports E&C in establishing clear accountability and traceability for ESG activities within the organization.	In tandem with their organization's sustainability goals, E&C will provide proactive oversight and monitoring, and help interpret the evolving regulatory landscape to determine that the organization applies a bespoke risk and controls-based lens to sustainability.	Legal will amplify its advisory role in relation to ESG (e.g., to help prevent and respond to instances where incorrect information is disseminated to stakeholders which falsely portray the company's public image). Furthermore, Legal will collaborate with E&C to help identify and interpret the applicability of active and upcoming ESG regulations.	Finance, in conjunction with E&C and Legal, will be responsible for helping the organization address ESG reporting obligations, including prospective SEC regulations, and connect with corporate sustainability and operations to create purpose-driven performance metrics.

## Conditions that will trigger presumption of insufficient liquidity on a current basis (Cont.,)



### Human resources (HR)



### Operations



### Corporate affairs



### Internal audit

#### Current state role

With a focus on social equity, HR invests in leading practices and champions employee welfare and inclusivity, driving productivity and delivering on the business strategy.

Operations functions are commonly responsible for driving carbon reduction, operations improvement, increased renewable energy procurement, and digital transformation to manage the ESG footprint of the organization.

Corporate affairs crafts strategic communication blueprints that cater to stakeholders, internally and externally. These communications inform stakeholders on the company's ESG initiatives and strategic priorities and the evolving ESG environment.

Internal audit provides assurance of ESG risks by incorporating them as part of their audit frameworks, facilitating alignment with evolving ESG commitments.

#### Future state intersection with E&C

HR will collaborate with E&C in bolstering allyship and advocacy, promoting a speak-up culture, and empowering employees and incorporating equity into the organization's strategic decision making.

Operations will start to intersect with E&C from a controls perspective with more focus on data accuracy, traceability and auditability for compliance. Additionally, E&C will help Operations in interpreting the impact of evolving regulations on the current slate of operations activities.

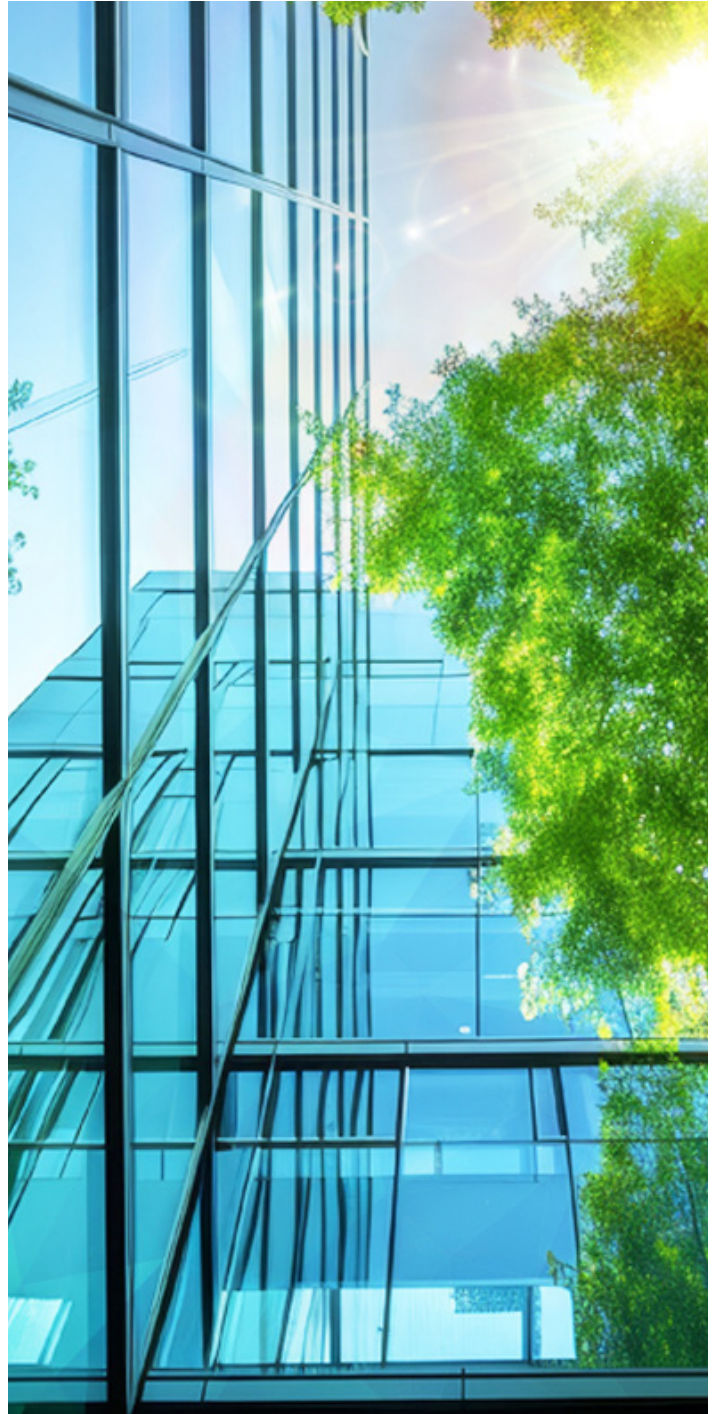
Corporate affairs will refine communicative strategies for transparent ESG-centric narratives and strengthen relationships with Legal and E&C for an accountable representation.

Internal audit, with increased collaboration from E&C, will help embed ESG priorities and oversight throughout the organization to drive proactive ESG risk management.



## ESG accountability

As stakeholders demand more transparency on the specificity of material issues (e.g., general emissions reduction vs. scope 1-3 emissions reporting), organizations are called to not only articulate but also scrutinize their ESG commitments. This entails a broad approach: from careful measurement to defined reporting, to executing an ethical and risk-management led standard of practices across the board. This spectrum of ESG activities is bolstered by clear lines of accountability, broad governance structures, clear communication channels, and iterative feedback loops – this is where E&C functions come into the picture, to drive toward actionable sustainability.



# Let's talk

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# Endnotes

1. [Deloitte 2023 CxO Sustainability Report](#)



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