WHITE PAPER

The New CFO Imperative:
Unifying ESG & Financial Reporting

OneStream™

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Introduction

For some time now, there's been an undercurrent around Environmental, Social and Governance (ESG) performance. The sustainability movement really gained momentum after the 1987 United Nations "Our Common Future" report, better known as the "Brundtland Report." Many organizations have reaped the benefits of voluntarily disclosing details about sustainable operations. However, significant change is on the horizon, and investors, employees and the public are taking increasingly more interest in the data points being published, fueling a **"New Imperative" for CFOs**.

Now more than ever, a visible link exists between how an organization carries out its business and how it performs. According to Accenture's Measuring Sustainability. Creating Value report, "Between 2013 and 2020, companies with consistently high ESG performance tended to score **2.6x higher** on total shareholder return than medium ESG performers." Today, ESG performance has become key, and CFOs must have a defined ESG plan to ensure the timely and accurate collection of data and the ability to measure the business impact of their activities.

According to Accenture, "High Tech CFOs" are already taking action (see figure 1). More than two-thirds of organizations have completed a detailed analysis regarding the risk and opportunities related to ESG performance, and **more than half** of organizations have launched or announced a new company mission, vision or purpose in the last 18 months due to ESG.

78% have completed a detailed analysis regarding financial risk and opportunities related to ESG performance.

59% have launched or announced a new company mission, vision or purpose in the last 18 months due to ESG considerations.

Figure 1: Accenture – Measuring Sustainability. Creating Value

Why Align ESG with Financial Reporting?

As ESG reporting transitions from voluntary to mandatory, the same level of governance, control, accuracy and auditability needed for financial reporting will be required with ESG. CFOs and Finance teams already fully understand how to drive control and accuracy in financial reporting. Accordingly, Finance teams are best suited to oversee the collection, consolidation, and reporting of ESG and data alongside financial results.

With mandatory ESG reporting requirements on the horizon, meeting organizational sustainability objectives will require a management process like the corporate performance management (CPM) process that Finance teams employ to help meet financial objectives. This management process includes goal setting, planning, monitoring and reporting, and analyzing results to track progress and adjust as needed to stay on track.

As emphasized in the recent “Measuring Sustainability. Creating Value” Accenture survey report on ESG reporting, “Meeting demands for sustainability data will be integral to company performance. Making a CFO responsible for sustainability is essential for ensuring a company meets its ESG goals. Companies are much more likely to extensively embed ESG in core management processes when the CFO has accountability for ESG metrics.”

ESG Reporting Today

Roughly $35 trillion is now flowing into “sustainable” mutual funds and ETFs. Amid that inflow, there is increasing stakeholder interest in ESG reporting and increasing demand for more detailed and frequent disclosures from public and private enterprises.

As a result, corporate sustainability and climate change efforts are transitioning fast and garnering increased exposure and action in many countries — even the US Securities and Exchange Commission (SEC) is moving towards defining clear disclosure guidelines for public companies. This inertia is serving as a clear driver for companies to develop robust sustainability and ESG strategies with transparent reporting to stakeholders.

As with any new data collection or management process, spreadsheets and email are the initial tools of choice. But control and accuracy are required for ESG reporting, so organizations will run into the same challenges as faced when these tools were used for financial reporting.

Current Challenges

People

While organizations are already reporting on ESG and sustainability, the data collection and reporting is often handled by sustainability teams, facilities or human resources. But Finance teams also need to start paying attention.

Organizations with negative ESG disclosures may be seen as risky investment propositions. To prevent such perceptions, CFOs and their teams need a robust framework to integrate ESG standards within the company’s financial brand. Attracting, retaining and increasing investments is, after all, a major focus for Finance within any organization. Investors are people at the end of the day and decisions can be taken rapidly if any risk is perceived.

According to Gartner's [ESG Imperative](), 85% of investors considered ESG factors when making investments in 2020. Essentially, a good record on ESG is considered less risky, offering a safer place to invest. The view is that there is more security against losing money. Investors consider ESG for several key reasons — which, according to Gartner, can be summarized as relating to financial, competitive, strategic and perception concerns (see figure 2).

Figure 2: Gartner — Why Investors Consider ESG

Fragmented Tools

As with any new data collection or management process, spreadsheets and email are often the initial tools of choice due to wide accessibility, easy usability and low cost. But if control and accuracy are required, the spreadsheets and email approach to ESG reporting quickly suffers from the same shortcomings as when the tools are used for financial reporting — **they don't deliver.**

A growing number of purpose-built ESG/sustainability reporting tools are available in the market that can replace spreadsheets. And while these tools can provide value to the process, they create a data collection, consolidation and reporting process that's separate from the financial reporting process. The CPM solutions of the past tended to add capabilities in the form of modules, often with their own login, interface and datastore. These modules required data to be moved between them (see figure 3). If ESG metrics need to be reported alongside financial metrics, wouldn't it be better for the data to be collected in the same system and processed in the same way as financial data?

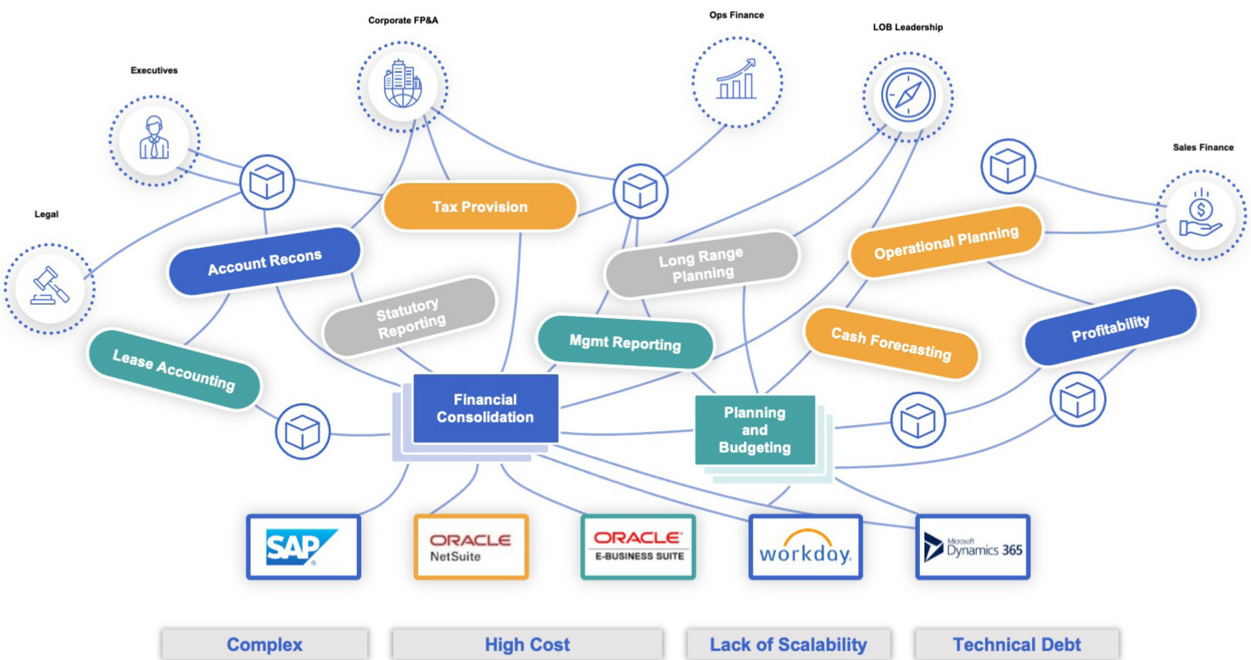


Figure 3: Fragmented CPM Systems — Technical Debt

The answer is yes, which is exactly why a growing number of organizations are looking to extend the financial close, consolidation and reporting capabilities in existing CPM platforms to handle ESG reporting. This approach can be a viable way to align ESG reporting with financial consolidation and reporting — provided the application has the required features to support the efficient collection, consolidation and reporting of ESG metrics.

These Data Integration, Consolidation, Reporting & Analytics features should include the following:

- Collection of financial and non-financial data from a variety of internal systems
- Support for forms-based data entry of ESG metrics
- Support for complex conversion calculations for ESG metrics
- Ability to support multiple ESG reporting frameworks and metrics across industries
- Consolidation of ESG metrics and textual commentary across multiple hierarchies
- Extensive data validations, controls and audit trails
- Ability to capture ESG targets and goals for comparison against actual results
- Production of a variety of output types, including standard reports, interactive dashboards and Excel®-based analysis of ESG metrics

Fluid Reporting Standards

Several competing standards exist for ESG/sustainability reporting, including the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Carbon Disclosure Project (CDP) and others. While deciding which to follow can be difficult, a movement has shifted towards a global standard that emerged from the recent COP26 conference in 2021.

The IFRS Foundation — which oversees accounting standards in more than 140 nations, mostly in Europe and Asia — announced the creation of the International Sustainability Standards Board (ISSB) at COP26. The foundation will oversee the ISSB just as IFRS does the International Accounting Standards Board, formed two decades ago. In the second half of 2022, the ISSB expects to release two reporting protocols on disclosures.

Bringing Different Perspectives Together: Shaping the ISSB & IFRS Sustainability Disclosure Standards

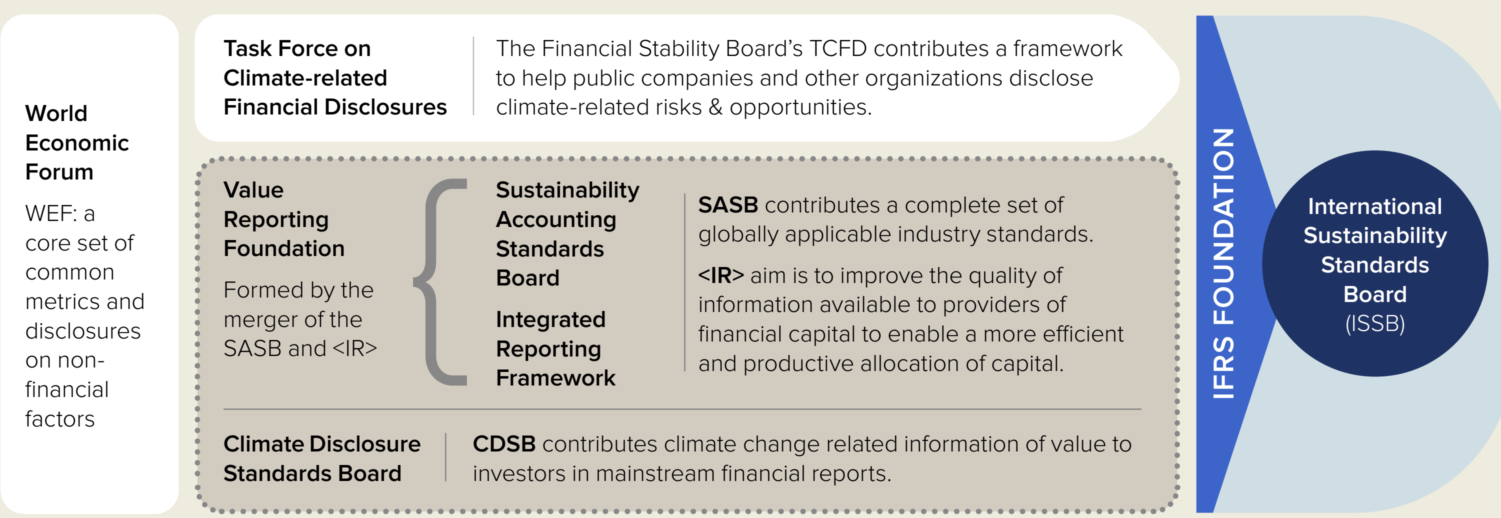


Figure 4: Converging ESG Reporting Standards

The main driver for the ISSB creation at COP26 (see figure 4) was the lack of clear standards for current ESG data. Generally, the data provided is hard to audit and does not align to the financial statements. These conditions make it extremely hard for investors and other stakeholders to determine the true risk exposure from the data provided.

Other recent shifts have stemmed from changes from the SEC. On March 21, 2022, the SEC proposed detailed rules for reporting on climate risk. The SEC's view is that organizations and investors will benefit from clear, uniform disclosures on the costs from climate change. If the proposals are confirmed, then the rules would apply to large, accelerated filers in 2023 (filed in 2024). The proposals would require companies to use Form 10-K to describe their governance and strategy towards climate risk. Organizations would also have to disclose their plans to achieve any set targets for curbing such risk and any data on organizational greenhouse gas (GHG) emissions, either from facilities or through energy purchases. Importantly, organizations will have to obtain independent attestation of their data. Meeting this requirement will be a challenge without a robust process in place.

Meanwhile, the European Union EU is set to adopt a first set of standards of the CRSD in June 2023, amending the previously applicable Non-Financial Reporting Directive (NFRD). The CSRD supports the European Green Deal, a set of policy measures intended to combat the climate crisis by transforming the EU into a modern, resource-efficient and competitive economy with no net GHG emissions by 2050. The scope of the directive is considerably extended to apply to more European and non-European companies listed and operating in the EU regulated markets. Under the CSRD, some organizations must report in line with mandatory EU sustainability reporting standards starting in 2024.

Inconsistent and Incomplete Data

When it comes to data, the concept of "rubbish in, rubbish out" applies to ESG as much as to any other reporting area. Organizations need a baseline level of standardized data to support relevance, objectivity and comparability, but they face fragmented data from multiple sources. For example, when organizations measure GHG, then they must recognize that the emissions from organizational activities come from a variety of sources, which are grouped into "scopes" (see figure 5). The scopes are detailed below:

- **Scope 1:** Emissions from owned or operated assets (e.g., the fumes from an organization's fleet of vehicles)
- **Scope 2:** Emissions from purchased energy
- **Scope 3:** Emissions from everything else (suppliers, distributors, product use, etc.)

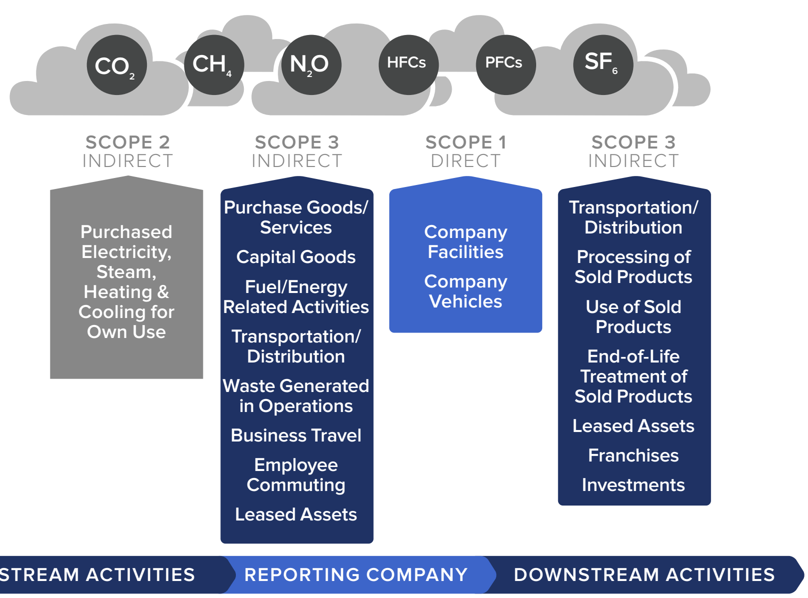


Figure 5: Greenhouse Gas Protocol Scopes

The integration of ESG data needs to evolve — and quickly. Why? Well, the number of data sources is recognizably far greater for such reporting than in even the financial reporting process. The difference stems from ESG reporting involving multiple aspects of an organization, such as reporting on health & safety, fuel usage, property management, waste management and more. How do organizations collect all this data? Despite technology improvements over the years, most large organizations have a multitude of operational systems from which to extract this data, which makes data collection for ESG quite challenging.

Key Considerations

While plenty of standalone ESG/sustainability reporting tools are available in the market, organizations must align ESG/sustainability reporting with a monthly financial close, consolidation and reporting process in a platform with the following capabilities:

- **Unified:** The platform should be one system and workflow for the users to leverage in data collection. For corporate teams, all the financial and ESG data should then be available in a single platform for reporting and analysis.
- **Connected:** The single platform must be able to connect to any number and type of data sources and contain all the elements required for reporting actuals and the forward planning of ESG metrics (see figure 6).
- **Intelligent:** The solution should include the ability to define the ESG metrics in scope and to identify the relevant frameworks to which the metrics apply. A significant number of potential units of measure and conversion calculations are required, and these should be easy to configure and re-use across the processes as appropriate.
- **Flexible:** ESG reporting generally encompasses high levels of commentary and qualitative metrics which must be collected within the solution and easily surfaced on reports or available alongside linked data.
- **Complete:** The ability to plan forward on ESG metrics and targets and then view actuals against plans for ESG is another compelling reason a single platform is important. Having all data in one system is key not only for the user experience but also for the timeliness and effectiveness of the overall processes.

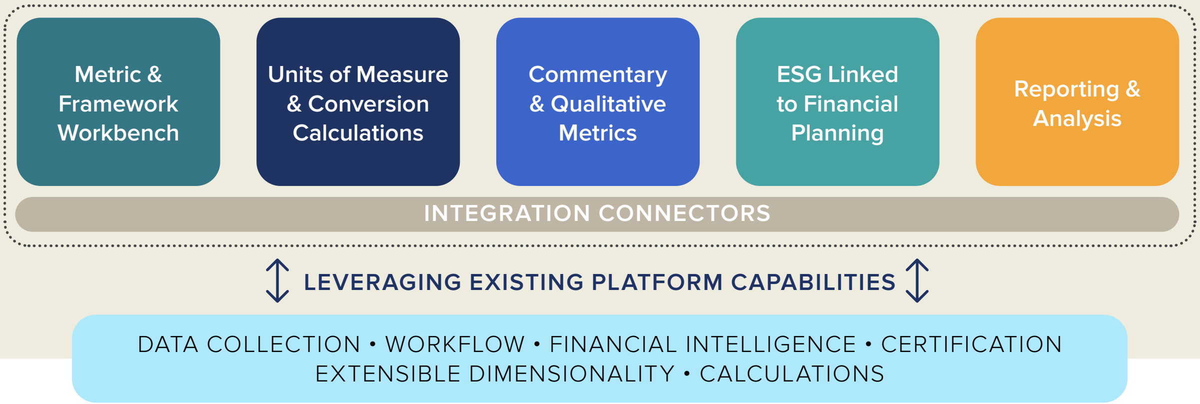


Figure 6: ESG Solution Components

Built-In Data Quality

At its core, a fully integrated CPM software platform with built-in financial data quality (see figure 7) is critical to organizations being able to drive effective transformation across Finance and Lines of Business. A key requirement is providing 100% visibility from reports to data sources — meaning all financial and operational data must be clearly visible and easily accessible.

Why is this visibility so important? Organizations ultimately collect data from multiple underlying systems and then complete multiple calculations and consolidation steps. Within that context, full transparency provides users and auditors with the connections between the source data and the final reported data — including for all transformations, adjustments and eliminations.

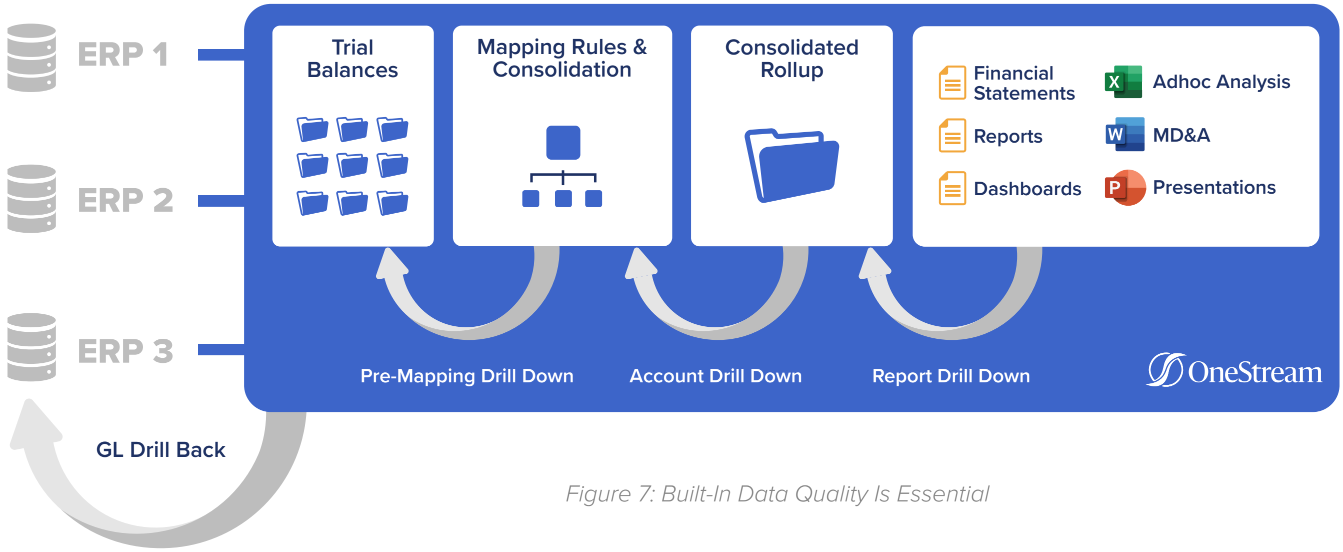
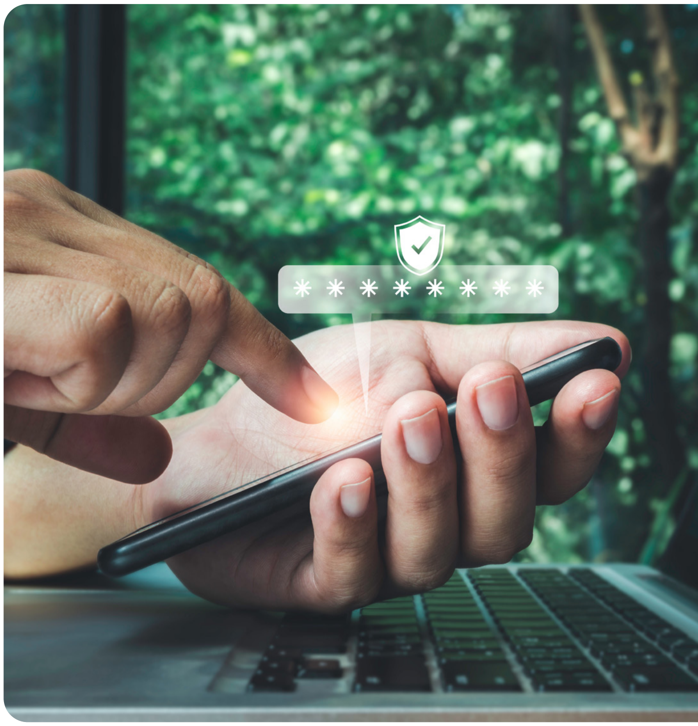


Figure 7: Built-In Data Quality Is Essential

The solution should also include guided workflows to protect business users from complexity by guiding them uniquely through all data management, verification, analysis, certification and locking processes. Are these workflows critical? Absolutely!



The major challenge with ESG reporting is simply the number of data sources to collect from and the sheer volume of requests within an organization for this kind of data. Using disparate systems, that collection can take many hours or days. But having a unified system with the capability to guide users easily through the tasks will save both time and money.

Yet most important is the system's ability to validate and transform data to ensure complete and accurate ESG information. When so many different source systems and multiple spreadsheets are involved, the system must be able to fill in missing data fields, align analysis and ensure commonality in data before the information appears on reports. For example, if a typo occurs during manual data entry, the system should flag any value that seems out of place given the parameters of the company.

Poor ESG metrics can make it difficult to attract valuable investment as liabilities are considered too high. Today, one major concern for organizations is attracting talent — which can also be affected by ESG metrics because people are becoming more selective about who they work for and with.

ESG reporting now, perhaps more than ever, significantly impacts the profitability and bottom line of an organization. And as the global standards converge into a clearer position, organizations must bring ESG reporting together in a unified way.

Robust Reporting

Finally, the capability to create, view and analyze in a variety of different reports and views is of critical importance. The capability to drill between reports and dashboards also means users can quickly and easily get the answers they need at any time for internal and external reporting purposes.

Having a broad range of **reporting and analytics** capabilities helps reduce reliance on spreadsheets and fragmented reporting tools to increase the speed, scope and accuracy of reporting across the organization. Accordingly, processes across the Office of the CFO must be unified and must provide the organization with self-service, easy-to-use reporting solutions for a variety of stakeholder groups.

When it comes to reporting and analytics, organizations must consider a strategic framework to not only automate and streamline ESG and financial reporting, but also address the requirements of strategic partners in other areas of the organization. A robust and streamlined reporting process can make a significant difference to the experiences of the users within an organization.

ESG Reporting in Action

A major US food manufacturer has successfully unified their financial and ESG reporting. The organization has grown organically and via acquisitions of many other food providers. While acquiring companies, the manufacturer let them keep their existing ERP systems. The manufacturer, as a result, has over 50 different GL/ERPs at 100+ locations to integrate and consolidate, creating significant challenges. The manufacturer was collecting data for both financial and ESG reporting via spreadsheets and email, which was a highly manual, time-consuming and error-prone process. The organization recognized the complexity of their structure required a robust and powerful CPM solution with best-in-class data integration, consolidation and reporting capabilities. Importantly, the solution needed to effectively handle the complex environment while offering the ability to adapt to future changes.

The organization now has one system for actuals, budgets, quarterly forecasts, ESG reporting, weekly operations data and M&A analysis. This approach has saved time and reduced redundancy in data collection. For all the business units, one single submission for financial and ESG reporting has been achieved. The data collection for ESG spans usage of electricity, gas, diesel, coal, CO_2 emissions, refrigerants, water, Styrofoam, protein, animal feed, waste and much more.

The organization has, as a result, benefited from eliminating errors using data entry forms with validation checks, for example, headcount vs. HR systems. Overall, the organization is very positive about the results of unifying financial and ESG reporting — and their speed to report has increased, leaving the reporting teams with more time for other value-added activities.

Business Value

With the rapid move of ESG and sustainability reporting from a voluntary to a mandatory process, CFOs and Finance teams need to get engaged to ensure the accuracy and integrity of ESG and sustainability reporting to a variety of stakeholders. Aligning ESG reporting with the financial reporting process and system can yield several benefits to organizations.

Here are 5 of those benefits:

1. **Eliminate duplicate data collection, consolidation and reporting processes.**
If the same process and system are used to collect ESG and financial data, then the data is collected once from each business unit and should be immediately available across the processes. Effectively, the overarching process could be one trial balance load with financial and ESG/operational data combined, which could drastically reduce the number of integrations and interfaces required.

2. **Improve the accuracy and integrity of ESG and sustainability reporting.**
An effective data collection with strict audit controls alongside a standard, defined and repeatable reporting process delivers maximum confidence and reliability. Effective data quality also enables an organization to shorten the overall finance and ESG reporting and budgeting processes to get critical information to end users and stakeholders faster and more easily (see figure 8).

3. **Align ESG and sustainability metrics with financial results.**
ESG data is collected using the same processes and technology used to collect the financial reporting data. This alignment delivers confidence in the end results because the same rigor, auditability and traceability achieved with financial reporting data are applied to the ESG data. In addition, users can easily drill down to detail as and when requested giving them and any stakeholders a trustworthy view of the supporting data.

Figure 8: Example ESG Dashboard View

4. **Establish high-quality governance and control over ESG and sustainability metrics.**
If much of the ESG reporting process is currently done manually and using spreadsheets, then putting the process into a system will make a huge difference. Data can be collected with validations on load, a defined process with task lists and automation brings structure, and calculations should be fully traceable. Users can also easily analyze and explain the outputs using reports and analytics to ensure complete visibility and give confidence when filing with regulatory bodies.

5. **Compare actual ESG and sustainability metrics with goals and targets.**
A unified platform approach which combines planning with the actual financial close and consolidation process eliminates risky integrations, validations and reconciliations between multiple products, applications and modules. As a result, ESG metrics can easily be planned and forecasted forward based on the actual figures, and comparative evaluations are available at any time.

Conclusion

ESG reporting is likely to be one of the most significant changes to corporate reporting for a generation. The research suggests that organizations taking higher levels of action on ESG can indeed perform better — according to Accenture: 2.6x higher on total shareholder return. An increasing number of organizations are recognizing the benefits and are expressing their intentions with updated visions or missions around ESG.

A compelling argument now exists to put down the foundational layer for alignment within organizations. There are a number of challenges ahead for organizations of all sizes but one of the most important decisions to make will be implementing the right technology solution which can effectively align all aspects of reporting and elevate the organizations towards its goals.

This new imperative is driving CFOs to take immediate interest and action. Finance teams have the skills and understanding to effectively unify ESG and financial reporting that are already employed to help meet financial objectives.

Many of the ESG reporting solutions in the market are focused on only a specific aspect of ESG, such as environmental, health and safety (EH&S) compliance. That means the solutions aren't suited to the broader requirements of setting ESG goals and targets, tracking progress against targets, and modeling the impact of ESG initiatives on future financial results. With a unified CPM platform aligning ESG and financial reporting, all processes are handled within a single application and instance.

At OneStream, we call this Intelligent Finance.

Learn More

To learn more, visit our **ESG Webpage**, download our **Solution Brief** or check out the **Blog Posts** in our ESG series. And if your organization is ready to align ESG reporting with financial reporting and get ahead of the upcoming disclosure mandates, contact OneStream today to get started.

For more information, visit our website at **OneStreamSoftware.com**.

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