

Mastering ESG Data for Your Sustainability Journey

Data and analytics are at the heart of informed decision-making, but the sustainability space brings its own unique data challenges and opportunities.



Introduction

In every organization, data drives good decision-making. In the realm of sustainability programs, ESG data is no different.

Quality data—including data on greenhouse gas emissions, water use, air quality, diversity, labor, and supply chains—gives an organization the tools needed to make strategic decisions and build resilience for the future.

ESG data can also be a challenge. Due to their complexity, processes used to manage ESG data may often be outdated, incomplete, disconnected, or simply unable to provide a holistic perspective.

Nevertheless, robust data systems are a key part of any ESG program and are essential in setting baselines, tracking progress, and reporting on successes.

This white paper provides topline insights and guidance to help readers wade through this ESG data challenge. We explore the key components for successfully managing sustainability data, from defining and narrowing your scope of data to the tools that help manage and apply those data sets to real-world scenarios.





Harnessing ESG Data

Data and analytics are at the heart of good decision-making, and the sustainability space brings its own unique data challenges:

- ▶ **Different stakeholders require different data and reports**

The impetus towards sustainability is coming from many stakeholders—from governments, NGOs, and investors to customers, supply chain partners, and employees. Regulatory bodies around the world are changing the rules around ESG disclosure to address new or evolving problems, while investors are demanding greater accountability from public companies regarding sustainability-related risks.

- ▶ **Different sources and formats of data**

Sustainability efforts require the manipulation of large amounts of data from diverse sources (e.g., energy systems, water meters, maintenance reports, field surveys, phase 1

report sources, ERP systems) and disparate sources (e.g., hard copies, invoices, paper files, various electronic formats).

- ▶ **Different departments across the enterprise own the data**

Various organizations across an enterprise are often the gatekeepers of ESG data (e.g., operations, environmental, maintenance, facility-level, accounting), making it challenging to collect in a timely and consistent manner.

Organizations hoping to wrangle their ESG data are tasked with identifying these disparate data sources, obtaining that data from colleagues with other pressing priorities, standardizing dynamic formats, and finally making sense of it all.

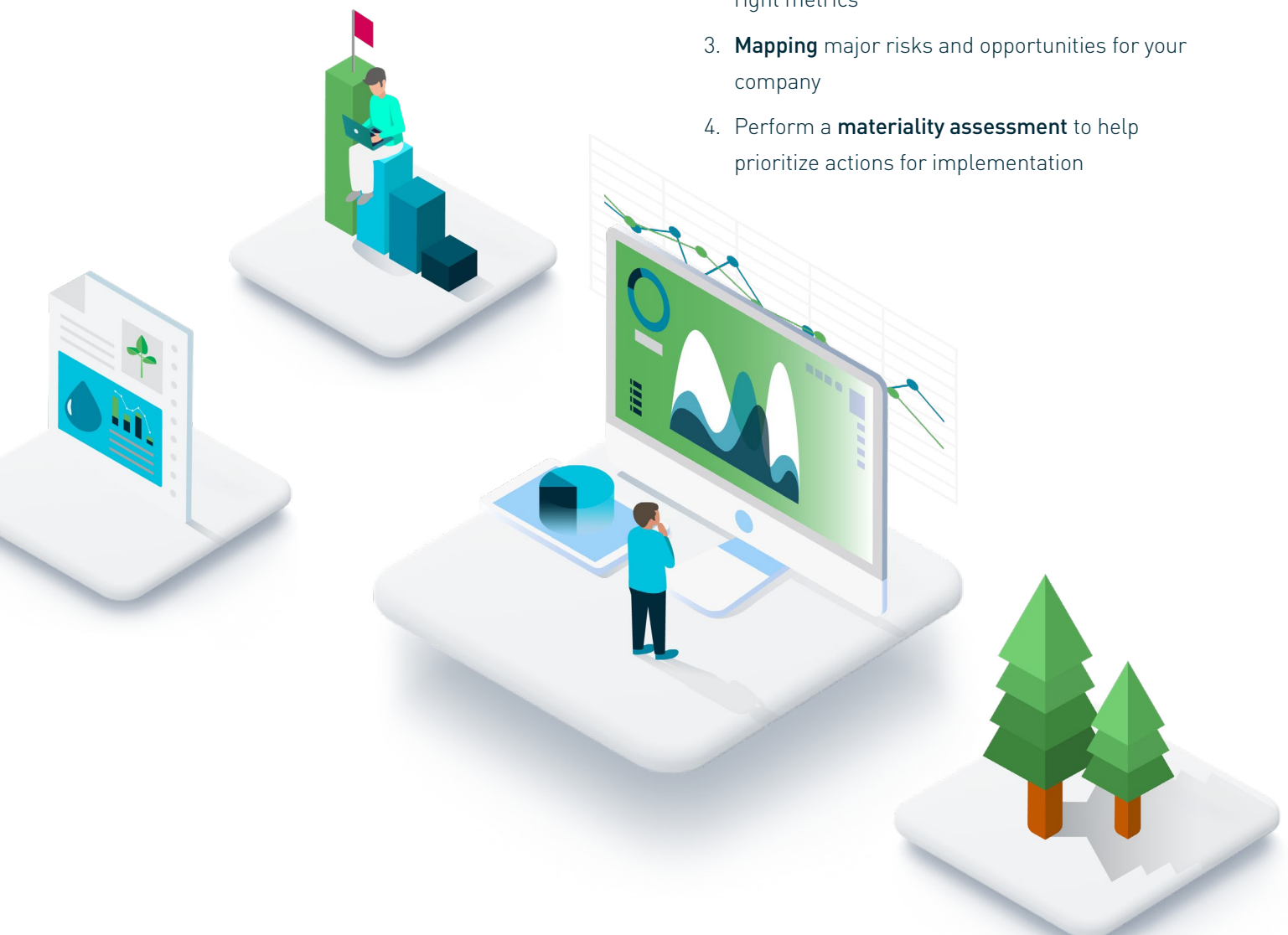
Defining and Prioritizing Your Universe of Data

One of the first steps in mastering ESG data is determining what information is most important and where to find it.

Whether for reporting or other purposes, success requires identifying your needs—and the needs of your stakeholders—and pinpointing common areas of interest.

What are some steps you can take to identify your critical data sets?

1. **Benchmarking** the data for your industry
2. Using **reporting standards** to help select the right metrics
3. **Mapping** major risks and opportunities for your company
4. Perform a **materiality assessment** to help prioritize actions for implementation



1. Industry and competitor benchmarking

Get a sense of what leaders and competitors in your industry are doing by reviewing their most recent sustainability reports. See what topics they are addressing, what programs and processes they prioritize, and why.

For example, a key and often controversial topic in the beverage industry is water scarcity. Water is a critical resource for beverage companies as a part of operations and as an inherent component of end-use products. Industry leaders like Coca-Cola¹ and PepsiCo² incorporate issues like water security into their overall ESG strategies and also highlight their focus on water by participating in community engagement efforts and publishing water-specific information such as CDP Water disclosures, wastewater standards and data, and water security goals.

In addition, PepsiCo partners with the World Resource Institute (WRI), using the organization's global data sets to help power the company's global water risk assessments, develop new methods of water data collection, and better inform their North American facilities on groundwater risks.³

Think critically about what practices make the most sense for your business and your mission. Competitive advantage can sometimes come from pushing beyond what others are doing, allowing you to capitalize on your efforts and generate significant benefits for your company and brands.



2. Reporting standards

Examine the major reporting standards and what they require or suggest. The Global Reporting Initiative (GRI), for example, developed its GRI Content Index template to help companies improve information traceability, credibility, and transparency in reporting. The content index provides a checklist for reporting purposes and has a growing number of criteria sets for specific industries.

Other reporting standards that may be helpful include the UN Global Compact (UNGC) and CDP's Climate Change, Water Security, and Forests standards.

Many companies are reporting to these organizations as a strategic tool to guide ESG strategy and as a communications piece for stakeholders. ESG reporting is quickly moving from voluntary to mandatory with regulations coming into force like the European Union's Corporate Sustainability Reporting Directive (CSRD) and the California Climate Accountability Package. Properly managing ESG data so it is "audit-ready" is increasingly becoming standard business practice.

3. Risk mapping

A risk map can take many forms. One simplified solution may be to start with a simple table that identifies your key sustainability challenges, your specific risks, the sources of those risks, and initial opportunities in addressing those risks. Key areas with challenges may include greenhouse gas (GHG) emissions, water

(pollution and use), labor issues, diversity, and other environmental, social, and governance topics. Specific risks within these areas may be physical, transitional, reputational, and so on.

This risk map can serve as a stand-alone effort or as the first step towards a full materiality assessment, discussed below, to help identify the most relevant sustainability risks for your company.

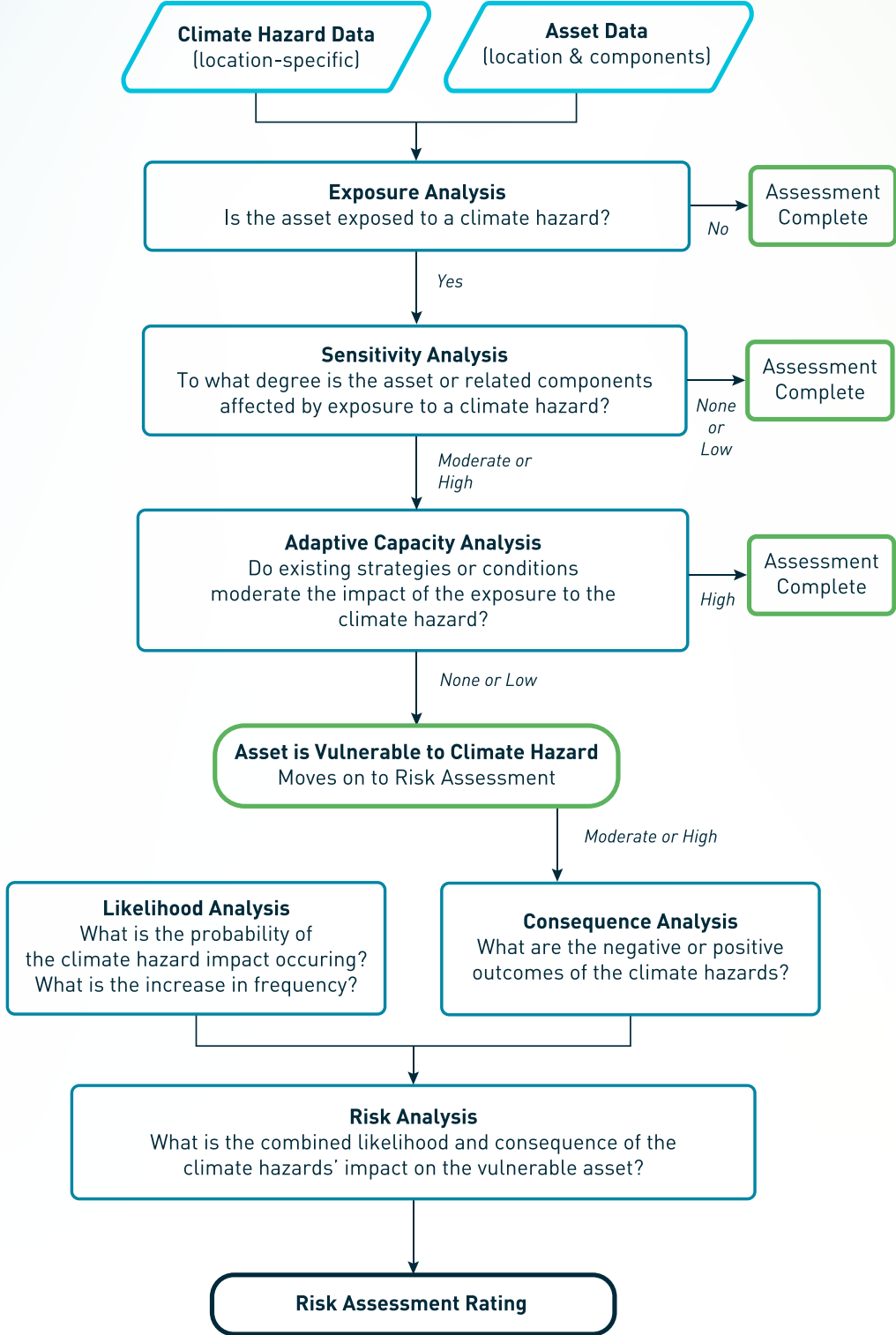
In identifying your risks, consider the key challenges affecting both your industry and your organization. In other words, consider the issues that are most material to your organization. Ask questions such as:

- › What are your organization's biggest environmental impacts – from acquisition of raw materials through use and disposal of your products?
- › When and where do those impacts arise? Upstream in the supply chain? During shipping and distribution? During production? Or downstream in the hands of customers?
- › How do others view your company's environmental performance?

For initial opportunities, ask questions such as:

- › Would reducing water use help the communities in which you operate? Would doing so also reduce costs?
- › Would establishing a recycling program to take back your used products for reuse of their materials inspire customers? Would it save on procurement of raw materials?

The flow chart below provides a framework on how to identify and assess climate risks through a vulnerability assessment, followed by a risk assessment.



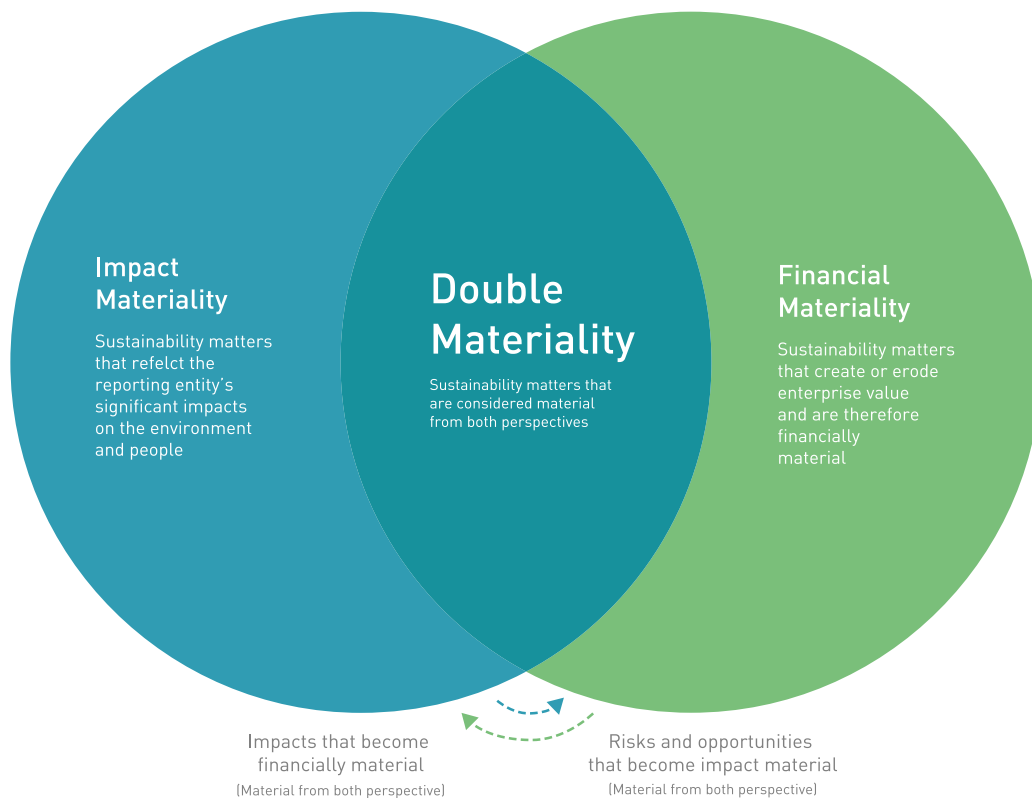
4. Materiality assessment

Similar to the concept of risk mapping, a materiality assessment helps prioritize sustainability risks and opportunities. This form of analysis is used to determine what sustainability issues are most important—or most material—to your company. The concept of double materiality extends this analysis to capture both internal impacts on the company's

financial position, known as **financial materiality**, as well as external impacts the company may have on the environment, people, and the economy in which it operates, known as **impact materiality**. Conducting a materiality assessment can help set the framework for your sustainability strategy overall and help direct your goal-setting, resource allocation, and communication on ESG topics.



Understanding Double Materiality



Source: EFRAG Secretariat. *Implementation Guidance for Materiality Assessment*, August 23, 2023.

The SASB Materiality Finder

A part of the International Financial Reporting Standards (IFRS) Foundation, the SASB Materiality Finder is an easy-to-use, straightforward tool to start thinking about financial materiality. It identifies relevant issues and potential disclosure topics, categorized by industry. Within the medical equipment and supplies industry, for example, SASB highlights disclosure topics such as product safety, lifecycle management, supply chain management, and business ethics, among others. The marine

transport industry, on the other hand, includes recommended topics such as GHG emissions, air quality, ecological impacts, and employee health and safety. It's important to note that SASB focuses only on financial materiality, highlighting topics that could reasonably be expected to influence financial performance and enterprise value. Further assessment would be required to understand your company's impact materiality, or how you might affect the environment, people, and the economy.

Knowing what data you need—and for what purposes—will help you determine where to collect that data.

Begin with your goals in mind and consider reporting standards and ratings such as:

- › CDP
- › EcoVadis
- › Global Reporting Initiative (GRI)
- › ISS
- › MSCI
- › International Sustainability Standards Board (ISSB) - IFRS S1/IFRS S2
- › European Sustainability Reporting Standards (ESRS)

Also consider regulatory guidelines, proposed rulings, and studies such as:

- › The Securities and Exchange Commission’s proposed ruling on climate-related disclosures (pending)
- › The Climate Corporate Data Accountability Act (California SB 253)
- › The Climate-Related Financial Risk Act (California SB 261)
- › California Environmental Quality Act (CEQA)
- › National Environmental Policy Act (NEPA)
- › The Inflation Reduction Act of 2022
- › California Global Warming Solutions Act (SB 32)
- › NYSE Section 303A Corporate Governance Rules
- › Toxic Release Inventory Program, including new rules for PFAS

Add to that international standards, regulations, and programs such as:

- › New Zealand: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021
- › EU: Corporate Sustainability Due Diligence Directive (CSDDD)
- › EU: Corporate Sustainability Reporting Directive (CSRD)
- › UK: Streamlined Energy and Carbon Reporting (SECR)
- › UK: Energy Savings Opportunity Scheme (ESOS)
- › UK: TCFD-aligned climate-related disclosure requirements (finalized 2022)
- › Australia: National Greenhouse Gas Emissions Reporting (NGER)
- › Germany: Supply Chain Due Diligence Act (SCDDA)





Gathering, standardizing, and managing your data

Once you've identified material topics, risks, and metrics, you are ready to begin data collection and standardization. Where is your data, and what's the best way to gather it? Many organizations struggle to identify, collect, and reconcile sustainability data that comes from disparate and diverse sources.

However you collect your data—whether via robust automated platforms or more manually—the data needs to be standardized and managed so that it is accessible and usable. Consider how the data will be handled and optimize your systems for use in technology solutions, for consistency in reporting, and with any specifications you share with the gatekeepers of that data.

Standardization processes should aim for consistency in what is measured (or normalization of data), consistency in how it is measured, and consistency year-over-year. For example, many companies monitor metrics

such as reduction in energy consumption or water use per *unit* of production, while others measure absolute energy or water reductions *companywide*, and still others monitor across their *supply chain*.

Accurate and timely data collection is the key to making informed decisions and driving efficiencies in your business. While technology platforms will help you manage, analyze, and report, in many cases, your staff will have to spend time identifying and gathering information from different sources around the organization—for benchmarking as well as monitoring ongoing operations.

Rather than tackling this on your own or assigning it to your critical personnel, you may consider outsourcing the initial and ongoing data gathering and standardization processes to ensure the accuracy, quality, and timeliness.

Evolving Technology Solutions

If your centralized system for capturing, compiling, and reporting your sustainability data is based on spreadsheets or physical file folders, consider a more robust technology solution to help you drive efficiency in your data systems.

The need for consistent, reliable ESG data will only continue to grow, and solutions are becoming more cost-effective all the time. The difference between manual data systems and newer software solutions can be significant in terms of time and resources. Take into account the data itself as well as business intelligence tools, analytics, calculations, and traceability, and suddenly there is quite a lot more hinging on the efficiency and reliability of your ESG data systems. Solutions include buying and integrating software into your enterprise system and utilizing the increasing variety of Software-as-a-Service (SaaS or cloud-based) solutions that are available.

The volume and complexity of most ESG data demand a robust platform that can be easily accessed and updated.

For example, cloud-based platforms can be accessed in real time by staff throughout your company's business units, facilities, vehicles, and supply chains. These platforms allow emissions factors and reporting requirements, for example, to be easily updated, allowing you to identify trends and best practices across your organization based upon current and accurate data.

When evaluating technology solutions, consider:

- › Which modules to include or exclude
- › Hardware requirements for the collecting or inputting of data into the system
- › The costs and benefits of a spectrum of sophisticated features, from advances in interval/real-time data collection to sophisticated algorithms



Conclusion

The data challenges that sustainability professionals face should be seen as opportunities.

A good indicator of how these opportunities will grow can be found in the projected growth in assets under management across ESG funds. At the end of March 2023, these stood at about \$33.3 trillion globally.⁴ According to a recent Bloomberg study,⁵ ESG assets under management will grow to \$53 trillion by 2025, while a Dow Jones survey found that financial leaders predict that current ESG investments will more than double by the same year.⁶

If companies want to be part of this growing portfolio, they need to set targets, put plans in place, and demonstrate progress.

The keys are determining the critical issues and relevant data for you and your stakeholders; prioritizing that data to narrow your universe; collecting that data into standard formats; and finding and using the best tools to help manage and apply that data.

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