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Finance for a sustainable future: Building trust with data and reporting

Finance for a sustainable future

Regulators aren’t the lone audience for data that substantiates progress on sustainability. Investors demand it, too—and they have high standards for the visibility and trustworthiness of the information you share.

Investors want to trust the companies they do business with—on earnings, forecasts, and other data-driven indicators. Now they have a new arena in which trust matters immensely: sustainability. Investors now view sustainability information as part of the due diligence process, and environmental, social, and governance data combine with financial data to make that process whole in their eyes. For companies and their CFOs, this creates a challenge: how to make sustainability data as transparent and trustworthy as investors demand.

And the investors' demands are acute. New research conducted jointly by Deloitte and The Fletcher School at Tufts University found that 80 percent of US institutional investors use sustainability information when they make investment decisions.[1] If the data weighs so heavily in high-stakes investment decisions, it follows that the trustworthiness of that data is paramount. This is consistent with enterprise-wide mandates to build "trust equity"—the amount of trust an organization has accumulated with its stakeholders over time. Note that the definition focuses on the trust accumulated by *doing*—not only *saying*. Organizational trust, or its lack, can create or erode value[2], correlating trust with customer loyalty, employee engagement, and financial results.

What's the takeaway? Because investment runs on data, today's sustainability mandate goes beyond *doing*; it's the *showing* that builds trust as well. Having reliable, transparent, trustworthy sustainability data is not only a matter for regulatory reporting but also a key to demonstrating value—as well as a lever for creating it. In one study, trustworthy companies outperformed other businesses by up to 400 percent.[3] Conversely, if an organization's sustainability data is opaque, ill-substantiated, or poorly communicated, there's a risk that trust may erode. If that happens, it may not reflect a lack of faith in the organization's reporting but may instead indicate how important sustainability is to the organization's performance, transitional risk posture, and ability to deliver returns.

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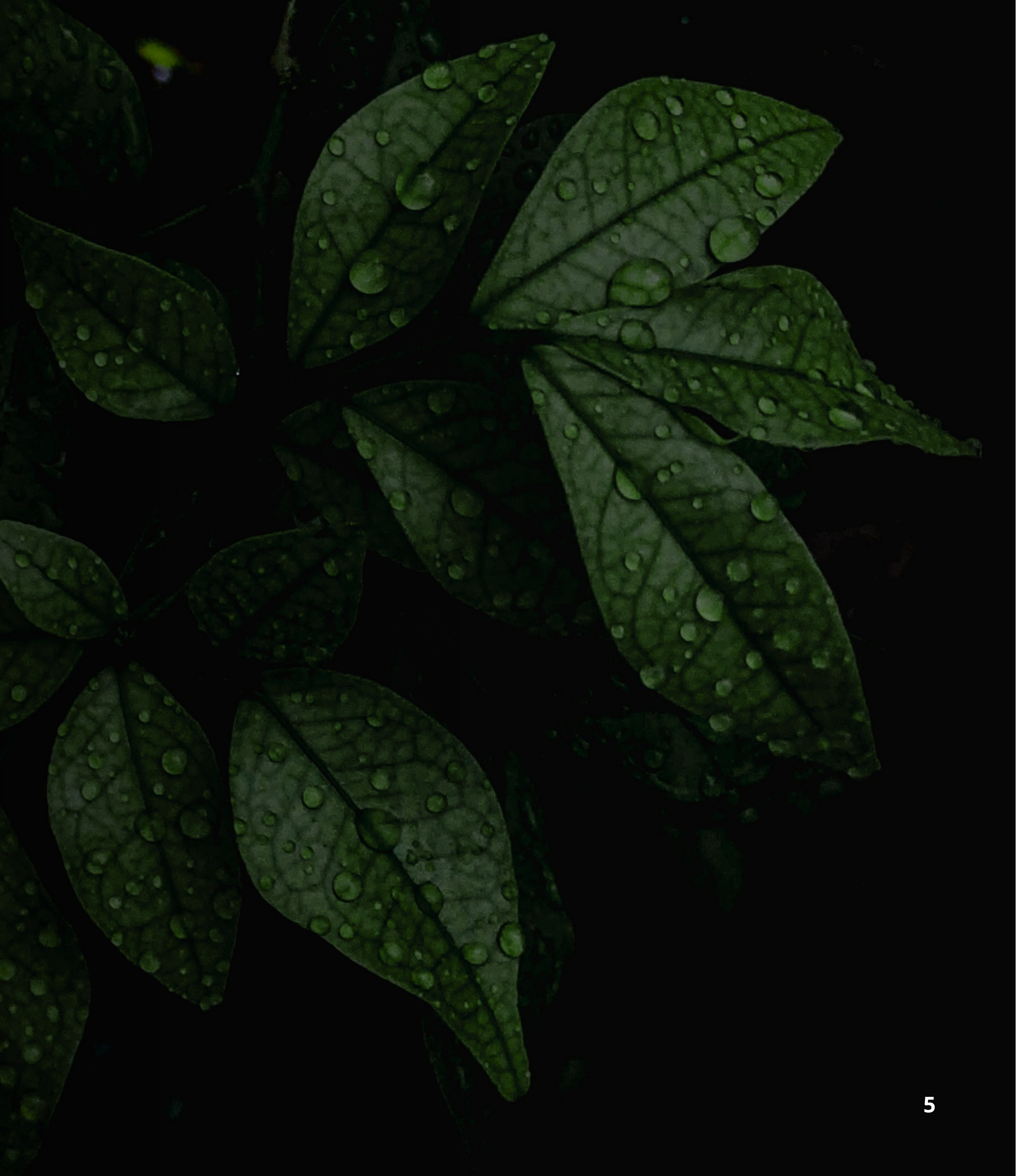
Sources of trust, drivers of value

What drives trust and trust equity in an organization? Deloitte has identified more than 90 trust drivers across 18 enterprise domains like authentic leadership, customer experience, supply chain resilience, cyber security, compliance and other areas. Notable among them are financial integrity and data integrity. Both of those lie at the heart of a company's ability to carry out sustainability reporting in a trustworthy manner.



Evolution in reporting is not new.

Consider the ways Generally Accepted Accounting Principles (GAAP) emerged from regulatory responses to the Great Depression, with International Financial Reporting Standards (IFRS®) arising to replace GAAP beginning early in this century. The growing need to report on sustainability in a trustworthy fashion is a similar shift, driven by large external forces and taking shape over time.

There's more than one type of "sustainability" in play here.

There's the work of sustaining our planetary environment—and the work of building and sustaining each company's health, growth, and future prospects. Trust and financial integrity are vital means to that end. They mutually reinforce each other, and the CFO and the finance team are positioned to drive that process.

This isn't the first time you've heard that sustainability has a business case and driver of value.

What's new is that realizing that value takes more than the intent and more than the action—companies need to substantiate their sustainability achievements to a high standard. In other words, investors need data they can trust before they put their money where their mouths are.

When trust is at stake, companies trust the CFO

That puts sustainability data in the same elevated category as other critical data a company provides to regulators, auditors, analysts, and investors. And that puts it squarely in the CFO's area of responsibility. The data that backs up a company's sustainability commitments should be audited, assured, and presented in a clear, consistent way.

Trustworthy sustainability data is important for CFOs in part because sustainability has become an important component in financial statements, and in part because gathering and verifying the required data requires the organization to make a significant investment in measurement and reporting capabilities.

The Deloitte-Fletcher research has found that global institutional investors are most likely to trust either their own in-house data systems or corporate disclosures that are audited or assured. Surveyed institutional investors lack trust in the unaudited information a company self-reports and is the least used data. The same research found that sustainability investing is important to US institutional investors, and 83 percent have sustainability policies in place.[4]

There's one place where the comparison to other data falls short. In many financial and other compliance areas, CFOs are managing data in accordance with well-established regulatory and reporting standards. In the sustainability arena, regulations around the world are still evolving. Yet the investor demand for trust and clarity is happening right now. Once regulations are in place, the consistency and standardization they provide may clarify the landscape. But in the meantime, investors are relying on what companies decide to report.

While the clarity of available data lags, organizations may be tempted to engage in what has been termed "greenhushing"—holding back on some information, perhaps because it's difficult to provide with precision. The reasoning? Better to say nothing than to be found in error or to fall short of commitments. Yet this can have unforeseen competitive consequences because some rating agencies publish comparative lead tables that put different companies' sustainability information side by side. No reporting organization or data point exists in a vacuum, and if someone shows progress where you report nothing, the reputational impact can be immediate.

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All of this means CFOs need to stay ahead of the curve in their sustainability approaches. It may also confer an advantage on companies that earn trust by providing clear, trustworthy data before they're required to. It isn't enough to "do" sustainability data. You have to do it well, do it for the right reasons, and meet standards for transparency and clarity that may not be in effect yet.

In this environment, the potential benefits of CFO action are potentially significant and, if you consider investors to be a form of "customers," the implications are large. The CFO and the finance team play a vital role in demonstrating this relationship between actions and outcomes: to establish trust as a strategic imperative based on well-defined metrics and to lead stakeholders through the steps it takes to apply these lessons to sustainability.

Select sustainability reporting laws and standards

	The EU's Corporate Sustainability Reporting directive	The International Sustainability Standards Board's (ISSB) IFRS® Sustainability Disclosures Standards S1 and S2	California's Climate Accountability Package	US SEC Climate Disclosure Rule
INTRODUCED IN	Dec 2022	Jun 2023	Oct 2023	Mar 2022
EFFECTIVE FROM	Jan 2024	Jan 2024	Jan 2026	2025

Obstacles to overcome

The resolve to evolve sustainability data and trust is like sustainability itself—easy to declare and difficult to execute. In Deloitte's 2023 CxO Sustainability Report, executives across industries ranked the "difficulty of measuring environmental impact" as the most frequently cited obstacle in their sustainability efforts. In addition, many large organizations continue to aggregate sustainability data on spreadsheets, which makes it difficult to trace individual pieces of information—for example, at the asset or facility level—back to their sources.

When sustainability data or its lineage is missing or incomplete, that isn't by itself "untrustworthy"—but it doesn't contribute to trust either. These grey areas are among the most difficult to navigate.

One way to address that concern is with a deliberate focus on Sustainability Data Management. By pairing physical sustainability measures with data management that includes broad collection, third-party integration, supplier tracking, and other measures, it becomes easier to establish granular visibility into sustainability performance and satisfy stakeholder demands.

Remember that there is more to achieve with sound sustainability data than the positive of building new trust and value. There are also negatives to overcome. When you work to justify the return on sustainability investments, part of your audience includes people who may doubt the entire exercise.

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One step at a time

As we help our clients navigate these times of uncertainty, we dive into some insights in our recent global survey *Earning trust with investors through better sustainability data*. Based on our research and other resources, we were able to uncover four actions that can help earn investors' trust in corporate sustainability commitments.

Strengthen sustainable governance capabilities through greater coordination across the C-suite and everywhere data is gathered.

While the Chief Sustainability Officer (CSO) may drive the organization's sustainability strategy, all C-suite leaders, the board, and managers across the business have roles to play for an organization to reliably execute its sustainability commitments.

Education about sustainability goals should span the business, so people understand the data they're gathering and passing up the chain instead of delivering it blindly. More than 60 percent of responses to a 2023 global survey of board directors[5] say that sustainability will be the top issue that affects trust in the next one to three years—ahead of other issues such as customer experience and cyber security.

Invest in sustainability measurement, reporting systems, and compliance solutions to enable more robust, higher-quality disclosures.

Establishing trust with investors is not a "one-and-done" objective. Many large corporations have already begun developing sophisticated reporting capabilities to get ahead of impending regulatory requirements. Recent research indicates sales of software solutions that help companies track and report on sustainability metrics will likely surpass US$1 billion in 2024.[6] Companies should strive to gather and report data in a granular manner at the facility, asset, or product levels so they can "prove it in the shopping cart."

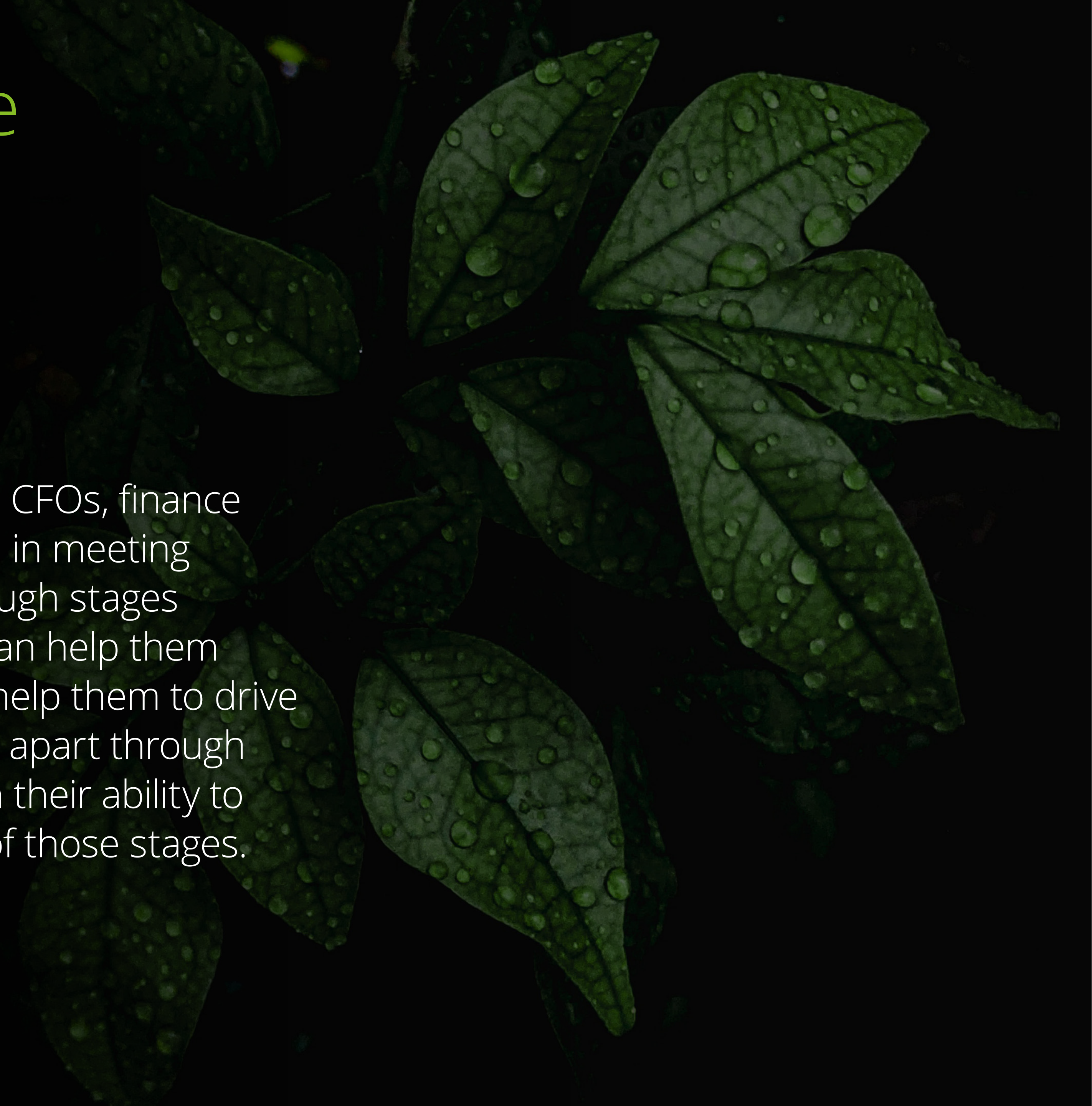
Back up sustainability disclosures with third-party assurance.

Investors trust assured disclosures as much as their own proprietary data.[7] Audited or assured disclosures provide the transparency in sustainability information that investors seek. Not only are these sources more trusted, but more experienced sustainability investors from our survey were more likely to employ audited or assured and in-house data. This suggests that as other investors gain experience, they too will increasingly rely on these data sources.

Lead with investor engagement to tell your sustainability story.

Investor engagement provides an opportunity to address potential issues, foster transparency and accountability, and earn trust. Respondents to our survey with a minimum of two years implementing a sustainable investment policy state they are 1.5 times more likely[8] to regularly use an active sustainability investment strategy, meaning they may vote their proxies, engage in dialogue with corporate leaders, and make shareholder proposals. In that kind of dialogue, trust runs both ways and can work for companies' and investors' mutual benefit: Anecdotal evidence shows investors respect and reward good-faith efforts at engagement and transparency, even if the short-term results have rough edges. As one observer put it, "Have an active conversation, not an annual one."

Survive, drive, and thrive



No change, however vital, happens instantly. As CFOs, finance teams, and organizations feel their way forward in meeting these demands, they are likely to progress through stages of maturity and action. Meeting extant needs can help them survive. Embarking on meaningful change can help them to drive forward. And organizations that set themselves apart through effective, innovative new measures can unleash their ability to thrive. Let's look at what may distinguish each of those stages.

Survive

To keep up right now, an organization needs at least to have a handle on its data —which starts with moving off spreadsheets to systems that can trace information back to its granular sources. It should be able to inject operational information into its reporting, take coordinated action, and make recommendations across the organization, which requires the CFO to be conversant in all the non-finance areas now subject to reporting. It's also foundational for an organization to define what "trust" means within its own context, make sure everyone shares that understanding, and apply that understanding to sustainability. Failing to do so can erode trust from the outset.

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Drive

At this level, an organization should be able to pair regulatory and reporting compliance with steps that also build trust in the process. That means unlocking operational excellence in the act of reporting itself. And that mandate starts in the CFO's office, where exhibiting the qualities of a trusted leader has a tangible impact on outcomes. A 2023 Deloitte study found that the competencies that most affect a CFO's ability to project trusted leadership are "displays high integrity and honesty," "develops strategic perspective," "inspires and motivates others, "communicates powerfully and prolifically," and "solves problems and analyzes issues." To meet this standard, CFOs should take a big-picture view of the different players and their priorities[9].

This is also a good time to lay an operational foundation by establishing well-defined specific performance indicators (KPIs) of trust that the organization can continually measure and use to inform sustainability-related decisions. Part of that should involve establishing visibility into the data that's flowing into your system, including information from entities with whom you do not have a contractual relationship.

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Thrive

Organizations that tackle these challenges have in place end-to-end systems of internal audit and external assurance that document systems and processes with confidence and agility. With greater internal visibility and confidence, they can use their reporting not only to monitor performance, but also to identify opportunities for new products, solutions, and avenues of value. Their sustainability data practices embrace not only the present but also the road ahead. They embrace the perspective investors already have—that sustainability is an issue among companies, not siloed within each one—and they understand that as regulations mature, the things they get “extra credit” for reporting today may become strict requirements later on. Above all, they appreciate trust as more than a standard to meet, but as a value lever to carry the organization forward.

Their sustainability data practices embrace not only the present but also the road ahead.

Sustainability isn’t a new concern, but today’s environment is more nuanced.

Amid heightened expectations—and the need to dispel misgivings about “greenwashing”—it’s no longer enough just to “check the box” in a way that might have sufficed only a few years ago. Investors want more confidence, and that comes from you—in the form of sound data that’s full, coherent, audited, assured, and available. Remember that they are in the middle of the trust environment: Investors need to trust what you tell them because they need to earn the trust of their own stakeholders in turn. Your data becomes their data. Trust gained or lost travels up and down the value chain.

Sustainability isn’t a new concern, but today’s environment is more nuanced.

If sustainability were a “yes or no” question for CFOs, there would likely be little difficulty getting to “yes.” But every concern, however critical, exists among a real-world mixture of competing demands on an executive’s attention. With all the other pressures they face, some CFOs may find sustainability near the bottom of today’s to-do lists. Others may be taking a deliberate wait-and-see approach while their counterparts pressure-test the new reality. While they cede the field to first-movers, they are continuing to treat sustainability as a matter of liability management and not value creation.

But the views Deloitte’s research found among investors is real, and real-time: Our respondents aren’t in wait-and-see mode. They want trustworthy sustainability data now, which turns up the pressure on CFOs to make it a priority. CFOs who wait out the competition, or wait for regulation to clarify, may miss investor and value-creation opportunities in the near term.

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