Achieving ESG Goals in 2024: **Strategies for CSOs and CEOs**

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Raising the stakes for ESG – Key Trends for 2024

The focus on ESG has exponentially increased in recent years with heightened pressure on climate action and greater attention from regulators, investors, and customers. ESG is here to stay, and stakes are set to rise higher. Let us look at some of the key trends that could impact ESG in 2024.

1. Increasing ESG regulations will reshape corporate strategies.
2. ESG investing outlook remains positive despite the scrutiny.
3. Pressure to avoid 'Greenwashing' is increasing.
4. ESG risks in the supply chain cannot be ignored anymore.

Increasing ESG regulations will reshape corporate strategies.

An increasing number of ESG regulations across multiple regions are pushing for greater transparency on ESG-related matters to enable more informed decision-making. Some of these key ESG regulations are coming into effect from 2024 and beyond and will usher into a broader mandatory disclosure era.

Among these key ESG regulations is the Corporate Sustainability Reporting Directive (CSRD) rules in the EU, which requires all large and all listed companies to disclose ESG risks, opportunities, and impacts. The rules will apply for the reporting period 2024. In the US, the SEC has proposed Climate-Related Disclosure rules that require companies to include certain climate-related disclosures in their registration statements and periodic reports. The state of California has recently passed two climate disclosure laws impacting all major companies with operations in California. Similar disclosure regulations are also catching up in other regions, for example, India has made ESG disclosure under BRSR reports mandatory for the top 1000 listed companies.

The ESG disclosure regulations place an emphasis on 'materiality' and companies are required to demonstrate how material ESG risks and opportunities are being addressed including the progress made. This in turn could reshape corporate strategies. The regulations also intend to cover medium and small enterprises over a period of time, signaling that ESG is not just meant for large enterprises.

ESG investing outlook remains positive despite the scrutiny.

ESG or Sustainable investing more than doubled in the last 5 years, reaching over 3 trillion USD in AUM in 2023. However, ESG has also faced intense scrutiny in the past couple of years with criticism from certain quarters, especially in the US on integrating ESG into investment decisions and related disclosures. A combination of macroeconomic and geopolitical concerns may have contributed to this scrutiny.

Despite these concerns, ESG or Sustainable investing outlook is positive. In the first half of 2023, sustainable AUM hit a record high of 7.9% of the global total AUM reflecting the investor demand for sustainable equity and fixed-income funds. The growing interest among the younger generation could be a key factor to propel the demand for sustainable investing in the coming decade. A survey of US millennials in 2021 indicated that 99% are interested in sustainable investing. The demand for robust and accurate ESG data will also continue to increase to aid investment decision-making.

The 'push' from regulations and the 'pull' from investors will drive companies to enhance their ESG data and disclosures.

Verdantix agrees, predicting that 'voluntary sustainability reporting investments will increase, to produce decision-useful material for corporates and their key stakeholders.'

Kim Knickle
Research Director, ESG & Sustainability Practice, Verdantix

Pressure to avoid 'Greenwashing' is increasing.

Customers are wary of exaggerated 'greenwashing' claims which often lack evidence. An EU-wide survey revealed that 42% of 'green' online claims were exaggerated, false, or deceptive.

Regulators are stepping in to define more prescriptive guidelines on what can qualify as 'green' or 'sustainable'. The finance industry, in particular, has received much attention, with the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation aiming to establish common EU-wide definitions of economic activities that qualify as sustainable and regulate the financial products and advisory around sustainable investing. The EU Parliament and Council have also reached a provisional agreement to ban misleading sustainability claims and provide consumers with better product information. This is an emerging topic in other regions as well.

With increased scrutiny from customers and regulators, 'greenwashing' is set to become harder, and companies will be under pressure to substantiate their 'green' or 'sustainable' claims.

"Recent greenwashing accusations illustrate the gap between ESG commitments and action, and it especially showcases firms' lack of data and processes to give assurances on their sustainability progress."

Aatish Dedhia
CoFounder & CEO, Lythouse, and Zycus.

ESG risks in the supply chain cannot be ignored anymore.

ESG risks in the supply chain are complex, undetected and under-investigated. Calls for companies to take accountability for ESG impacts in the supply chain have been consistently increasing, and emerging geopolitical risks are adding pressure to enhance supply chain transparency and build resilience.

ESG disclosure regulations like CSRD, proposed SEC climate disclosure rules and voluntary frameworks like SBTi are pushing companies to measure and report on Scope 3 emissions if material. The EU Carbon Border Adjustment Mechanism (CBAM) coming into effect in 2026 aims to address the embedded emissions in the supply chain of goods entering the EU. Many countries have modern slavery or conflict mineral laws that require companies to assess and report on human rights risks in the supply chain. The EU has adopted a proposal for a Directive on Corporate Sustainability Due Diligence that aims to establish responsibilities for companies for addressing human rights and environmental impacts in the company's operations, subsidiaries, and value chains.

It is about time that companies establish greater supply chain transparency to identify ESG risks and develop strategies to mitigate them. This requires collaborative efforts across the supply chain.

Key challenges to tackle the rising stakes for ESG in 2024

ESG culture

ShapeESG is not a key proposition for building the corporate culture, even though the ESG agenda is cross-cutting and impacts almost all business functions. ESG is not strategically embedded into the business plans and trickled down to operations, leading to limited or no understanding of ESG goals or strategies across different business functions. At the same time, ESG is emerging as an important aspect of attracting and retaining talent as the younger workforce wants to associate themselves with companies demonstrating a strong sustainability culture.

41% of CEOs stated that they were reevaluating their core purpose to address sustainability and build resilience.

ESG measurement and data

ESG topics are vast and defining what is ‘material’ is complex. The measurement of such ‘material’ topic metrics is even more complex owing to multiple factors such as non-standard and inconsistent frameworks, incomplete and inaccurate data from disparate sources, manual or semi-automated data management, and lack of real-time insights.

63% of CEOs indicated that difficulty in measuring ESG data across the value chain is a barrier to sustainability in their industry.

ESG in the supply chain

Upstream and downstream supply chains in many industries contribute significantly to ESG impacts. Companies struggle to establish transparency across the supply chain and the challenges compound as supply chains spread to multiple sub-tiers. The traditional supply chains are not designed for circular and sustainable business models. Supply chain functions are not equipped with a clear case for a 'sustainable supply chain' and suppliers may often lack the incentives and knowledge to make ESG improvements. This could result in resistance both internally and externally to optimize and redesign supply chains for lower ESG impact

Supply chains generate around 60% of global emissions and just eight supply chains together account for more than 50% of global emissions.

ESG trust

ESG claims of companies are under scrutiny and may fail to elicit stakeholder trust in the absence of credible substantiation. This impacts the overall brand reputation and value and could derail the focus on ESG improvements.

68% of CEOs state that their current ESG progress is not strong enough to withstand potential scrutiny from stakeholders or shareholders.

Key strategies for CSOs

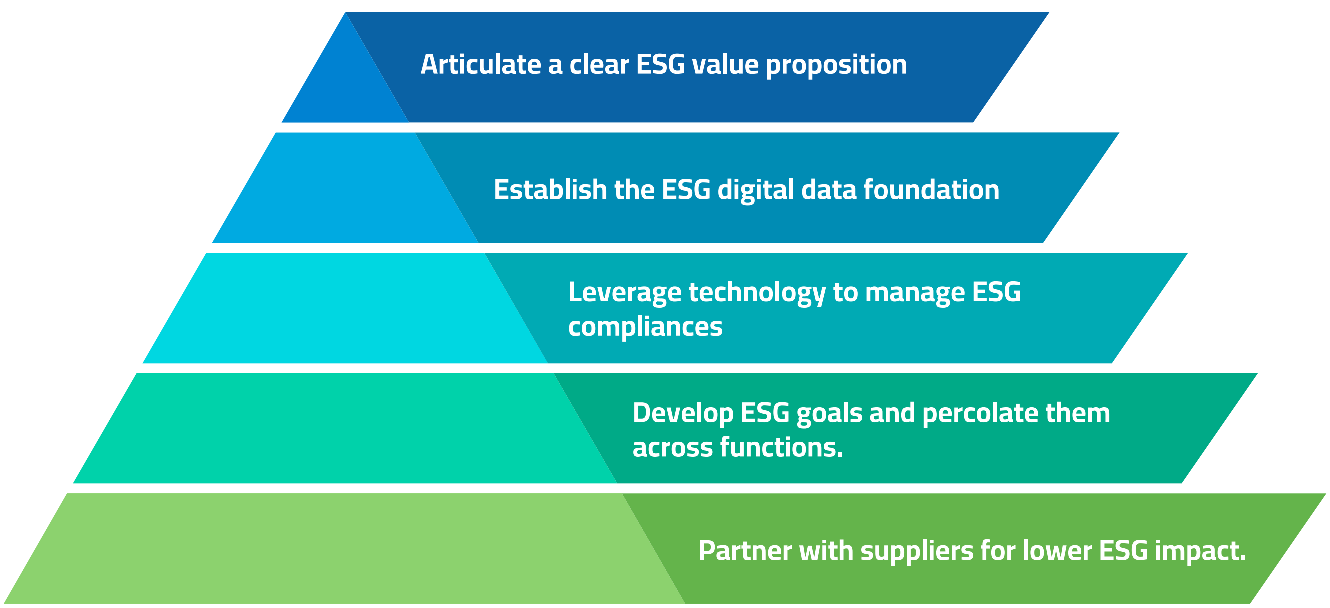
The role of Chief Sustainability Officer (CSO) is rapidly evolving, and a greater number of companies are moving towards establishing a dedicated CSO role. The CSO role is also evolving to be of strategic impact at C-suite level.

Kim Knickle
Research Director, ESG & Sustainability Practice, Verdantix

Even though ESG is a team sport, you still need a leader.

According to Verdantix's Global Corporate Survey 2023, in **87%** of organizations, CSOs are the leading contributor or a significant contributor in defining their firm's ESG and sustainability strategy.

To drive the ESG agenda in 2024, CSOs will have to pursue strategic priorities that deliver value to both the company and its stakeholders. Let us look at some of the key strategies for CSOs.



Articulate a clear ESG value proposition.

ESG needs a clear value proposition to galvanize the company's efforts and resources. The proposition should be based on value creation for both the company and its stakeholders and not either/or. As the company's resources are limited, it is imperative for CSOs to be guided by 'double materiality' to identify key material ESG themes from the vast ESG topic library and prioritize them. The value proposition should also be tangible to support actionable business plans with viable investments. With a multitude of ESG expectations from different stakeholders, CSOs should facilitate a thorough **'materiality assessment'** to identify the transformational bets and incremental improvements. The transformational bets such as 'net-zero' pathways can significantly inform business strategies while incremental improvements can focus on efficiency measures.

Establish the ESG digital data foundation.

Managing disparate and vast-ranging ESG data is a key challenge for many companies and the strategic imperative to establish a solid ESG data core foundation ranks very high for CSOs priorities. Mapping the use cases of ESG data, identifying the data sources, harmonizing the data, and using advanced analytics and data visualization are critical to managing the ever-increasing ESG data demand. The use of AI and technologies like Blockchain are fast emerging to support the demand for actionable insights. This can only be achieved by leveraging technology and moving beyond manual or Excel-based ESG data management. CSOs should invest in smart digital solutions for ESG. Complex topics like decarbonization need intelligent **'carbon analyzer'** to accurately measure, monitor, and manage emissions.

Leverage technology to manage ESG compliance.

CSO function is typically responsible for managing ESG compliance or supporting them in certain cases. ESG disclosure regulations are on the rise. Some focus on wide-ranging ESG disclosures while some of specific topics such as climate-related disclosures. ESG functions today spend a lot of manual effort in managing these compliances. Most of the disclosure compliances are derivatives of underlying core ESG data with various forms of representation. CSOs can significantly cut down the time and effort spent on managing compliance by investing in a comprehensive **'reporting solution'** that can transform ESG data into ready-to-share compliance reports for different reporting needs. The data and compliance reporting are also subject to both internal and external validation to enhance the data quality and credibility. By digitally managing the workflows around data collection, analysis, and reporting, CSOs can improve the credibility of ESG claims and performance. The ESG assurance process itself can be managed through these solutions via auditor workflows and collaboration.

> Having a fully configurable platform that allows you to adapt to changing regulations and standards, material topic changes, even with mergers & acquisitions, and allows you to retain calculation methodologies is key.

J R VanOrder
Principal Sustainability & EHS Digital Services, EY

Develop ESG goals and percolate them across functions.

Developing ESG goals and KPIs is critical and even more critical is to consistently trickle-down these goals across the business functions. In this activity of developing ESG goals and KPIs, CSOs should align with relevant international and national ESG frameworks such as UNGC, UN SDGs, SBTi etc to not only make the ESG goals relevant to the company but also measurable against accepted standards and guidance. These goals and KPIs have to be further integrated into business plans across functions and trickle down to an operational level. CSOs can use smart 'goal navigators' to seamlessly manage global initiatives, track KPIs and progress, and enable collaboration.

Partner with suppliers for lower ESG impact.

Supply chains are critical to managing ESG impacts like Scope 3 emissions decarbonization or social compliances like human rights. Companies have to partner with suppliers to educate and enable them on the ESG agenda. The traditional supplier engagement models focus on technical and commercial parameters. ESG has to be strategically embedded across the supplier lifecycle starting from supplier discovery, sourcing, negotiations, onboarding, contracting, and performance management. CSOs should work together with the supply chain functions to ensure that the right ESG partnerships are established in the supply chain. 'Green supplier' tools that can easily interface and integrate with traditional supply chain systems can help in driving ESG supplier networks.

Key strategies for CEOs

ESG has substantially moved up in the CEOs' agenda and has become one of their top priorities. A staggering 98% of CEOs believe that it is their role to make their business more sustainable . Let us look at some of key ESG strategies that CEOs should focus on in 2024.

Build an inclusive ESG culture.

CEOs should lead by example to truly embed ESG within the company culture. ESG, beyond reporting and compliance management, should support decision-making across the company. ESG can impact product development, new revenue models, cost optimization, operational efficiency, capital raising, and brand value. CEOs should therefore endorse a clear company purpose that reflects sustainability ambitions and translate the purpose into tangible goals. ESG agenda has to be inclusive to cut across the organization. CEOs can use strategic tools like **'goal navigators'** to develop and drill the ESG goals and KPIs across the company and also manage global initiatives. CEOs are also increasingly expected to express or take a stand on key ESG issues publicly, and enabling an ESG culture within the company can galvanize the efforts to be consistent with the public posture of the CEO on such issues.

Inspire innovation for more circular and sustainable business models.

The pressure to decarbonize and innovate for more circular and sustainable business models is ever-increasing. Visionary CEOs are using sustainability to fuel innovation and explore new business models that have lesser sustainability impact. In the resource-constraint world, CEOs can inspire business functions to innovate by challenging traditional business models and be guided by real-time ESG insights using executive **'ESG dashboards'** or **'carbon analyzers'** or **'goal navigators'** to track progress. These insights can also support key investment decisions and manage investor ESG expectations.

Drive collaborative industry solutions.

Sustainability solutions for complex problems like climate change need a concerted collaborative approach with industry players and upstream and downstream partners. CEOs can champion the cause of collaborative solutions and enable a symbiotic ecosystem approach. This could be through shared goals with key industry players and suppliers. For example, **'goal navigators'** can support common industry goals, and **'green supplier networks'** can transform the industry supply chain into a more sustainable supply chain.

92% of firms view ESG and sustainability as more than just a compliance exercise.

2024 is set to raise the stakes higher for ESG despite some criticism from certain quarters. Companies need to be prepared to embrace ESG more strategically as well as operationally. The regulations, especially the disclosure regulations, can reshape corporate strategies. Demands for more credible ESG data and performance will continue to increase from investors and other stakeholders. These can create a 'push' and 'pull' combinatory impact to accelerate the ESG transition. Companies also have to increasingly deal with the complex challenge of taking accountability for ESG impacts in the value chain. The geopolitical uncertainties and macroeconomic situation are forcing companies to redesign their supply chain to build resilience, but ESG will add another important layer to these decisions.

CSOs and CEOs need to drive certain key ESG strategies to future-proof the businesses for 2024 and beyond. Driving ESG culture within the company with smart tangible ESG goals and KPIs will be one of the key priorities. Investing in ESG data infrastructure and enhancing the data quality will need much attention. Simplifying ESG reporting can free up significant bandwidth for ESG functions to focus on more strategic initiatives. Companies need to expand transparency across the value chain to drive collaborations and reduce significant ESG impacts. Technology undoubtedly will play a key enabler role in this journey.

Why Zycus & Lythouse?

Zycus has built 2 core competencies over the last 2 decades

1

Scope 3 Expertise

60-70% of emissions for an organization, originate outside their organization – suppliers & the extended supply chain account for these Scope 3 Emissions.

Zycus has processed trillions in spend data, at a granular level, using its patented AI engine – Merlin – which has now been enhanced to master carbon accounting.

2

Robust supply network

You cannot traverse your ESG journey alone. You're dependent on your suppliers.

Zycus' extensive connections with millions of suppliers and a robust supplier management platform set you up for success.