Unlock value with ESG reporting

Realizing a sustainable future beyond regulatory compliance with ESG transformation

Capgemini invent

At a glance

Environmental, Social, and Governance (ESG) reporting enhances an organization's reputation, mitigates its risks, attracts investment, reinvigorates financials, facilitates regulatory compliance, fosters stakeholder trust and engagement, boosts innovation, and maximizes ESG performance. With forthright ESG disclosures, companies can build trust with investors, consumers, employees, and regulators, which results in long-term value and resilience.

Seize the moment

The strategic imperative of ESG reporting

Today, business leaders realize that a single-minded focus on growth is fundamentally incompatible with the principles of sustainability. They accept that business and operating models need a thorough shake up to better navigate complex stakeholder relations. Moreover, there is a growing consensus that failing to adopt sustainable practices can pose a long-term existential threat to organizations.[1]

With heightened awareness of climate change, social inequality, and responsible business practices among stakeholders, leaders feel obligated to set new benchmarks in transparency and accountability. Environmental, Social and Governance (ESG) reporting has come a long way since it was conceived at the turn of the century. Now, it is a pervasive business practice, regulatory mandate, and vital branding exercise.

As climate change proponents and naysayers continue to debate whether such disclosures should be mandatory or voluntary, ESG historians already understand how complementary the two positions are to one another. As voluntary ESG reporting grew in popularity, there was an alignment of the language and topics of disclosures. However, the lack of standardization and reliability was worrisome for stakeholders, particularly investors.[2] Mandatory disclosures ensure comparability but do not entirely replace voluntary disclosures. This is because many companies continue to strive for key differentiation from competitors.

Major global players continue to alter ESG dynamics. For example, the EU has passed its Corporate Sustainability Reporting Directive (CSRD),[3] Australia created its Australian Sustainability Reporting Standards (ASRS),[4] and the US has the scaled-down final rules of its Securities and Exchange Commission (SEC).[5] Clearly, the writing is on the wall for companies worldwide: ESG reporting is now a strategic imperative! Business leaders are beginning to realize such reporting demonstrates their commitment to sustainable practices, mitigates risks, drives innovation, and enhances stakeholder trust.

However, the road to redemption is not easy. Companies are facing threefold challenges:

- **The compliance challenge:** Emerging regulations across the world are not easy to cope with. The time pressure, lack of clear direction, and new regulatory requirements tend to distort a company's outlook.
- **The execution challenge:** The heterogenous ESG data landscape along with manual and fragmented processes resulted in confused responsibilities. They also led to a lack of auditability and traceability, which are major roadblocks in any ESG reporting initiative. Moreover, clients incur considerable costs.
- **The market challenge:** The cost of failure can be significant. Reputational and liability risks can negatively impact brand reputation. The perception of non-transparent communication can significantly downgrade an organization's position in the market. But successful organizations can accelerate their growth and gain a competitive advantage.

1 Capgemini (2024) *Embracing a Brighter Future: Investment Priorities for 2024*

2 Rouen, E., Sachdeva, K., and Yoon, A. (2023) *The Evolution of ESG Reports and the Role of Voluntary Standards*

3 European Union (2022) *'EU Directive: Corporate Sustainability Amendment'*

4 Australian Accounting Standards Board (2023) *'Exposure Draft ED SR1 Australian Sustainability Reporting Standards'*

5 Securities and Exchanges Commission (2024) *'The Enhancement and Standardization of Climate-Related Disclosures: Final Rule'*

Reimagining the ESG potential

Moving beyond compliance to an integrated ESG transformation

Companies can ill afford to consign ESG reporting to the operational periphery. Rather, they should leverage it to drive transformation across business functions and the entire length of the value chain. For instance, CSRD has expanded the range of reported emissions to Scope 3. The regulation can also integrate over 1,200 data points grouped together under 99 disclosure requirements, spanning tangible environmental, social, and governance topics. Companies strive to be agile and transparent in response to dynamic regulatory and market conditions, but they can only process extant disclosures with scalable systems equipped to handle extensive and diverse data.

As a standalone initiative, ESG reporting yields sub-optimal outcomes. But when it is integrated into the core business strategy and enterprise risk framework, organizations can alter internal functions and help external stakeholders gain a competitive advantage. ESG reporting can stimulate a rethink of decision-making up and down the value chain, which in turn can drive innovation, resource efficiency, and operational resilience. An integrated reporting practice empowers organizations to reinvent their operating model, improve market strategy agility, and foster a culture of transparency that appeals to stakeholder conscience.

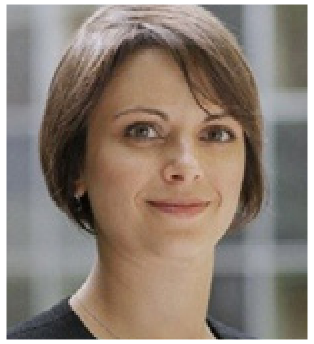
To move “beyond compliance,” organizations can make a systemic, twofold transformation:

1. **Clearly understand the perimeter of their sustainability impact:** material topics and value chain versus operational footprints.
2. **Optimize or redesign their IT and business ESG operating model:** synergize processes, data, and tools for ESG intelligence while managing change.

This can at first seem daunting, but this stage is critical to the trajectory and pace of an organization’s sustainability transition.

We are convinced that today's Double Materiality Assessments (DMAs) can be enriched and become more relevant for corporate decision-makers by adding future-oriented insights. The traditional focus on expert interviews is improved by drawing upon vast pools of data to perform data-driven horizon scanning and incorporating identified trends. At Capgemini Invent, our dedicated trend research and strategic foresight capabilities future-proof DMAs for clients. This is important because broadened emerging trends can jump-start efforts to future-proof corporate strategies overall.

–Katharina Latif, Senior Director, Sustainable Futures, Capgemini Invent Germany



Ridden with complexities, Double Materiality Assessments (DMAs) pose significant challenges for companies in terms of meticulous data gathering and analysis, as well as stakeholder engagement. To ensure a comprehensive evaluation, Capgemini Invent has devised a six-phase strategy that not only guides companies through industrialized DMA implementation but also fosters stronger trust and engagement with internal and external stakeholders, thereby enhancing overall effectiveness in the long run.

–Aurelie Lustenberger, Senior Director, Sustainable Futures, Capgemini Invent France

Understanding the perimeter

How double materiality sharpens focus and boosts accountability

Many "materiality dilemmas" originate in the divide between financial and impact materiality. The former is primarily directed at investors, focusing on financial risks and opportunities. The latter bases materiality on non-financial risks, opportunities, and impacts relevant to stakeholders beyond investors (e.g., employees, customers, suppliers, and society at large). Prominent reporting standards also diverge where materiality is concerned. The International Sustainability Standards Board (ISSB) favors financial aspects while the European Sustainability Reporting Standards (ESRS) incorporates double materiality.

In this case, double materiality is a scenario in which the organization's activities affect people and the planet on the one hand and their financials on the other. As such, the dichotomy between financial and impact materiality is only theoretical – today's impact risks are potentially tomorrow's financial risks. Forward-thinking companies can benefit from adopting double materiality before CSRD becomes a de facto global standard.[6] This is an opportunity for enterprises to deepen stakeholder trust, engagement, and understanding of sustainability goals.

Companies should move away from the traditional approach of prioritizing ESG issues based on existing strengths, competitive advantages, or immediate financial impact. Double materiality leads to a broader strategic effort, aiming to identify areas where influence is substantial and genuine impact can be made within a broader systemic context. Put simply, double materiality shifts the focus from mirroring what is suitable or perceived as important to the companies' actual impact on society.

6 Distefano, N. (2024) '*CSRD & ESRS Compliance: Challenges, Strategies and Global Impact*'

Create your own ESG cuisine

Optimizing the ESG operating model with a fusion of processes, data, and tools

Although immensely useful, ESG technology platforms are not the be-all and end-all of sustainability disclosures. It is still important to align data and processes to develop ESG intelligence.

Data serves as the foundation for ESG integration and sustainability transformation. Companies collect data from various internal and external sources, including operational metrics, supply chain information, and stakeholder feedback. But gathering all this data from various business lines, geographies, plants, and facilities can be challenging. This is particularly true when the data in question is unstandardized and fragmented. However, with robust data management systems, advanced analytics can be leveraged to identify trends, patterns, and areas for improvement. Emissions data, for instance, can enhance the visibility of decarbonization levers, which can help take informed effective mitigation pathways.

Data is undoubtedly a key enabler, but without streamlining processes for scalable orchestration, it can quickly become a burden. Companies require robust frameworks and methodologies for assessing ESG risks and opportunities, setting targets, and monitoring progress. This involves aligning ESG goals with overall business objectives, defining Key Performance Indicators (KPIs), and setting up clear accountability and governance structures. Such enterprise-wide ESG integration requires carefully planned change-management strategies and routines for a deeper acculturation. Chief Executive Officers (CEOs) along with the full C-suite need to respond by reorienting organizational values, aligning business goals and targets, and fostering a culture of ownership and continuous improvement. Moreover, customized employee training and upskilling programs are necessary to raise awareness of ESG issues and build the necessary skills for successful implementation. It is also important to establish effective change management to ensure successful adoption, collaboration, and internalized commitment across departments and functions.

All in all, it is essential to transform how companies focus on ESG reporting today, which is currently a more reactive, time sensitive, and "tick-in-the-box" activity. Companies should rather view it as a core component of their organizational fabric, worthy of being a cornerstone to organizational success, viability, and survival. There is a need for an optimized ESG operating model: synthesizing process, data, and tools.

It is a lot like cooking a delicacy: the outcome depends on the quality of the ingredients (in this case, the data). Not everything hinges upon the intricacies of the recipe (how the processes are structured). Nor does it all boil down to the appliances the cook uses (emerging technology and legacy systems). Instead, companies need to go right back to the basics and invent their own style of cuisine, customizing it to their specific needs. Success will depend on how well they exploit the synergy between data, processes, and technology. A strategy that does not consider this is half-baked.

True ESG reporting transcends environmental metrics; it is a holistic approach that equally emphasizes social dimensions and governance. It enables organizations to both hold themselves accountable and promote a more sustainable and equitable future. The industrialization of ESG reporting marks a pivotal shift to systematic processes and advanced analytics that bring precision to our narratives. By balancing the three pillars of ESG, organizations can inspire genuine progress and governance that resonates with every stakeholder.

–Alba Contreras Corrochano, Senior Director, Capgemini Invent and Engineering Spain

Redefining brand reputation

Building trust through ESG transparency

Companies must bring sustainability into the heart of strategy and uncover opportunities for value creation. It is important to make the shift from ready-to-report to ready-to-steer based on sustainability KPIs, engage in more meaningful discussions, and reach more confident decisions. Moreover, it is vital to maintain momentum with the option to refresh corporate strategies with sustainability factors and embed new priorities in processes for capital-investments decisions, portfolio design, market positioning, and other strategic matters."

–Julia Müller, Vice President, Head of Sustainable Futures, Capgemini Invent Germany

Growing awareness of ESG issues around business means that markets and stakeholders are in a better position to scrutinize corporate sustainability claims – a sharper eye than ever before. Capgemini Research Institute's survey reveals that executives are concerned the mitigation of greenwashing will disrupt investor relations, supplier vetting, customer satisfaction, brand loyalty, and risk management practices.[7] At these times, when when environmental claims are met with skepticism, companies need to go the extra mile in setting up transparent systems and upholding exceptional standards of corporate integrity. To prevent reputational damage, such as from environmental disasters or labor violations, it is critical to embed sustainability considerations in operations and along the value chain.

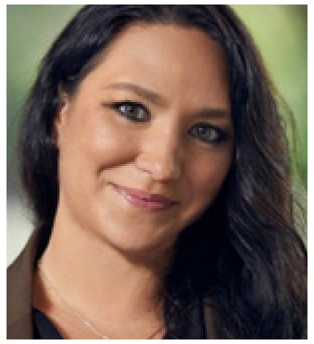
A streamlined ESG reporting discipline would provide companies with a handle on their sustainability narrative. Eventually, this would result in enhanced brand reputation. Organizations do not have the luxury of choosing between maximizing competitive advantage and commitment to conscientious practices. To be competitive, they simply must be responsible.

Despite an ever-evolving ESG landscape, companies reporting under CSRD and the SEC must prepare for an impending upgrade from limited to reasonable assurance of their disclosures. Organizations need to develop elaborate internal audit processes to oversee reporting, ensure information integrity, monitor quality control and risk management systems, and provide assurance for annual and consolidated sustainability reporting. These efforts collectively enhance transparency and reliability in the company's ESG practice, thereby improving stakeholder trust.

7 Capgemini (2022) *World in Balance*

Setting up a new Target Operating Model (TOM) for ESG reporting is crucial, and acknowledging ESG as a strategic pillar with the organization is the starting point of the ESG journey.

–Joost Ras, Enterprise Transformation, Capgemini Invent Netherlands



Companies must use ESG reporting as a launchpad to drive transformational change across the organization for a sustainable future. At Capgemini, we have developed a robust model to help companies coast through their ESG journey while addressing their three-fold challenges: the compliance challenge, the market challenge, and the execution challenge.

–Noémie Lauer, Vice President, Global Head of Sustainability, Capgemini Invent

Capgemini's clients

Setting a winning strategy

Today, business leaders must make navigating the intricacies of the sustainability imperative a top priority. ESG reporting is not only a regulatory requirement, but also an opportunity to build a brand and hone its reputation. Companies need to brace themselves for a substantial influx of data, distill ESG intelligence, and embrace a whole new operating model designed for a sustainable tomorrow. In the face of rapidly evolving stakeholder expectations, it is important to develop dynamic and agile monitoring – sometimes in real time – of sustainable performance. Furthermore, a comprehensive ESG reporting discipline, compliant with CSRD and other current regulations, demands recurring investments in technology, platforms, and tech partnerships. Companies should therefore take a future-ready approach that optimizes their investments while reducing compliance cost to create long-term value.

At Capgemini, we help our clients enhance, optimize, and industrialize their data, process, and tools at each stage of their ESG reporting transformation journey with our Sustainable Futures Performance Management System. Additionally, our Insights and Data team has created the Carbon Sustainability Data Hub. This leverages clients' existing data platform technology with an ESG data model including standardized schema, data-quality rules, and a pre-built connector to various source systems. It leverages clients' existing data platform technology. We have extensive experience in transformative GenAI, which will revolutionize ESG reporting. We believe it is vital to build a strong sustainable, transparent, and data-driven foundation in order to thrive in the evolving sphere of ESG. This enables business leaders to dynamically address diverse use cases and respond to multiple reporting requirements across geographies. Indeed, we are convinced that in the end, what really matters beyond what you report, is how companies actually use these data-driven insights to adapt their ESG trajectory. This is done by better measuring, forecasting, and monitoring their ESG impacts within the organization and across the value chain.

Additionally, our Capgemini data and AI experts have created the Sustainability Data Hub accelerator. This brings clients' existing data platform technology to our ESG data model and includes standardized schema. Additional capabilities include pre-built connectors to various source systems, and a set of data-quality and transformation rules. It also features readymade ESG reports for auditors and business stakeholders and integration with carbon calculation engines.

As an organization that has achieved excellence working at the intersection of business and IT, Capgemini can help clients transform their end-to-end ESG reporting implementation journey. Whether it is demystifying regulations, realigning business strategy, data management and analytics tool development and automation, or reporting, Capgemini customizes its value proposition to suit clients' specific needs. With a strong global presence, credible partner ecosystem, and unique strategic approach, we help our clients attain reporting leadership with the right operating model and an integrated narrative for a sustainable future.

Let's leverage ESG reporting to get the future we want: green, sustainable, just, and transparent!

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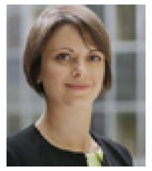

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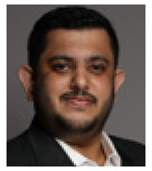

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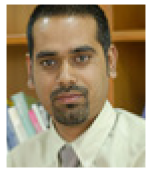

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About Capgemini

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided every day by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of nearly 350,000 team members in more than 50 countries. With its strong 55-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fueled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering, and platforms. The Group reported in 2022 global revenues of €22 billion.

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