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White Paper

Does this data come in green?

The ESG opportunity for CDOs

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Where data
& AI come to **LIFE**



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Choices, so many choices. Heralding the latest thing seems as much a part of modern technology as stack overflows and API keys. Research and development (R&D) keeps a steady stream of innovations flowing, but while trends come and go, ESG is here to stay.

Environmental, Social and Governance (ESG) isn't a technology per se, but its sweeping impact invites comparisons with the cloud, big data and AI. It's not out of place to talk about ESG early adopters and laggards. An evolving set of ethical standards for managing large organizations has landed like a new tech unicorn, ready to 'change everything'.

In that sense, embracing ESG won't make chief data officers (CDOs) cutting edge or fashion-forward. It's more a case of urgently working out how it will re-shape their tech stack, processes and operating model. One thing they can count on: board and customer demands for better ESG reporting will get louder, both to back up claims around sustainability, respond to consumer demand and to de-risk the wave of ESG regulatory regimes cresting around the globe.

CDOs will need to act, but the more forward thinking will result in synergies between what the business needs and the enabler to make ESG central to corporate strategy.

- **Boards want their firms to be — and be seen to be — more sustainable**
- **CDOs want to demonstrate corporate responsibility and drive the appropriate use of data to create value**
- **Both want reliable, ethically-defensible business results**

Operating ethically means the business is doing the right thing. It's also good business, removing barriers to sales growth, deepening customer loyalty and mitigating compliance risk.

Perfecting ESG data management and reporting is where all these objectives can intersect. What can CDOs do to align them? Leading the organization to modernize ESG data management is the natural place to begin.

Meet the author



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Failing to anticipate exposure to an ESG data risk could be career limiting.

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Weak data management is a trust barrier

Measurements of ESG performance don't speak to traditional indicators of commercial success. Instead of profit, loss, liabilities and market share, ESG metrics include progress on achieving net zero, working diligently towards product safety and protecting information privacy.

With so much room for ambiguity, how do you demonstrate you've hit an ESG benchmark? Navigating this can be complex as:

- Regulatory standards for ESG reporting are evolving, different national and regional regimes may overlap.
- Inside companies, individual departments may collect different internal and third-party data.
- The data being collected isn't financial in nature, yet financial rigor is what regulators and boards look for in ESG reporting.

Data is key to evaluating performance metrics, but creating a trustworthy store of ESG data remains a complex undertaking, requiring coordination with internal and external collaborators. This is where CDOs can lead from the front.

ESG data: defining the challenge

ESG reports aggregate a host of supplier and product information, meteorological, chemical and biology-based assessments, with metrics shaped in part by the Science-Based Targets initiative.¹ Claims around progress on ESG commitments should rely on empirical evidence to withstand scientific scrutiny.

That's made difficult by the expanding use of non-standard data from a range of disparate sources such as supplier-provided attribution and documents, data brokers and official third-party data channels. Third-party data channels include the Global Data Synchronisation Network (GDSN) and Electronic Data Interchanges (EDI), customer feedback, social media, blog posts and even satellite imagery and audio-visual media files. Unifying all these formats in a coherent data catalog requires AI-powered data discovery and integration. Once the data is unified, compliance reporting and advanced data science can begin.

Boards naturally look to CDOs to provide the data expertise, and for guidance on the systems, processes and change management needed to make ESG reporting effective, trustworthy and compliant.

¹ Science-Based Targets Initiative (SBTi)

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Compliance and beyond: The business case for better ESG reporting

Getting ESG reporting right should be more than a reactive stance to ward off compliance risk. Abiding by regulations is a basic requirement of operating a business, but there's normally a gray area — tick the boxes or embrace the full spirit and intention behind them?

The value of ESG reporting can extend beyond simply following the rules. It can be a lever that lifts financial performance, enhances stakeholder trust, helps attract and retain talent, while improving customer loyalty. Taken together those business benefits can position a company for competitive advantage.

Beyond satisfying regulators, ESG reporting can strengthen competitive advantage through:

1

Better business outcomes

Companies committed to ESG principles demonstrate improved sustainability and innovation performance.²

2

Improved stakeholder trust

Customers and investors want to support businesses that match their ethical concerns, particularly on matters related to the environment. Clear, trustworthy ESG reporting contributes to transparency and builds trust, strengthening reputation.

3

Improved talent acquisition and retention

Late Millennial and Gen-Z candidates now favor employers whose values align with their own, particularly in pursuit of goals such as achieving net zero and supporting social responsibility. By proving their ESG credentials, companies can attract employees motivated in large part by the impact their job will have on the world.

4

Improved loyalty

Consumers have become more selective about the ethical implications of the products they consume and are looking beyond labels and certifications when they make purchasing decisions. Companies that can demonstrate their commitment to sustainability are more likely to attract and keep share of wallet.

5

Reduced risk

In some digital business models (e.g. social media), the user is the product. Protecting employee and customer data and taking steps so that it is handled ethically can be vital to success.

² Sustainability, February 2023: Does ESG Impact Firms' Sustainability Performance?

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Why CDOs can't afford to get ESG wrong

Failing to provide correct ESG reporting undermines everything from regulatory compliance to reputation and investor confidence.

The downsides are considerable – penalties, accusations of greenwashing and heightened regulatory scrutiny. Companies also risk reputational damage for 'unsustainable practices' when the root causes are further up the supply chain. As ESG commitments become both a compliance and risk management priority, it's vital that CDOs can help take steps so that the appropriate governance controls have been applied to ESG data.

Some CDOs source data from ESG rating agencies. However, regulators expect that standards of data quality and governance will be applied regardless of how ESG data has been acquired. Data risks can't be outsourced.

And there are other significant business risks to consider:



Alienating investors: institutional investors and family offices are placing more weight on ESG criteria, which are now seen as signaling sound management. Inconsistent or spotty reporting leads to skepticism and can impact the decision to invest or pass on an opportunity. Since 2015 ESG investment funds have increased total assets under management by over 170%.³ Central bank-backed facilities like the Sustainable Europe Investment Plan are offering wholesale funding for sustainable projects – but only if they can quantify their contribution to the planet.⁴



Harming operational improvements: weak ESG reporting can also hold back gains in efficiency, since incomplete or inaccurate ESG data makes it harder to identify and address environmental risks. For example, which is more cost effective for product x – shipping by land or shipping by air? What if the greener option is also cheaper? Without trustworthy data, ESG-driven opportunities for reducing operational costs or gaining new inefficiencies will stay hidden.

³European Central Bank: Sustainable finance: transforming finance to finance the transformation

⁴Banco de España: The role of central banks in sustainable finance

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How CDOs can lead on ESG

Protecting the business from these kinds of risks can strengthen the CDO's role as a board-level player. Conversely, failing to anticipate, or failing to sound the alarm when an ESG data risk exposure becomes apparent, could be career limiting.

To lead on ESG reporting, it's essential for CDOs to take practical action:

Engage with regulations: A host of ESG regulatory regimes are either in force, imminent, or in the pipeline.⁵ Most take inspiration from financial services reporting, but ESG data standards aren't fully comparable to those used by publicly-listed companies and institutional investors. They are designed for use across sectors and, for the moment at least, don't undergo the iterative, multi-year development cycles established by financial regulation bodies.



Recommended action:

Collaborate with the CSO to jointly work through regulations and determine which need to be complied with and when. They also need to understand the business risks involved, such as: stranded assets, restricted market access and impact on license to operate.

Drive collaboration: As ESG reporting becomes central to the decisions behind corporate strategy, CDOs can leverage their position as lead data executive and extend their influence across the business. By working more closely with leading stakeholders including procurement, chief financial officer and chief sustainability officer, they can enhance their standing by ensuring the business's sustainability strategies are informed by data and decisions are backed by evidence.



Recommended action: Develop a plan to collaborate with third parties the business will need to collect data from. Make greater use of automation to simplify data delivery and accuracy across the organizations.

Modernize ESG data management: To report ESG outcomes with confidence, CDOs are pushing for investment in systems that can capture and govern diverse ESG data types into a single repository. It requires the technical capability to automatically discover structured and unstructured data, aggregate it, standardize it, then associate it with a known source and accepted list of users.



Recommended action: ESG can be enabled on the same backbone solution that fuels merchandising, eCommerce channels, food traceability and safety, ERP modernization and other strategic initiatives. Seek a data governance solution that can handle the unique characteristics of ESG data and allow you to create a single source of truth for trustworthy ESG analytics and reporting.

⁵ Harvard Law School Forum on Corporate Governance: Navigating the ESG landscape: Comparison of the "Big Three" Disclosure Proposals

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Choosing your solution

CDOs can choose from a long list of ESG reporting solutions and the best fit will depend on the requirements of the business and sector. Whichever solution you choose, the repository it draws from will need to provide ESG data that is correct, auditable and verifiable.

The GIGO rule normally applies — garbage in, garbage out. CDOs need to look beyond the reporting front-end and ensure that their foundation of ESG data is comprehensive, trusted, sharable and scalable for delivery across the organization. Addressing those complexities will require an advanced data management capability.

Informatica's Intelligent Data Management Cloud (IDMC) provides a centralized and controlled solution with automated, AI-driven ESG data management and with reliable governance in place.

IDMC's unique ESG capabilities include native integration with ESG rating agencies, an ESG-based data model for master data management, and embedded ESG data integration with automated data quality controls. IDMC also delivers full data observability, and the right frameworks to manage, maintain, govern, collaborate and share complete ESG data sets — plus the underlying building blocks: allow to pull in data through supplier collaboration, augment with rating agency data, enrich with emissions data and more. Cataloging is a baseline requirement and IDMC can inventory complete data sources and lineage to track data movement. Its access management controls protect ESG and other data for appropriate, responsible delivery across the organization.

ESG reporting mandates provide a perfect opportunity for modern CDOs to demonstrate their value: as enablers with the blend of technical and commercial competence that the business needs to demonstrate that it's hitting its ESG commitments.

As the organization's senior data leader, the CDO can promote positive action by making the case for systems that can unify and harmonize a variety of climatological, social, scientific and other non-financial data types.

But helping boards meet their ESG commitments is only the beginning. By modernizing data management, CDOs can take the lead in shaping how the business leverages other game-changing business trends. From digital transformation to AI, trusted and high-quality data is fundamental to harnessing them successfully.

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Where to start

To address ESG reporting mandates, look for an ESG reporting solution that brings these capabilities to the table:



Data discovery: The solution should enable data discovery across all internal IT assets, including structured, semi-structured and unstructured data. Choose a technology with broad, complete metadata connectivity. By supporting various data file formats, legacy technologies and stored procedures in database applications, an enterprise data catalog solution helps you quickly build a data catalog and automate data lineage.



Data understanding: Data governance features can help the business define critical data elements, creating a single definition across the business for key terms, such as “greenhouse gases.” Using artificial intelligence and machine learning, some tools can automatically link each business term to the underlying technical metadata. When the data is used in a field on a report, business users can easily drill down into the source of the data, providing end-to-end traceability of the data.



Data trust: Data quality capabilities help build trust in the data, allowing data lineage information to be overlaid on the actual data, which can be useful in an audit. Advanced solutions use natural language processing, enabling business users to type in simple data quality rules without any programming experience. Rules are executed against each connected source, delivering an immediate view of data quality. This self-service feature allows business users to address data quality issues at the source, propagating trusted data throughout the company’s systems.



Single view of data: Master data management features help create a single, 360-degree view of the data — for suppliers, products and customers, for example. The technology supports integration of data into data models for reporting and users can feed the data into an ESG data lake or warehouse.



Data democratization: The best solutions offer a self-service data marketplace that gives the business access to clean, trusted data. Users can then integrate ESG data into operating model decisions, allowing different business units to take strategic ESG action and demonstrate progress. They can also use the data marketplace to perform attestations for regulatory reporting.

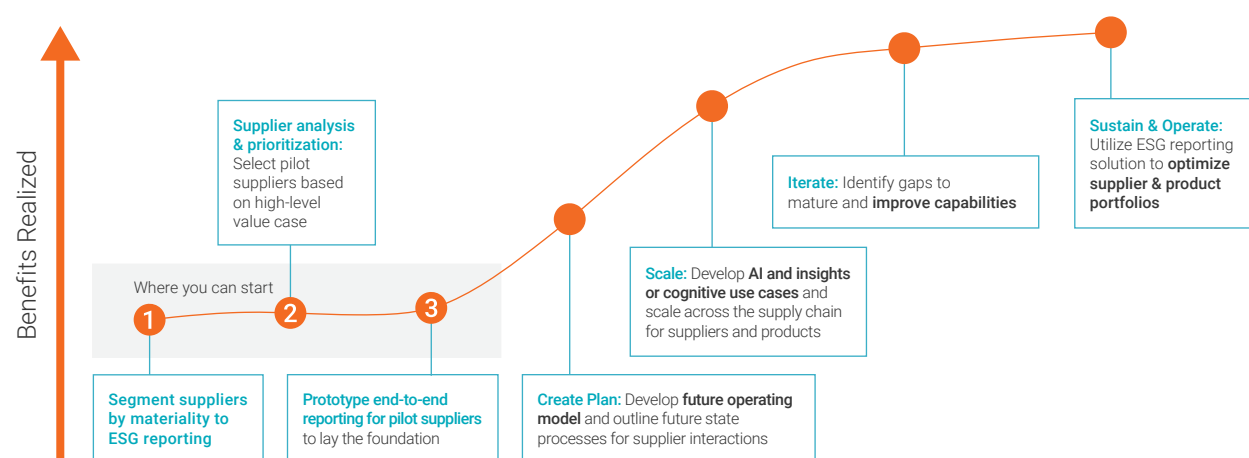


Automated data consumption: Cloud-based data marketplaces allow users outside the data science team to shop for relevant data sets. This feature is especially helpful for companies that handle a high volume of ESG-related data requests, because it automates the data consumption process.

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Scaling your ESG Reporting Solution

A pilot is the first recommended building block towards establishing a sustainability reporting use case and decision-making capability



In order to get started with your journey, you will need to **identify pilot suppliers based on product portfolio priority**, and enable their end-to-end reporting to lay the path towards a data-driven & sustainable value chain

How to scale

When the right capabilities are in place, you can implement your ESG reporting solution and scale it accordingly. A phased approach will enable you to bring business partners along on the journey and works towards a solution that delivers impactful outcomes across the business.

- 1 **Supplier pilot:**
Select 1 – 2 impactful suppliers in your supply chain, and focus on building end-to-end ESG reporting for these suppliers and their associated products
- 2 **Scaling of AI & insights:**
Build automations to scale the data consumption process, and stand up an ESG data science workbench to enable curation and use of relevant data sets
- 3 **Portfolio optimization:**
Generate insights on customer response to sustainable products and proactively monitor supplier performance to enable decision-making on both product and supplier portfolio optimization

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Deloitte and Informatica: a quarter century of success

Over the last 24 years, Deloitte and Informatica have helped more than 400 joint clients become more compliant and customer-focused. Our data-management solutions combine global expertise with best-in-class technology, consistently winning accolades for innovation, delivery and customer satisfaction.

In 2023 Deloitte was Informatica's Global Partner of the year. Together we have served clients in Financial Services, Life Sciences, Energy, Resources & Industrials, Public Sector, Media, Technology, Consumer and Hospitality.

It's more than a blending of logos. Deloitte is a key member of Informatica's advisory board influencing product strategy, roadmap and overall R&D.

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About Informatica

Informatica (NYSE: INFA) brings data and AI to life by empowering businesses to realize the transformative power of their most critical assets. When properly unlocked, data becomes a living and trusted resource that is democratized across your organization, turning chaos into clarity. Through the Informatica Intelligent Data Management Cloud™, companies are breathing life into their data to drive bigger ideas, create improved processes, and reduce costs. Powered by CLAIRE®, our AI engine, it's the only cloud dedicated to managing data of any type, pattern, complexity, or workload across any location – all on a single platform.

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