November 2024

2024 State of Corporate ESG

Navigating new frontiers in regulation and AI

Thomson Reuters Institute

Executive Summary

Last year, we released our inaugural 2023 State of Corporate ESG report,[1] launched in the midst of rising worldwide tensions that encompassed geopolitical and economic concerns, fears of trade disruption, and environmental pressures. Rising interest rates and the war in Ukraine — and now Gaza — brought into focus how new forces can rapidly emerge to upend stability. In the Northern Hemisphere, the summer of 2023 was defined by extremely damaging wildfires and heatwaves across the world, resulting in thousands of deaths, millions of displaced people, and billions of dollars of damages.[2]

These same pressures — and more — have continued well into 2024, resulting in a constantly shifting landscape for environmental, social & governance (ESG) activities. As such, we decided to focus this year's State of Corporate ESG report on these year-over-year trends to best determine how companies are approaching ESG, how their priorities have changed, and what solutions companies are putting in place to continue advancing their ESG initiatives and respond to new regulations and requirements. These are the latest changes in how companies are addressing the intersection of commerce and compliance.

To gather the data for this report, we surveyed 180 C-suite and ESG-function leaders, across a range of industries and geographies, including North America, Europe, and the Asia-Pacific region, with deep-dives on the impact of artificial intelligence (AI) and how companies are addressing regulatory requirements. And like last year, we spoke at length to eight C-suite and ESG decision-makers in a range of roles, this year focusing especially on chief financial officers (CFOs), given their growing involvement in ESG matters due to the increased regulatory scrutiny of ESG initiatives.

Last year we found that we are at a crossroads in corporate ESG management, with regulation, data, solutions, and actions maturing rapidly. This year we found that companies are performing a balancing act. On the one hand, they are trying to achieve regulatory compliance, operationalize their approach to ESG to meet assurance standards, and stay on top of new guidance and requirements, while on the other they continue to try and take advantage of opportunities arising from investing in ESG, such as enhancing their brand and reputation, improving business resilience, or de-risking supply chains, just to name a few.

This report takes a long look at the current and ever-evolving landscape around ESG and how some organizations' ESG agendas have broadened. It also examines the growing role that third-party proprietary solutions are playing in this space, as well as the roles AI and especially generative AI (GenAI), are poised to play in driving solutions that can help companies successfully navigate the complex ESG regulatory landscape. As the report demonstrates, the challenges around ESG may be significant, but there is strong desire among stakeholders — both inside and outside companies — to see organizations play a more positive, leading role in achieving a better balance with the environment and the communities in which they reside cannot be ignored.

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1 The 2023 State of Corporate ESG: How companies are embracing ESG for resilience and growth; Thomson Reuters Institute, Nov. 7, 2023; https://www.thomsonreuters.com/en-us/posts/esg/state-of-corporate-esg-report-2023.

2 75.9 Million People Living in Internal Displacement in 2023: IDMC Report; The International Organization for Migration (IOM), May 14, 2024; https://www.iom.int/news/759-million-people-living-internal-displacement-2023-idmc-report.

Key findings

- Companies are continuing to place emphasis on ESG, with year-over-year increases in the share of companies looking to lead in ESG, despite political headwinds and higher interest rates.
- ESG programs are evolving to be more compliance-focused, driven in part by regulatory requirements and placing greater scrutiny on corporate actions and plans.
- The role of CFOs has grown in some companies, bringing existing experience in regulatory reporting, assurance, and compliance into the fold of ESG management.
- An even higher share of companies are turning to third-party solutions to tackle a wide range of ESG activities, with investment increasing and scope widening from greenhouse gas (GHG) emissions to include water, waste, plastics, raw materials, human rights, governance, and more.
- ESG leaders see the vast potential for GenAI to speed-up ESG compliance, assist with accuracy, drive efficiencies, help augment resource-stretched teams, and free up resources to focus on more value-added areas beyond regulatory compliance.

Likewise, key insights from C-suite and functional leaders indicate that investment as a source of competitive advantage and ESG-aligned performance are growing. Perhaps, this is in part spurring the rise in third-party solutions from last year to this year. More specifically:

- 71% of C-suite and functional leaders said they agree or strongly agree that their company is willing to invest to use ESG as a competitive advantage, up from 60% in 2023.
- 82% agree or strongly agree that the role of ESG in corporate performance will grow in the future, up from 72% in 2023.
- 97% currently use third-party solutions related to ESG management to address at least one activity, up from 91% in 2023.

Section I: The evolving ESG landscape

This year has been yet another of evolving pressure points and volatility, including such existing concerns as geopolitical pressures and significant conflict in the Middle East. And just as political pressure from global climate commitments has intensified, Mother Nature has once again demonstrated the impacts of human activity on our planet. In May 2024, we experienced the twelfth consecutive month of record global average temperatures. [3]

Meanwhile, interest rates and economies seemed to be in a state of flux, forcing companies to rebalance priorities and make tradeoffs, including in ESG. And while this has intensified pressures on corporate profits, ESG regulation is simultaneously bringing added rigor and accountability to corporate climate commitments and actions. Further, 2024 has undoubtedly been defined by key elections happening around the world, including in India, the U.K., the European Union (EU), France, Germany, and the U.S., among others. Undoubtedly, it's already had an effect. For example, environmental levies and national investments in green initiatives received pushback in the EU elections, potentially forcing politicians to rethink the steady march towards more ESG-oriented regulation.

3 Copernicus Climate Change Service (European Commission); https://climate.copernicus.eu/copernicus-may-2024-12th-consecutive-month-record-high-temperatures.

In the U.S., flagship green policies such as the Inflation Reduction Act are up in the air as we await the election outcome. Meanwhile a court decision in the U.S. Court of Appeals for the Eighth Circuit put a pause to the implementation of new climate risk disclosure rules[4] issued by the U.S. Securities and Exchange Commission.

Yet new rules are continuing to apply, such as California's new climate disclosure rules SB-253 and SB-261,[5] as well as the European Sustainability Reporting Standards (ESRS), which covers ESG reporting and sets corporate standards for how and what to report. Indeed, the new rules are now in effect for large corporations and will cover an estimated 50,000 companies once fully rolled out.[6]

Despite the political mood shifts, our 2024 State of Corporate ESG survey report clearly reveals that many companies are continuing to push forward on their plans and initiatives. This year our survey also revealed several year-over-year comparisons in terms of how companies are approaching ESG.

In our research, we found that 78% of C-suite and functional leaders involved in the selection and usage of technology and service providers said they agree or strongly agree that leading in ESG is important to being a good corporate citizen, which up from 75% in 2023.[7]

We also found that 82% said they agree or strongly agree that the role of ESG in corporate performance will grow in the future, up from 72% who said this in 2023. Indeed, this is perhaps the clearest sign that momentum has not necessarily waned in terms of corporate attention and action in the ESG domain. That said, a subset of respondents did say that they don't believe they should focus on ESG — however there was no indication that this necessarily reflects a broader corporate response, but, rather, most likely reflects the broader societal pushback against ESG investments.

4 SEC, https://www.sec.gov/files/rules/other/2024/33-11280.pdf.

5 California Climate Disclosure Laws, Thomson Reuters Practical Law; https://www.reuters.com/practical-law-the-journal/transactional/california-climate-disclosure-laws-2023-11-01.

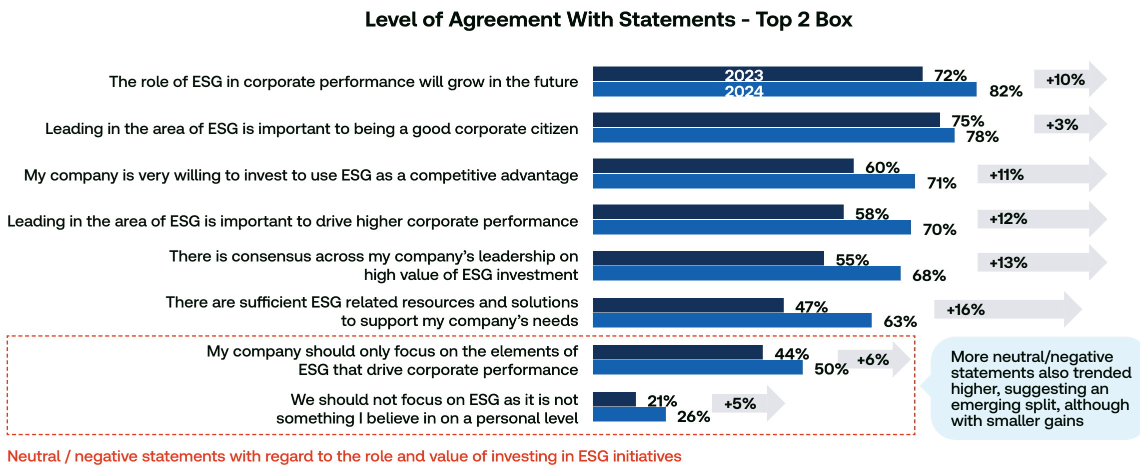
6 European Commission, https://green-business.ec.europa.eu/news/policy-paper-synergies-between-eco-management-and-audit-scheme-emas-and-corporate-sustainability-2024-04-08_en

7 Survey respondents were screened to ensure they are currently using, or planned to use in the near future, external market research and/or information-enabled software solutions and/or managed services to address a range of key activities such as keeping up to date with ESG-related topics, improving/streamlining operational efficiencies, adhering to regulatory compliance ESG standards, and conducting comprehensive due diligence of external stakeholders to ensure compliance with ESG standards, etc.

Instead, companies showed continued high willingness to invest behind ESG as a source of advantage; 71% of respondents said they agree or strongly agree that their company is willing to invest to use ESG as a competitive advantage, up from 60% in 2023. Further, 68% said they agree or strongly agree that there's a consensus across their company's leadership on the high value of ESG investment, up from 55% in 2023.

FIGURE 1.

C-suite and functional leaders see ESG growing in importance



[Q: How much do you agree with the following statements? Note: only showing combined percentage who stated "agree" and "strongly agree"]

While to some this data may seem counterintuitive against the backdrop of political pressures, there's a broader recognition among corporate leaders that investing in ESG is a matter of business resilience and risk mitigation. Increasingly, it's critical to invest in climate adaptation and strengthen supply chains.

Interviews with experts revealed several examples in which companies see continued potential upside from ESG investments, such as the potential benefits of brand positioning with consumers and employees, supply chain resilience, risk mitigation, operational efficiencies, product innovation and differentiation, among others.

> "ESG is an excellent opportunity for companies to strengthen their brand. For marketing teams, this is a big opportunity."
>
> — Director of Environmental Compliance, specialty manufacturing company

With new regulations in play, reputational risk from non-compliance is also a major concern and has placed immense pressure on corporate agendas, thus requiring continued attention and action on ESG-related issues. New regulatory regimes that require assurance to enhance the reliability of ESG information builds confidence among stakeholders. This means the stakes are now higher than ever.

Yet only 22% of CFOs said they feel they are ready for climate reporting and assurance requirements even though they see reporting requirements increasing over the next five years. [8]

Companies are also requiring more from their supply chain, asking suppliers to meet heightened requirements and putting real contract value at risk for companies that don't comply.

As we discussed extensively in last year's report, a significant amount of economic value depends on the health of our planet — more than half of the world's GDP, according to the World Economic Forum.[9] Companies increasingly realize they must act today to build and maintain successful sustainable business operations for years to come, while mitigating the risk and the costs associated with climate change.

> "[Our customers] put pressure on us as Tier-1 suppliers to make sure we're staying compliant with the data we're gathering, reporting, and sharing with them."
>
> — CFO, consumer goods company

Broadening ESG agendas

While climate policies may be more politicized today than in recent years, they are also broadening in scope as we develop a better understanding of the costs of our current economic model, and societal issues have arisen as critical components of ESG agendas, which is partly reflected in more recent regulation such as the EU's Corporate Sustainability Due Diligence Directive (CSDDD).

In fact, many of the corporate leaders surveyed referenced their own broadening corporate ESG agendas, with their organization increasingly moving beyond a historical focus on GHG emissions to include a stronger focus on water, plastics, biodiversity, raw material sourcing, human rights, governance, and more.

Underscoring the need to broaden the focus, the World Resources Institute has shown that 25 countries — accounting for one-quarter of the world's population — face extremely high water stress and use more than 80% of their entire water supply. This problem is set to grow, as the report states: "According to data from Aqueduct, 31% of global GDP — a whopping $70 trillion — will be exposed to high water stress by 2050, up from $15 trillion (24% of global GDP) in 2010."

With water supplies already in a vulnerable state, companies must increasingly assess the risks of water consumption and the availability of the water supply in the communities in which they operate, particularly given the potential for climate change to bring about more frequent and severe droughts in the future.[10]

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8 Accenture: "From Compliance to Competitive Advantage", 25 June 2024 https://www.accenture.com/gb-en/insights/consulting/esg-reporting-compliance-competitive-advantage.

9 World Economic Forum, New Nature Economy series; Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy.

10 WRI, 16 August 2023 https://www.wri.org/insights/highest-water-stressed-countries.

“The ‘E’ in ESG is more than just GHG accounting now,” said one expert at a renewable energy finance provider. “For example, water usage and water quality have become more and more prevalent as a claim, but there’s not a great platform to be able to track those effectively.”

Meanwhile, significant threats to coastal areas and communities continue as sea levels continue to rise, and ocean acidification and waste, including plastic waste, is causing nearly $1 trillion in socioeconomic costs each year. Given that the ocean economy is worth about $2.3 trillion per year, making it one of the world’s five biggest economies, mitigating the impact of climate change and pollution on the oceans becomes crucially important.[11]

As the CFO of consumer goods company said: “As a company that manufactures products that are largely disposable in nature, waste to landfill is key, but also the content of plastics in our products, which is particularly important to consumers.”

Government and private sector respond

This shifting focus has also been more reflected in the multilateral forums, most recently at 2022’s Convention on Biological Diversity (COP15) which featured the adoption of the Kunming-Montreal Global Biodiversity Framework which called for significantly greater protection of nature by way of its Biodiversity Plan. This year’s COP16, set to take place in Cali, Columbia, from October 21 to November 1 will focus on implementation of the Biodiversity Plan.

Given that many companies and economies are highly dependent on nature, it’s critical to address the issues that have significant consequences for most companies. So, it is no surprise that the private sector is responding with initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD), which mirrors the efforts of the Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD played a highly influential role in shaping global climate-related disclosure regulations, and the TNFD seeks to replicate this success with corporate guidance on nature-related disclosures, thus addressing a gap in this area.

With the rise of energy-intensive GenAI, energy consumption is back in the spotlight, with energy stocks surging in valuation due to the rising energy requirements of data centers used to power this new innovative technology. However, water access has also been highlighted as a critical issue for data centers as well. Microsoft has committed to be “water positive” by 2030, yet Google remains the only company that has so far replenished freshwater usage, replacing just 6% of its freshwater consumption in 2022.[12]

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11 NASA, 13 March 2023 https://www.nasa.gov/centers-and-facilities/goddard/warming-makes-droughts-extreme-wet-events-more-frequent-intense/

11 UNDP, https://www.undp.org/sites/g/files/zskgke326/files/2022-06/UNDP_Ocean_Promise_V2.pdf.

12 ING, Oct. 24, 2023; https://think.ing.com/articles/data-centres-growth-in-water-consumption-needs-more-attention.

Section 2: Use of third-party proprietary solutions grows

The cumulative global impact of legislation and developments around ESG issues demonstrates the urgency to monumentally alter the habits of humans, governments, and corporations to mitigate the adverse impact on the planet and nature. This impact is forcing companies to change their operations or face the reality that the sustainability of their futures is at risk. In addition, regulators, consumers, and investors are forcing change, putting sustainability at the center of corporate agendas. As a result, technology solution investments are growing and are being used as a method of addressing and measuring the change needed for this purpose.

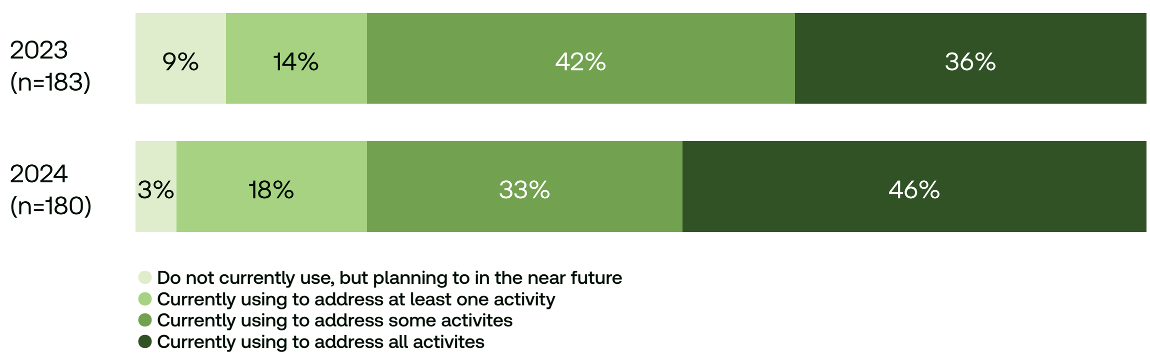
This year's survey tracked the use of third-party solutions, finding that 97% of respondents said that their organization currently uses third-party solutions related to ESG management to address at least one key ESG-related activity. This was up from 91% in 2023 and represents a steady march towards full adoption across corporations.

For the sake of our research, we defined key ESG-related activities as: i) keeping up to date with ESG-related topics, best practices, and regulatory and compliance requirements; ii) improving or streamlining operational efficiencies; iii) adhering to ESG-related regulatory compliance standards to avoid risk, such as vendor or supplier screening and customer on-boarding; iv) conducting thorough due diligence of external stakeholders in compliance with regulatory ESG standards; and v) ensuring compliance to state and federal regulations.

This movement toward third-party solutions also reflects the evolution of ESG disclosure and reporting requirements. Companies are building on their own and outside assessments of materiality and topics like environmental footprints and are now operationalizing, at scale, ESG-data collection for regulatory reporting. The complexity of this effort also includes, in some cases, reasonable assurance for metric disclosure.

FIGURE 2.

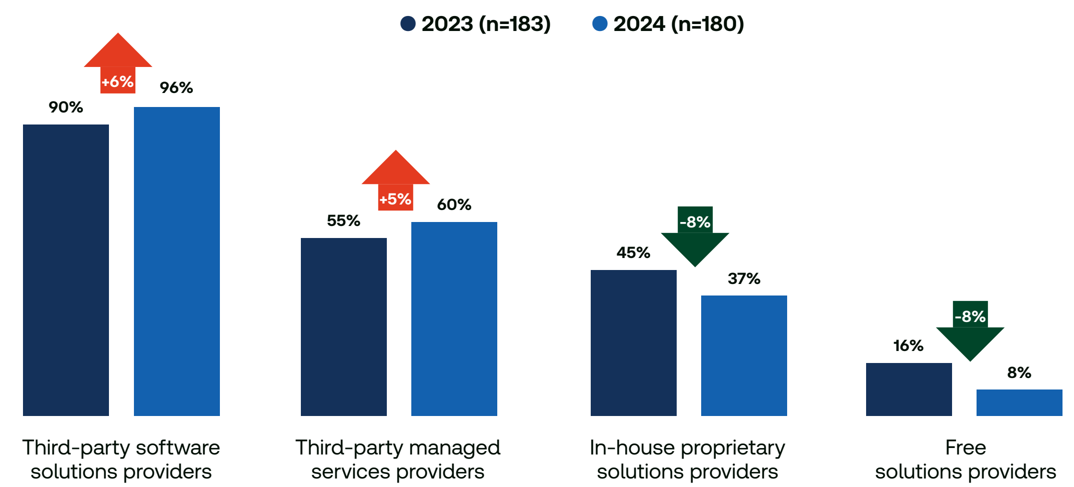
Use of external marketing research, information-enabled software solutions and/or managed services to support operational, regulatory, risk, and compliance activities at an organizational level



In this year's survey, we also looked at the types of solutions being used, finding that more companies are turning to software solutions and managed service providers, echoing themes from our discussions with ESG leaders who said budget restrictions and hiring pauses meant ESG teams had to increasingly rely on external support to meet their objectives and requirements. Not surprisingly, in-house proprietary solutions saw a dip in utilization, down eight percentage points from a year ago, and free solutions were also on the decline, similarly dropping eight percentage points.

FIGURE 3.

Types of solutions used

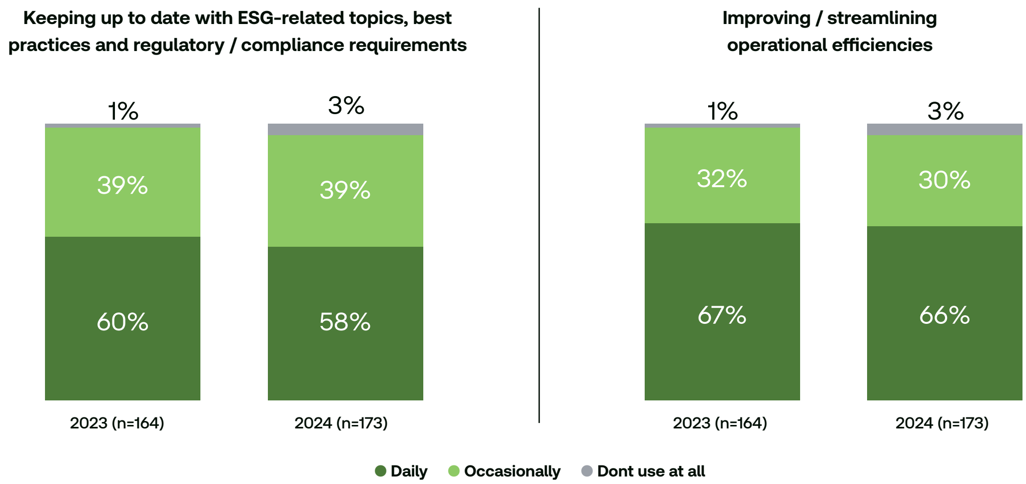


Companies continue to turn to third-party support to cover a wide range of topics. This year's survey revealed, once again, that AI-enabled, content-driven technology tools are creating a critical enabling layer as companies approach how to manage ESG topics. Third-party tools are proving a vital component of ESG management, and they are being used to automate data handling and collection, enhance measurement and reporting, monitor and comply with new regulatory requirements, conduct supply chain due diligence, manage operational risk, and drive better business decisions through analysis and insights.

The critical function of ESG tools was once again reflected in our survey results when we asked about the frequency of use of third-party tools. Most respondents said they are using third-party software regularly, with 58% saying their team uses these solutions daily to keep up to date with ESG-related topics, best practices, and regulatory and compliance requirements; and 66% say they use these tools daily for improving or streamlining operational efficiencies.

FIGURE 4.

Usage Frequency of third-party software – Team



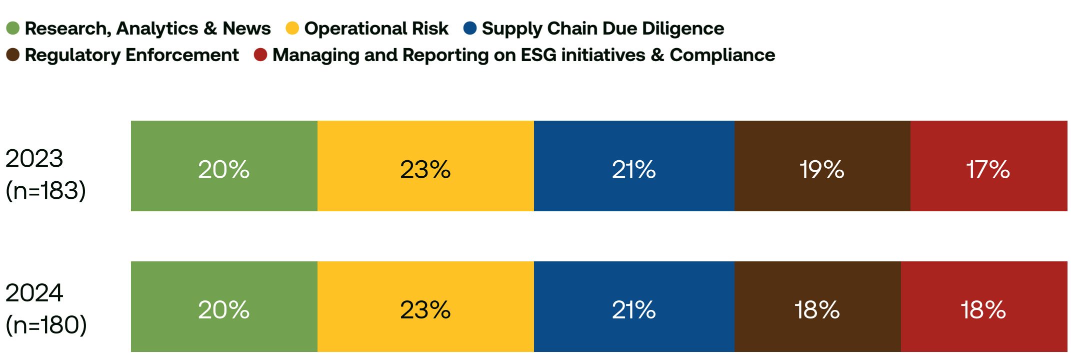
Applied Wave: Wave1, Wave 2
S7A1: Which of the following statements best captures the frequency you and your team use third-party software to support the following activities?
Base: Among those using third-party software solutions (Base size shown in visualization) || * Low base warning for n < 30

Increased investment in solutions planned

When asked about their organizations' investments in ESG solutions and how companies are allocating their spending in this area, respondents' answers almost perfectly mirrored last year's results. Present-day corporate investment into ESG solutions is spread evenly across five key categories: operational risk (23% of budget); supply chain due diligence (21%); regulatory enforcement (18%); research, analytics & news (20%); and managing and reporting on ESG initiatives and compliance (18%). These findings highlight the fact that companies must still tackle a wide range of areas, with many competing priorities, under the umbrella of ESG-related activities.

FIGURE 5.

Percentage of ESG investment being spent



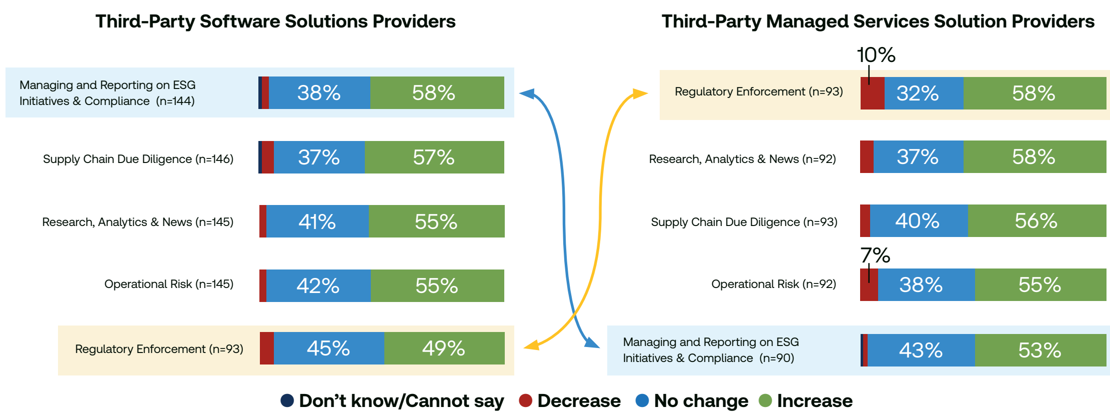
Digging deeper into the various budget categories, respondents were asked about changes in their company spend over the next year. As with our previous report, far more respondents said their companies were planning to increase spending compared to those who said their companies were decreasing or keeping investment the same.

When it comes to investment in specific software solutions, 58% of respondents said their companies planned to increase spending on those solutions designed for managing and reporting on ESG initiatives and compliance — which topped the list of planned increases. For spend on managed services providers, regulatory enforcement topped the list of categories, with 58% of respondents saying their companies were planning to increase spend in this area. Both findings reflect yet again the big focus being placed on regulatory reporting and compliance requirements and underscore the support companies will require from third-party solutions across ESG-related activities and workflows.

Interestingly, these categories were inverted at the bottom of the lists for software solutions and managed services providers, which likely reflects the roles that managed services play in audit and third-party verification support as compared to software's strength in data management and reporting.

FIGURE 6.

Change in spend in the next year



Filters Applied:
Q16b: In your estimation, compared to today's spend, how does your company plan to invest in third-party software solution providers in the next year?
Q16bx4: In your estimation, compared to today's spend, how does your company plan to invest in third-party managed services solution providers in the next year? **Base:** (Base size shown in visualization) * Low base warning for n <30

Companies needing support from suppliers

Companies continue to invest in the tools and resources required to better understand suppliers, identify new suppliers — such as in the case of automotive companies and the raw materials for new batteries — and build more collaborative approaches with suppliers. Indeed, a data compliance manager at a premium automotive manufacturer said: "Take the example of the raw material for the battery management system: today we have a big issue because we don't know a lot of the new suppliers."

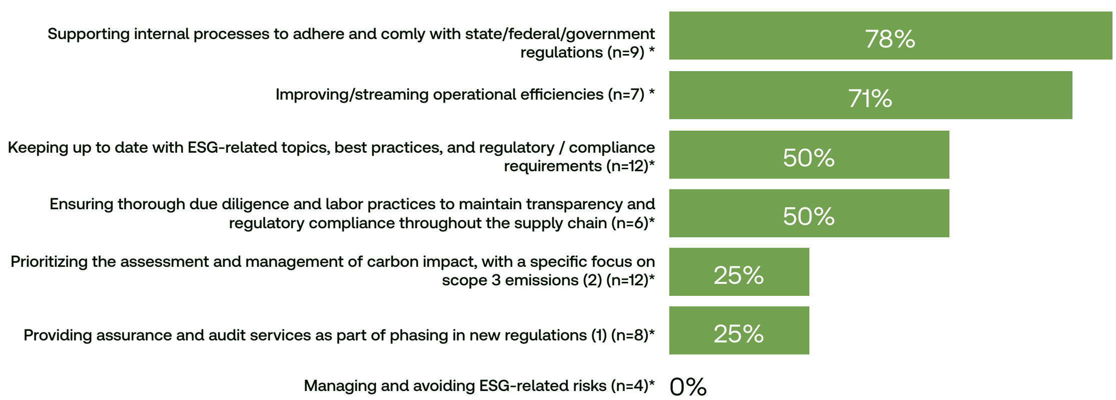
ESG is thus generally embraced as contributing to the overall agenda of managing risk and is often seen as part-and-parcel with improving business resilience, particularly for those industries that are reliant on only a handful of suppliers.

To shed more light on this, we asked those respondents who had indicated that their organization did not use managed services for specific tasks whether, in fact, they had considered using them. More than three-quarters of these respondents (78%) said they had considered using third-party managed services to support internal processes to adhere and comply with government regulations, with 71% of respondents saying they considered using managed services for help in improving or streamlining operational efficiencies.

Clearly, ensuring regulatory compliance and improving operational efficiency are two functions that ESG leaders see as areas in which managed services support could be incredibly valuable.

FIGURE 7.

Respondents that considered third-party managed services



Applied Filters:
S7A4: For each of the following activities, has your organization considered third-party managed services?
Base: Among Non-Users of Third-Party Managed Services for Each Activity (Base size shown in visualization) |* Low base warning for n < 30 | 13% and 8% selected "Don't Know" for "Providing assurance & audit services as part of phasing in new regulations" and "Prioritizing the assessment and management of carbon impact, with a specific focus on scope 3 emissions respectively

Section 3: Navigating the ESG regulatory landscape effectively

Perhaps the most significant regulatory impact in 2024 was that the ESRS went into effect for the first tier of companies, requiring large companies that meet two-of-three criteria — €40 million in net turnover, which is annual sales volume minus all costs, €40 million in assets, or 250 or more employees — to comply with new ESG reporting standards that follow double-materiality principles that consider both financial materiality and impact materiality.[13]

In other words, companies must take outside-in and inside-out perspectives on the risks, impacts, and opportunities that their companies have on the planet and upon society, and vice versa. And because ESRS covers reporting on policies, action plans, and company targets, companies must also be prepared for audit assurances, with a clear audit trail, documentation, and controls in place to support disclosure requirements.

As already mentioned, ESRS will cover an estimated 50,000 companies once fully rolled out.[14] In our interviews with C-suite leaders, we consistently heard that Europe's new rules are widely held up as the standard, with many other *markets already* beginning to follow the EU's lead. This, of course, offers a significant opportunity for companies and regulators to make high-quality reporting more standard across the corporate sector. As one CFO stated:

"The pace of adoption, disclosure, and regulation is so much faster in Europe right now, and we're having to play catch up a little bit. The EU. is taking the lead here, not the U.S."

California, meanwhile, has continued to roll out sweeping environmental legislation as well through its SB-253 and SB-261 rules that continue to keep pressure on U.S. companies despite political headwinds. The California climate-related disclosure rules covers scope 1, scope 2, and scope 3 GHG emissions and — similar to the ESRS — are aligned to the recommendations of the TCFD.

The state's SB-253, or *the California Climate Corporate Data Accountability Act*, applies to all corporate entities — including non-U.S. based subsidiaries — that have more than $1 billion in annual revenue and are doing business in California, which now applies to more than 5,000 companies. Meanwhile, SB-261, or *the California Greenhouse Gasses: Climate-Related Financial Risk Act* similarly applies to all companies with more than $500 million in annual revenue and also doing business in California, or about 10,000 companies.[15]

Adding to the regulatory complexity are the regularly updated voluntary standards, such as the Science-Based Targets Initiative, the Global Reporting Initiative principles, or industry-specific labels, such as the more-established Organic and Fair-Trade certifications for food, as well as new and emerging labels that cover water, plastics, waste, circularity, and more.

This complexity is unlikely to change anytime soon. Climate change and understanding nature is fundamentally a science, and because science evolves, the standards and guidelines that support the science must evolve, too.

Adding to this, companies further down the supply chain must meet new customer standards, regularly imposed upon them by large corporations through the buyers' procurement processes. The CFO of

13 How to conduct a double-materiality assessment to comply with the EU's CSRD; Thomson Reuters Institute, March 21, 2024; https://www.thomsonreuters.com/en-us/posts/esg/csrd-double-materiality-assessment

14 What companies within and outside of the EU can expect of new European ESG regulations; Thomson Reuters Institute, May 4, 2023; https://www.thomsonreuters.com/en-us/posts/esg/csrd-esg-regulations/

15 California's sweeping climate disclosure laws: possible impact to asset managers; Reuters, Nov. 29, 2023; https://www.reuters.com/legal/legalindustry/californias-sweeping-climate-disclosure-laws-possible-impact-asset-managers-2023-11-29.

a California-based manufacturer illustrated the magnitude of the challenge, saying, "I've got 3,000 customers. What are they being asked to do that I need to be aware of? On the flip side, what are my suppliers doing and which of my flags are being tripped? And what's going on from a legal standpoint that I need to be aware of? We are getting hit from 360-degrees!"

What is undoubtedly clear is that companies are increasingly caught in rising, evolving, and fast-moving complexity with regards to industry standards and regulations. Indeed, as more companies turn to third-party solutions for help and pin their hopes on emerging GenAI solutions to sift through the complexity and help with workloads, many leaders are becoming worried.

"Companies are generally not confident," said one corporate ESG leader. "With all the changing regulatory systems and voluntary carbon markets, it's really hard for anyone to be up to-date on all of it. This is why they are turning to third parties for ESG compliance."

CFOs are central to ESG reporting success

In another development related to the complexity of ESG compliance, corporate CFOs are also starting to play a more significant role in ESG compliance and assurance. Some of the CFOs we spoke to had direct responsibility not just for ESG reporting, but for their organizations' ESG activities overall, particularly when product or innovation teams as part of overall operations fell under their oversight.

This makes sense given that a CFO's responsibilities include running assurance processes on financial reporting, and regulations like ESRS require companies to disclose financial and non-financial reporting at the same time. CFOs are adept at building rigorous processes for reporting and compliance; and along with internal audit and general counsel functions, they can help ensure that their companies are prepared for reasonable assurance standards and maintaining compliance with ESG regulations.

As a result, CFOs will increasingly need guidance on those regulations with which they need to adhere, or they risk becoming more frustrated by the complexity and costs associated with reporting and assurance, whether that reporting is voluntary or mandatory. "I honestly don't know if we're going overkill on some of our initiatives," lamented one CFO interviewed. "It's frustrating when you just put the hours and the effort into something, and you want to make sure you're going to get paid and that there's an ROI."

This aligns to existing research, as referenced above, that only 22% of CFOs feel ready for climate reporting and assurance requirements. [16]

Companies getting behind ESG assurance

Many ESG leaders globally said that their companies are turning to ESG solutions providers for trusted and accurate guidance. Indeed, usage of third-party software and managed service providers has risen year-on-year overall, and C-suite leaders suggested that accuracy of data is becoming a more critical issue as regulatory compliance grows in importance. Further, companies now are investing in capacity building, not only in their own workforces, but also in educating their stakeholders, reaching out to suppliers, partners, and customers. Citing a general talent shortage of ESG skills, as well as budget

16 Ibid, Accenture: "From Compliance to Competitive Advantage".

constraints to continue bringing in experts in, ESG functions and third-party partners are being asked to help build knowledge and capabilities within organizations and across functions. “What companies can do to enable their workforce, to educate their communities … this is becoming a really important topic,” says the Senior Director of Sustainability at an industrial software company.

Many companies are further investing in automating and standardizing data collection to ensure ESG data is traceable, respondents say. For example, one respondent said their company has shifted attention from baseline reporting to operationalizing data collection with initiatives like installing smart meters and connected devices where they previously relied upon plant managers to report data to headquarters. While this clearly saves time and effort, it also ensures an audit trail for ESG reporting and assurance.

> “Companies need to be really sure of their data systems. In the past a guy might have walked around looking at dials to get the number every month, but that’s not good enough for the SEC. No, you actually have to have the data feed directly into a database, where you can track in detail and compile all the relevant data. There’s a lot of tracking software that’s now required.”
>
> — Senior Director of Sustainability, industrial software company

ERP integration is a must for ESG software deployment

For third-party solutions providers, the imperative for smarter data collection and integration is growing. However, most companies don’t want to add complexity to their existing IT stack, especially because they increasingly must link with existing enterprise solutions. Not surprisingly, enterprise resource planning (ERP) integration solutions are frequently cited as a top purchasing requirement among third-party ESG software solutions, as companies want to leverage their existing data and solutions wherever possible.

One CFO of a consumer goods manufacturer described this problem: “We used six or seven criteria to pick our ESG data solution. The first was ERP compatibility. We wanted to make sure whichever solution we picked, it would be easily compatible with our existing ERP system. In our case, this is SAP.”

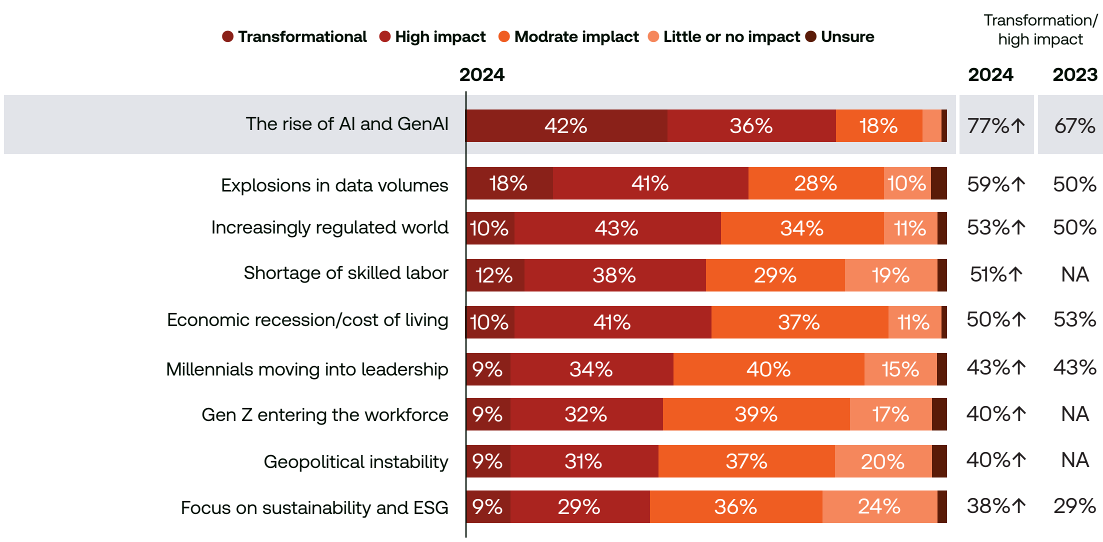
A Senior Director of Sustainability at a industrial software company additionally underscored the importance of any ESG solution to integrate with the internal ERP.

Section 4: The role of AI and GenAI in transforming ESG management

Artificial intelligence is expected to have a transformational impact on the professional workplace, according to the Thomson Reuters recent *Future of Professionals Report*, which showed that more than three-quarters (77%) of respondents overall said they believe AI will have a high or transformational impact on their work over the next five years.[17]

FIGURE 8.

To what extent do you think the following trends will impact your profession over the next five years?



Source: Thomson Reuters 2024

Given that AI and GenAI are poised to help alleviate mundane workloads, this becomes particularly relevant to ESG, where regulatory pressures have forced ESG departments to focus on compliance, distracting them from the value-add projects and broader stakeholder engagement roles that they are more eager to play.

Further, this has potentially made attracting and recruiting people into ESG teams more difficult, although overall budgetary pressures have meant that teams have had to stay small and nimble in 2024. Overall, according to the Future of Professionals Report, professionals said they expect to free up about 200 hours per year as a result of AI workflow support. Specifically, Corporate Risk, Fraud & Compliance professionals predicted freeing up an average of 7.5 hours per person by this time next year.

In addition to freeing up personnel, more AI and GenAI use may also play a role in speeding up key processes, such as complying with customer data requests or gathering data from suppliers to better speed up procurement processes. One data compliance manager at a premium automotive

17 "Future of Professionals Report" shows rising power of GenAI to impact work; Thomson Reuters, July 2024; https://www.thomsonreuters.com/en/c/future-of-professionals.html.

manufacturer said: “AI will help give us the capability of having much more information and knowing more about new suppliers. This will help us shorten the procurement process, which in some cases is taking 14-to-15 months … but could be shortened to 3-to-4 months. As far as I can see, software solutions have two options: either integrate AI in their solutions or disappear.”

Similarly, these advanced technologies may also speed up compliance steps, for example by automatically filling out audit requirements as part of a certification process. This also can be applied more broadly in a business. For example in the certification process for the International Organization for Standardization, or in gathering data for request-for-proposal responses that may include ESG data, but may also include IT policies and cybersecurity tools and procedures.

“AI will make things a lot faster. Much of compliance, and the key steps you have to go through every year as part of a materiality assessment, can be done by AI,” says a strategic partner at a renewable energy finance provider. “People can then focus on identifying gaps and building more efficient and better processes instead.”

Another exciting area for GenAI’s use is in driving analytics to guide ESG decision-making and reporting. By understanding a company’s current trajectory and comparing that to benchmarks and the company’s stated targets, GenAI could help identify focus areas where companies need to implement solutions or take further action. Similarly, GenAI also could help with writing reports and other materials, which are tasks in which AI’s capabilities are already well understood and proven.

One CFO envisions AI helping their team with “predictive modelling that will inform us on whether we are on track, ahead, or behind. Reporting and directives are overburdening companies where they don’t have the manpower to process and comply with all of it — any automation or AI tools will be highly leveraged.”

Or, as the director of environmental compliance at a specialty manufacturing company described their ideal vision: “The ultimate goal is to create a dedicated team for AI and sustainability to work together towards building small language models so companies can streamline ESG processes and avoid paying others for ‘proprietary’ data and algorithms.”

A case study in applying GenAI in sustainability

EnerSys, a leading industrial battery manufacturing and energy storage company, is using ChatGPT Enterprise to analyze large datasets related to the company's sustainability metrics, including scope 1 and 2 emissions, travel data, and waste data.[18]

This GenAI tool is helping the team members uncover insights more quickly than manual analysis. By uploading EnerSys sustainability reports and internal policies to the ChatGPT Enterprise platform, the team can also generate responses to customer inquiries more efficiently, although human review is still necessary to ensure accuracy. The tool has cut the time spent on questionnaires by roughly 50%.

Looking ahead, EnerSys leaders say they plan to explore using ChatGPT Enterprise to help write portions of the company's next sustainability report and customize storytelling for various types of stakeholders. The team also is considering using AI to review its Climate Disclosure Project questionnaire responses for potential improvements and to identify any gaps in their processes.

Christina Sivulka, the global sustainability manager at EnerSys, says that her advice to her peers at other companies is to leverage AI cautiously but proactively to stay ahead of the curve, as sustainability teams will likely need to adopt these tools to keep up with increasing reporting and data collection demands. Specifically, she says that sustainability team leaders would be wise to:

Partner across the enterprise — Sivulka emphasizes the importance of cross-functional collaboration when exploring AI for sustainability purposes. She advises against operating in silos and instead recommends partnering closely with risk functions to scope out feasibility, mitigate risks, and set up AI tools safely. This collaboration was critical in implementing AI solutions like ESG Flo and ChatGPT Enterprise among her team.

Engage actively with software vendors — Sivulka encourages sustainability professionals not to be afraid to talk with AI software providers, even if the professionals don't have a strong technical background in AI or coding. Many tools are designed to be user-friendly for non-technical users, and AI software providers are often eager to discuss new ways AI can help individual businesses and address specialized needs.

Make human review mandatory — Sivulka stresses the importance of treating AI tools like ChatGPT as you would a human employee, particularly when it comes to reviewing work. She notes that humans are not always accurate and can have biases, amd AI outputs require similar scrutiny. "I think you just have to be aware of it," Sivulka says. "We have been trained to know how to flag or how to see any sort of bias or lack of accuracy." She advises having humans review all AI-generated content before using it in the same way managers review their employees' work.

Further, Enersys employees were taught about data privacy and instructed on what types of information should not be entered into the system to protect proprietary data. Employees had to sign documents acknowledging their understanding of proper AI usage guidelines, while ongoing collaboration with IT, legal, and compliance teams helps the organization utilize AI safely and ethically.

18 ESG Case study: How EnerSys uses GenAI to drive efficiency, ensure accuracy, and safeguard sustainability & ESG data; Thomson Reuters Institute, Aug. 7, 2024; https://www.thomsonreuters.com/en-us/posts/esg/esg-case-study-enersys-genai-use.

Future outlook: Navigating ESG complexities and the role of solutions providers

As we've explored throughout this report, regulation has become the main driving force behind ESG. That's not to say that other factors aren't continuing to play a role — from ongoing concerns about greenwashing to increased polarization around a myriad of social and environmental policies, it increasingly feels like companies are walking on eggshells while juggling an ever-greater number of balls.

At the same time, however, it's becoming clear that companies are adapting to these challenges; and, in the area of ESG in particular, are able to manage tighter budget constraints and tradeoffs with the efficiencies, support, and intelligence that comes with third-party solutions and the growing prevalence of AI-supported tools.

Many ESG leaders say they see great promise in GenAI's ability to streamline everything from regulatory compliance and internal data gathering, to report writing and data benchmarking. Companies must stay ahead of these current innovations and any future technology developments by considering what an ethical approach to data and AI looks like for them and be prepared to regularly examine the potential implications of giving AI a greater role in business decision-making.

When it came to improved decision-making around ESG regulation, our research has identified five focus areas in which companies are seeking solutions in response to critical needs around compliance and reporting:

1. **Driving process efficiency in regulatory compliance**

   Clearly, regulatory compliance is playing a more central role in steering ESG activities today. As standards harden and come into force, companies have focused on streamlining and automating data collection, investing in climate-related data infrastructure, and putting processes in place to ensure ongoing compliance. Now, as more countries begin to align with these standards, those companies that invest early in operationalizing their sustainability reporting will see the benefits accrue earlier and more broadly while minimizing reputation risk from non-compliance.

2. **Broadening the role of CFOs**

   CFOs are playing a more significant and important role in ESG management, leveraging their vast experience with assurance and compliance to ensure companies are meeting the myriad of new and emerging ESG regulations around the world.

   To complement that, CFOs must increasingly push for investments in ESG compliance, portraying it as a sustainable, competitive advantage that will enable the broader company goals. CFOs also will have to work with cross-functional teams to ensure rigorous and accurate data gathering, with participation from supply chain and operations teams, among others.

3. Putting data at the center of ESG programs

With ERP integration a key consideration for third-party solutions, it is clear companies understand how critical this integration is to streamlining data, reducing added complexity, and ensuring that tools work together as a coordinated data ecosystem — and this is especially important when companies are selecting third-party tools.

Because company leaders don't want to overburden their IT systems with yet another data tool, being able to layer in new solutions with existing enterprise tools has become more important over time.

4. Increasing collaboration with supply chain partners

While it is crucial to work across various areas of the business to build a rigorous, repeatable, and reliable compliance-ready processes, it may be even more important to collaborate with suppliers to help them shift towards new requirements and to also ensure that processes are in place for regular data sharing and compliance going forward. This collaboration with supply chain partners and companies' sustainability teams means moving beyond traditional procurement paradigms to ensure new suppliers can be onboarded quickly and efficiently, without cutting corners.

As a variety of new regulations are mandating that companies conduct more due diligence with suppliers across ESG topics, companies need to be putting pressure on their suppliers to align behind the companies' ESG targets and meet new and emerging needs.

5. Incorporating GenAI in an impactful way

With companies now considering how to apply GenAI in a broad range of use cases, there are certain areas in which this technology can make a meaningful impact in terms of how companies approach their ESG programs. These areas include enhancing data collection and processing, conducting predictive analytics for ESG targets and compliance, streamlining ESG-related reporting, and navigating regulatory compliance.

Clearly, GenAI's ability to streamline processes, improve efficiencies and accuracy, and free up time that compliance professionals currently spend on mundane tasks will allow teams to overcome the newer regulatory burdens and refocus on value-added tasks to help their companies achieve stated goals. However, it is critical to remember throughout these processes that ethical principles in the use and deployment of AI and GenAI are particularly important with respect to companies that are seeking to lead on ESG, given the potentially significant consequences for a company's reputation, not to mention society at large, if ethical principles are not properly developed and rolled out.

By focusing on these five steps, companies can ensure they have the right level of support to prevent operational and reputational risks, build supply chain resilience, and manage regulatory compliance.

Conclusion

As regulatory pressures mount and stakeholder expectations evolve, companies that invest strategically in robust ESG initiatives and accompanying software solutions are positioning themselves not just for compliance, but for long-term resilience and success in a rapidly changing world. By pursuing stated ESG-related goals and leveraging these tools to drive sustainability, enhance transparency, and make data-driven decisions, corporations can play a pivotal role in addressing global challenges and fostering a thriving planet.

Ultimately, the widespread adoption of effective ESG practices enabled by technology is not just about corporate survival — it is fundamental to preserving the delicate balance of our ecosystems and ensuring a sustainable future for humanity.

Our *2024 State of Corporate ESG Report* backs up this point, suggesting that companies are continuing to engage with ESG with a significant focus on complying with new and evolving ESG regulations, certifications, and new and emerging customer standards.

To aid their journey in this, companies are turning to third-party solutions in greater numbers, and they are looking for how GenAI can play a role in driving efficiency, speed, and accuracy in ESG-related activities around data collection, analysis, reporting, and compliance. By leveraging GenAI's potential to automate more time-consuming, mundane tasks, ESG leaders are holding out hope that they can look beyond simple reporting chores to focus instead on value-added work that drives long-term corporate performance. These comprise how companies are looking to address the intersection of commerce and compliance.

While the challenges around ESG are significant to be sure, the desire for business to play a positive and leading role in achieving a better balance with climate and nature continues as well.

Appendix: Methodology

This report and its findings follow a customer research project conducted during July 2024 that focused on North America, Europe, and the Asia Pacific region and was aimed at understanding the state of corporate ESG agendas, the awareness and adoption of third-party ESG tools, the role of key decision makers and contributors to the selection process, among other research objectives. To gain a well-rounded perspective, the research spanned both an online survey and in-depth executive interviews.

The survey gathered the insights of 180 respondents in C-suite and functional leadership roles who are involved in the selection, implementation, and utilization of third-party market intelligence, information-enabled software solutions or managed service providers, or are involved in the vendor selection or vendor compliance processes, including in the area of ESG.

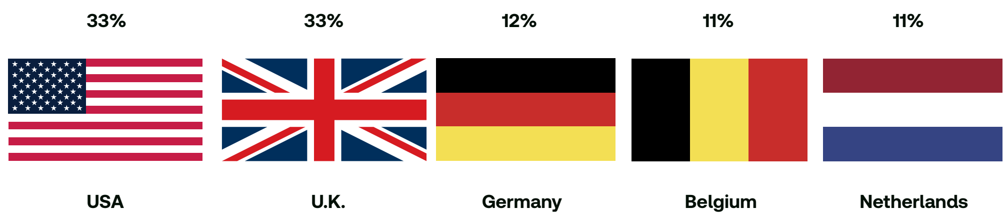
This was complemented by eight in-depth interviews with C-suite and functional leaders at a diverse range of companies across industries, sizes, and geographies, and included decision-makers at recognized multinational brands with leading ESG programs. All interviewees had accountability for leading or managing ESG standards at organizations with third-party screening and ESG reporting requirements.

Almost two-thirds (62%) of companies surveyed had more than $1 billion annual global revenues, and 48% had more than 5,000 employees. Survey respondents were based in the United States (33%), the United Kingdom (33%), Germany (12%), Belgium (11%), and Netherlands (11%) across a wide range of industries and roles. Of the respondents surveyed, 23% were in Finance, 21% Procurement, 21% Sustainability or ESG, 10% Supply Chain, and 8% Human Resources, among others.

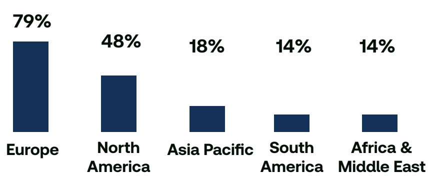
This year we had higher representation from the U.K. and Europe as compared to our 2023 survey, more representation from the apparel sector — while less from industrial — and more representation from Finance roles and lower from Corporate Strategy and Risk & Compliance roles. We also had higher C-suite representation at 50% of respondents, as compared to 23% in 2023.

Of the respondents, 90% were directly involved in the selection and 78% involved in the purchase of third-party market intelligence, information-enabled software solutions or managed services, while the rest were involved in the management or usage of such tools or solutions.

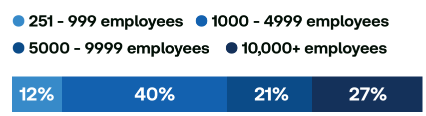
Country



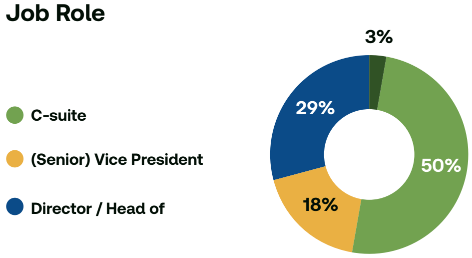
Regions Responsible For



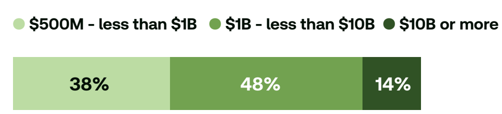
No. of Employees



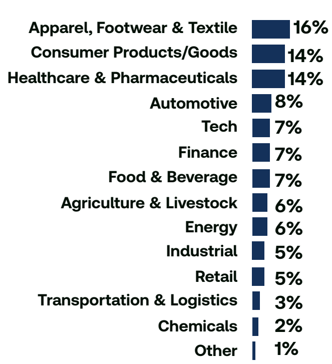
Job Role



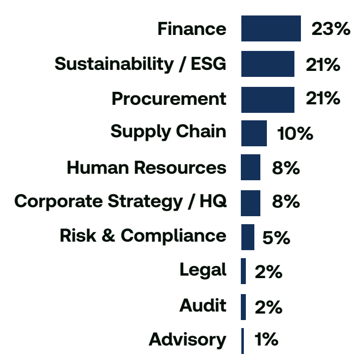
Global Annual Revenue



Industry



Job Function



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