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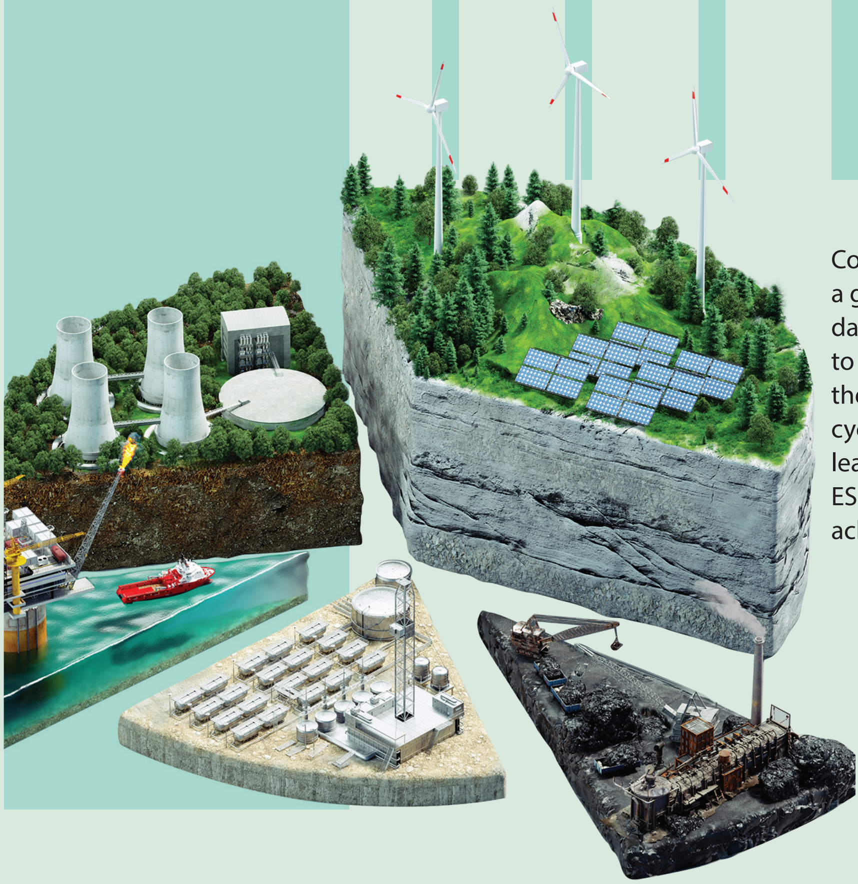
VIEWPOINT

SUSTAINABILITY DATA: FROM OBLIGATION TO OPPORTUNITY



Companies are collecting and sharing a growing amount of sustainability data. However, businesses often fail to take advantage of the benefits that their data can provide. This critical cycle of collection and sharing can lead to insights that both improve ESG outcomes and help the enterprise achieve its business goals.

Companies are accelerating their pursuit of environmental, social, and governance (ESG) initiatives, from reducing carbon emissions to diversifying leadership to ensuring safe working conditions. Spending on ESG business services — such as IT consulting and product engineering — is expected to grow from $39 billion in 2021 to $158 billion by 2025 as companies adjust to evolving expectations. In addition, 80% of the world's largest companies report that they are actively reducing their emissions.

Simultaneously, these same businesses need to prepare for an economic slowdown and respond to demands for a more rigorous evaluation of their ESG efforts. A large-scale academic study found that companies that were better on material ESG issues — the ones most relevant to that organization — performed better financially than their competitors. However, materiality was the key; those that outperformed on nonmaterial ESG issues performed worse financially than their peers.

To better understand how to achieve ESG goals and unlock new opportunities, executives need a data-powered strategy. A global survey conducted by the Infosys Knowledge Institute found that an increase in data was among the top changes that executives and managers say they need to achieve their ESG goals. The requirement for more data on the impact of their ESG initiatives ranked higher than changes in the marketplace, consumer behavior, and even technology innovation.

Growth of ESG data disclosure

Ideally, data flows through the length and breadth of an organization and its value chain, and at different levels. In reality though, many companies' ESG data is scattered and diverse — executives often find it difficult to define what ESG data they need and how to use it. Companies face a range of challenges, including latency in collection, nonautomated reporting, the need for large amounts of external and reference data, and inconsistent ESG standards. These hurdles are magnified as data demands increase, both in scope and depth.

The basic approach to managing ESG data (see below) is nearly identical to the way businesses already handle other types of data. The main difference is a more expansive approach to the last step: data reporting.

- **Collect** data internally and externally, such as from the value chain or partners.
- **Analyze** and understand the impact of the data.
- **Use** the data to inform decisions.
- **Report** the data to stakeholders.


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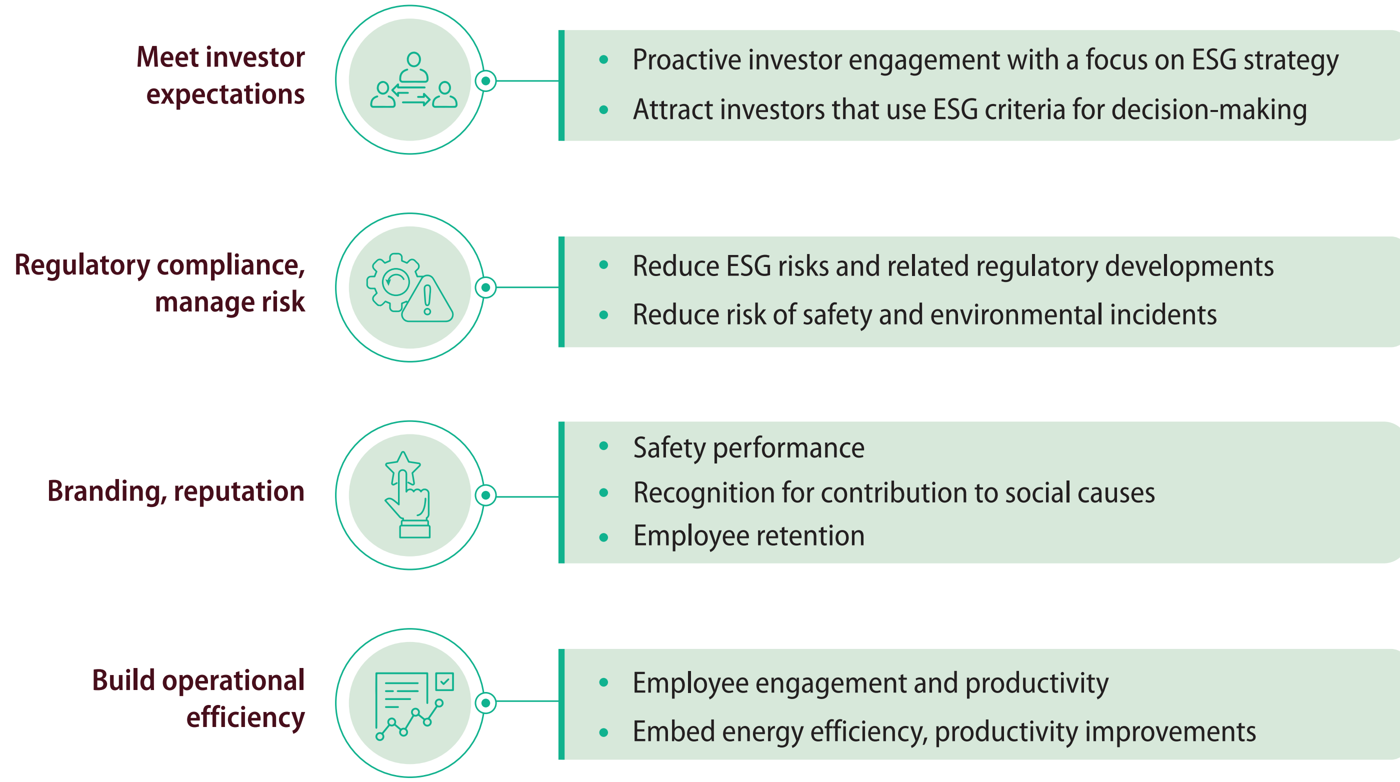
Figure 1. ESG disclosure's long-term value



Source: Infosys

Companies have long disclosed information — often financial and governance — to investors or regulators. Now, ESG initiatives have expanded the types of data being disclosed and to whom it is disclosed. The growing number of stakeholders include government regulators, ratings agencies, business partners, investors or lenders, employees, and customers. Each need different sets of disclosure and different levels of detail.

To protect against greenwashing, companies must also ensure that their disclosures reflect what the enterprise says publicly, or that what they say publicly reflects their disclosures. Business leaders must be able to trust the data, understand the progress of their sustainability efforts, and determine how reaching or missing those milestones will affect their reputation. The data should flow in real time and not be a surprise at the end of a quarter or fiscal year.

ESG data as a business enabler

Companies are already in the midst of a data revolution, but these advances in identifying, collecting, and utilizing data often have not been integrated into ESG efforts. Disclosure of ESG data is frequently viewed as a necessity but not always one that can advance the business.

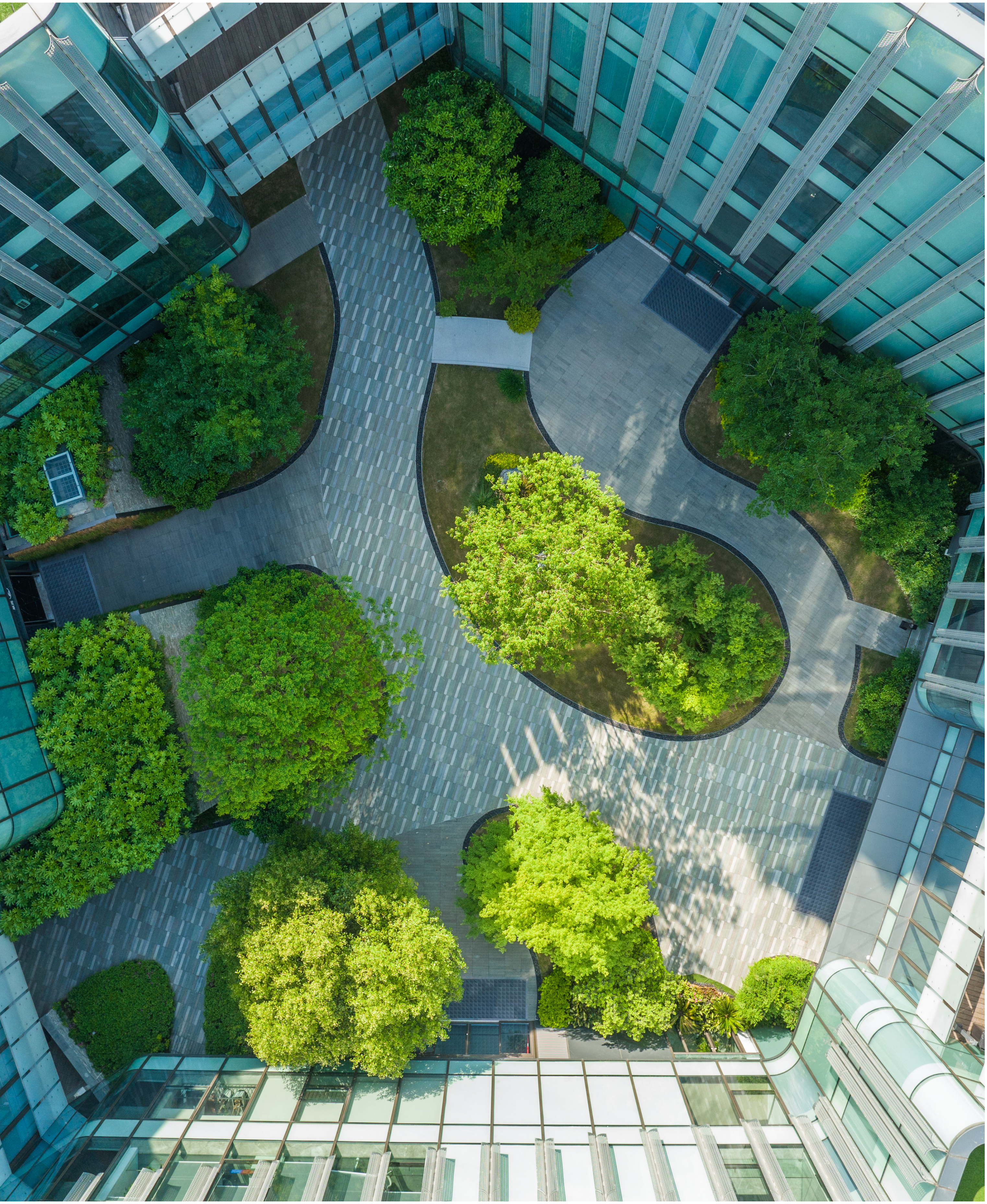
However, ESG data disclosure offers tangible and intangible value for many firms, including investor relations, regulatory compliance and risk management, branding and reputation, and operational efficiency (Figure 1). The comprehensive collection and strategic reporting of ESG data creates new opportunities to elevate the enterprise.

With quality data, businesses can make smarter decisions while responding quickly and effectively to risks and opportunities.

When integrated into their overall strategy, companies can also use this ESG reporting data to develop additional products and services, enter new markets, upend their business models, and transform industries. Quality data can allow businesses to make smart decisions and respond quickly and effectively to both opportunities and risks.

For example, the US government has agreed to spend $369 billion on sustainability efforts, including tax breaks for low-carbon energy, electric vehicle infrastructure, and climate resilience. However, the complexity of the restrictions and requirements (e.g., tax incentive "runways," country of origin requirements) makes accurate data collection and reporting necessary for companies that want to participate in this green windfall.

Data is also critical to impact investing and its goal of creating specific, positive public benefits. But the more than $1 trillion industry requires additional data to continue to



thrive. KPMG executives wrote in an article for the World Economic Forum that fund managers are hungry for impact ESG investments, but those types of investments are "thin on the ground." Investors want and need more metrics and greater transparency to help them make decisions.

Increasingly, ESG is also an important element in the pursuit of the best talent and the efforts to retain them. Research by professional services firm Marsh McLennan found that employers that rated highly in employee satisfaction and attractiveness to talent also had higher ESG scores. Employers still must have credible data to prove their sustainability credentials. Forty-three percent of senior employees in the UK say that their company is guilty of greenwashing, according to a survey from British software and services company Advanced.

Meanwhile, companies are under greater pressure from government regulators. Businesses operating in the European Union have to navigate increasingly strict regulations on supply chains, particularly related to human rights and environmental violations. Germany's new supply chain law also adds another layer of risk that companies there must manage. And globally, stakeholders have a greater awareness of greenwashing and a willingness to crackdown on the practice.

The benefits of ESG-related efforts

Companies already have the ability to generate nearly unlimited amounts of data. It's of limited value though if you don't have the right data or don't know what to do with the data you have. ESG efforts need a purpose — companies must think strategically about what they want to achieve from their ESG journey.

Broadly, enterprises pursue ESG efforts with four basic goals in mind:

1. Compliance with government regulations, industry standards, or sustainability frameworks, including the Sustainability Accounting Standards Board (SASB), Task Force on Climate-Related Financial Disclosures, and Global Reporting Initiative (GRI).
2. Identify and manage ESG materiality (business) risks through responsive and systematic processes.
3. Realize long-term value from ESG investments in the enterprise and ensure the organization's continued sustainability.
4. Meet investor and stakeholder expectations on ESG performance, and as a result, lower the cost of capital and de-risk investments.

Figure 2. SASB's ESG framework takes into account 26 issues across five dimensions

Environment

- GHG emissions
- Air quality
- Energy management
- Water and wastewater management
- Waste and hazardous materials management
- Ecological impacts

Social capital

- Human rights and community relations
- Customer privacy
- Data security
- Access and affordability
- Product quality and safety
- Customer welfare
- Selling practices and product labelling

Human capital

- Labor practices
- Employee health and safety
- Employee engagement, diversity, and inclusion

Business model and innovation

- Product design and lifecycle management
- Business model resilience
- Supply chain management
- Materials sourcing and efficiency
- Physical impacts of climate change

Leadership and governance

- Business ethics
- Competitive behavior
- Management of the legal and regulatory environment
- Critical incident risk management
- Systemic risk management

Source: Infosys

To make progress on these goals and gather the most valuable data, companies need to adopt the right framework or frameworks — ones that will help businesses integrate ESG and financial factors used to make investment decisions and direct business operations. These frameworks help companies determine what data needs to be disclosed and to whom it needs to be disclosed. And ultimately, it will help a business better understand how ESG priorities can steer the enterprise in the right direction.

Companies are starting to coalesce around a smaller group of the most prominent ESG frameworks. More than three-quarters of the world's 250 largest companies use the GRI framework to identify, measure, and report on sustainability efforts. The management of ESG initiatives is not as simple as that. Businesses use a variety of frameworks to satisfy their different needs and goals.

The SASB standards are focused primarily on guiding the disclosure of "financially material sustainability information" to investors. The Task Force on Climate-related Financial Disclosures emphasizes market transparency related to climate risks and opportunities. And the GRI framework seeks to influence decisions that create broad economic, environmental, and social benefits.

Companies typically use multiple frameworks for their ESG initiatives, choosing among more than 600 standards. An enterprise can be paralyzed if it tries to use too many frameworks — particularly ones with limited relevance for their companies or industries.

Identifying a smart ESG platform

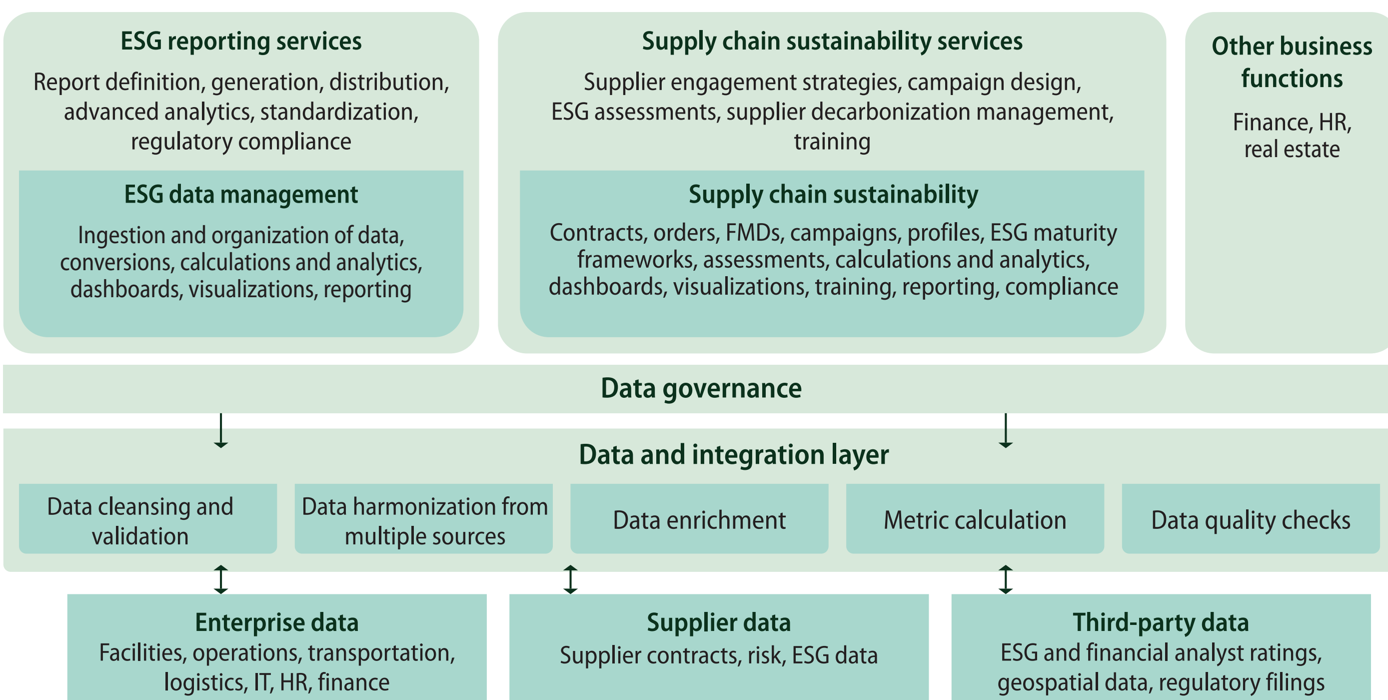
Choosing the right frameworks is critical, but they are only as useful as the data. Businesses can encounter disclosure gaps. The internal data needed for ESG reporting is often siloed and takes considerable effort to report accurately, coherently, and consistently.

Also, managing data at scale invariably leads to quality problems when gathering heterogenous data from multiple sources, including external data and benchmark data from reporting standards.

Through work with clients, Infosys has found that companies need a combination of technology and strategy, including:

- **AI-powered data tools —** Seamlessly enables data gathering and harmonized integration, data governance and data curation at scale. This allows for accurate insight development and seamless self-serve reporting of key performance indicator disclosures, such as greenhouse gas emissions, carbon footprint, and sentiment scoring.
- **Intelligence builder —** Enables the harnessing of diverse and heterogenous sources of enterprise, third-party, and social data. The accurate development of this intelligence (knowledge and insights) can drive actions, including recommendations, decisions, and nudges.
- **ESG-specific partner ecosystem —** Augments the solution to efficiently integrate data and to collaborate and innovate on data capabilities. The category of partners includes sustainability foundation organizations, hyperscalers, data system providers, and data providers (financial and ESG specific).

Figure 3. Holistic, integrated architecture for ESG reporting



Source: Infosys

For a global organization with complex operations, ESG reporting and the inevitable supply chain sustainability requirements demand significant system and data integration, in addition to comprehensive process and service transformations. When combined, these steps allow a business to look at its approach to sustainability holistically and understand how it contributes to both the world and the bottom line.

ESG integrated into the business

Climate change and its ticking clock has elevated sustainability to the top of government and C-suite agendas. In addition, the embrace of ESG more broadly exerts extraordinary force on businesses to operate in a more humane and sustainable way. These issues — from carbon footprints to supply chain working conditions — will influence how companies are perceived and treated by its customers and by those in its ecosystem.

ESG initiatives can flourish only when companies consider them vital to their business and integrate them with digital infrastructure, automation, and other enterprise capabilities.

ESG will only succeed if these initiatives are treated as if they are critical to the business and integrated with digital infrastructure, automation, and other enterprise capabilities. Along with a practical sustainability approach — which addresses data, financial, technology, and cultural aspects — companies can leverage its investments to accelerate their ESG goals and effectively navigate this new environment. Businesses now must decide if they are willing to be pulled down the river aimlessly. Or instead, they can steer their own course — one that consciously defines practical outcomes that are aligned to business objectives supported by ESG data and sustainable principles.

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