The Evolving ESG market –its Effects, Opportunities, and Risks.

CPE Check-in

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Accountancy Firms – The Evolving ESG market –its Effects, Opportunities, and Risks.

Avoiding Short-lived Gains and Long-term Risks in Europe's Evolving Landscape

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Lack of Standardization 01

01 Problem

ESG frameworks and ratings lack consistency, leading to investor confusion.

02 Data

A 2021 report by ESMA highlighted inconsistent methodologies among ESG rating agencies.

03 Mistake

Consulting firms have not advocated for a standardized ESG metric framework.

Solution

Lack of Standardization

KPMG actively engages in developing ESG reporting standards like the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), promoting uniformity in ESG disclosures.

Their frameworks help companies adopt standardized metrics for reporting.

Greenwashing and Superficial Commitments

01 Problem

ESG reports often overstate sustainability impacts without driving substantive operational change.

02 Data

A European Commission study found that over 42% of corporate green claims were either exaggerated or outright misleading. With 2024 bringing stricter enforcement of sustainability reporting regulations, greenwashing is

03 Mistake

Consulting firms often assist companies in creating ESG reports that focus on optics rather than meaningful, measurable impacts, leaving them open to regulatory scrutiny.

Greenwashing and Superficial Commitments

EY has developed robust frameworks for verifying ESG claims, ensuring companies provide transparent and accurate representations of their sustainability efforts.

This includes third-party audits and detailed reporting protocols to combat greenwashing.

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Overemphasis on Environmental Factors at the Expense of Social and Governance Aspects

01 Problem

ESG strategies overemphasize environmental goals like carbon reduction while neglecting social and governance components.

02 Data

A 2024 report revealed that despite the increasing focus on environmental sustainability, only 30% of companies fully integrated social and governance aspects into their ESG strategies.

03 Mistake

Consulting firms overly focus on environmental aspects, missing opportunities to improve governance and social responsibility.

Solution

Overemphasis on Environmental Factors

Grant Thornton emphasizes a holistic ESG approach, integrating social and governance factors into advisory services to ensure clients develop well-rounded sustainability strategies.

This includes assessments that incorporate social impact and governance structures alongside environmental metrics.

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Fragmented Approach to Human Rights and Environmental Due Diligence

01 Problem

The EU Corporate Sustainability Due Diligence Directive (CSDDD) requires companies to integrate human rights and environmental due diligence into their operations, but many struggle to comply.

02 Data

According to a 2024 report, only 41% of companies have engaged stakeholders effectively in their materiality assessments, reflecting the challenges of meeting CSDDD requirements.

03 Mistake

Consulting firms have been slow to prepare companies for the comprehensive due diligence requirements, leading to weak compliance and ineffective ESG strategies.

Fragmented Approach

Deloitte encourages a unified ESG strategy by integrating ESG goals into overall corporate strategy, ensuring sustainability initiatives align with business objectives and operational practices.

Inadequate Expertise in New ESG Regulations

01 Problem

New EU regulations, like the Carbon Border Adjustment Mechanism (CBAM) and the Sustainable Finance Disclosure Regulation (SFDR), add complexity, and many firms struggle to stay updated.

02 Data

A 2024 Deloitte survey found that 60% of businesses face challenges in complying with SFDR standards.

03 Mistake

Consulting firms are not always up-to-date on evolving regulations, providing outdated guidance.

Inadequate Expertise

RSM has partnered with educational institutions to provide training programs focused on ESG skills, equipping employees and clients with the necessary expertise to navigate the evolving regulatory landscape.

Underinvestment in Data and Technology

01 Problem

Many companies do not effectively leverage data and technology to track and demonstrate ESG progress.

02 Data

PwC's 2024 report showed that 67% of businesses struggle to collect and use data effectively, limiting their ability to measure and report on ESG initiatives.

03 Mistake

Consulting firms have been slow to adopt and integrate advanced data analytics and AI tools, limiting their ability to provide comprehensive ESG solutions.

Underinvestment

PwC advises clients on the importance of investing in ESG capabilities, including technology, data analytics, and human resources, to enhance their sustainability efforts and improve compliance with regulations.

Underestimating Stakeholder Expectations

01 Problem

Companies are failing to meet rising consumer and investor expectations for transparency and ethical practices in their ESG strategies.

02 Data

A 2024 Sedex report highlights that consumer demand for transparency across supply chains is growing, especially in response to the use of social media to call out unsustainable practices. Companies that don't meet these expectations face reputational risks.

03 Mistake

Consulting firms have been slow to help clients anticipate and meet evolving stakeholder demands, leading to inadequate ESG disclosures and consumer trust issues.

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Underestimating Stakeholder Expectations

BDO has launched initiatives to actively engage stakeholders, helping companies align their ESG strategies with stakeholder expectations through comprehensive communication and feedback mechanisms.

Ignoring Supply Chain Due Diligence

01 Problem

Companies are unprepared for the comprehensive due diligence requirements mandated by new EU regulations.

02 Data

Under the EU Corporate Sustainability Due Diligence Directive (CSDDD), companies must address human rights and environmental risks along their value chains. A 2024 report indicates many companies have yet to adapt, risking non-compliance penalties.

03 Mistake

Consulting firms have not prioritized helping businesses implement effective due diligence processes, leading to regulatory risks and missed opportunities for responsible growth.

Ignoring Supply Chain Due Diligence

Mazars has implemented comprehensive supply chain assessments that include ESG risk evaluations, ensuring clients adhere to EU regulations and uphold sustainable practices throughout their supply chains.

Non-Compliance with Global Regulations

01 Problem

Businesses struggle to navigate the complex web of new ESG-related regulations, such as the German Supply Chain Due Diligence Act and the Uyghur Forced Labor Prevention Act.

02 Data

Sedex notes that companies failing to comply with these global regulations face severe penalties and operational challenges.

03 Mistake

Consulting firms often fail to provide up-to-date guidance on regulatory changes, leaving companies unprepared and vulnerable to fines.

Non-Compliance

Ernst & Young (EY) has developed compliance frameworks that help clients understand and meet regulatory requirements, mitigating risks associated with non-compliance. They offer tailored consulting services to address specific compliance challenges.

Overlooking Climate Change Resilience

01 Problem

Many companies are not building resilient supply chains capable of withstanding climate-related disruptions.

02 Data

A 2024 Sustainability Magazine report warns that companies not integrating climate resilience into their operations risk severe financial penalties and losing investor confidence.

03 Mistake

Consulting firms have not adequately supported clients in developing climate-resilient strategies.

Overlooking Climate Change Resilience

Aon has developed climate risk assessment tools that help companies evaluate and enhance their resilience to climate change impacts, ensuring that their ESG strategies are forward-looking and robust.

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Thank you

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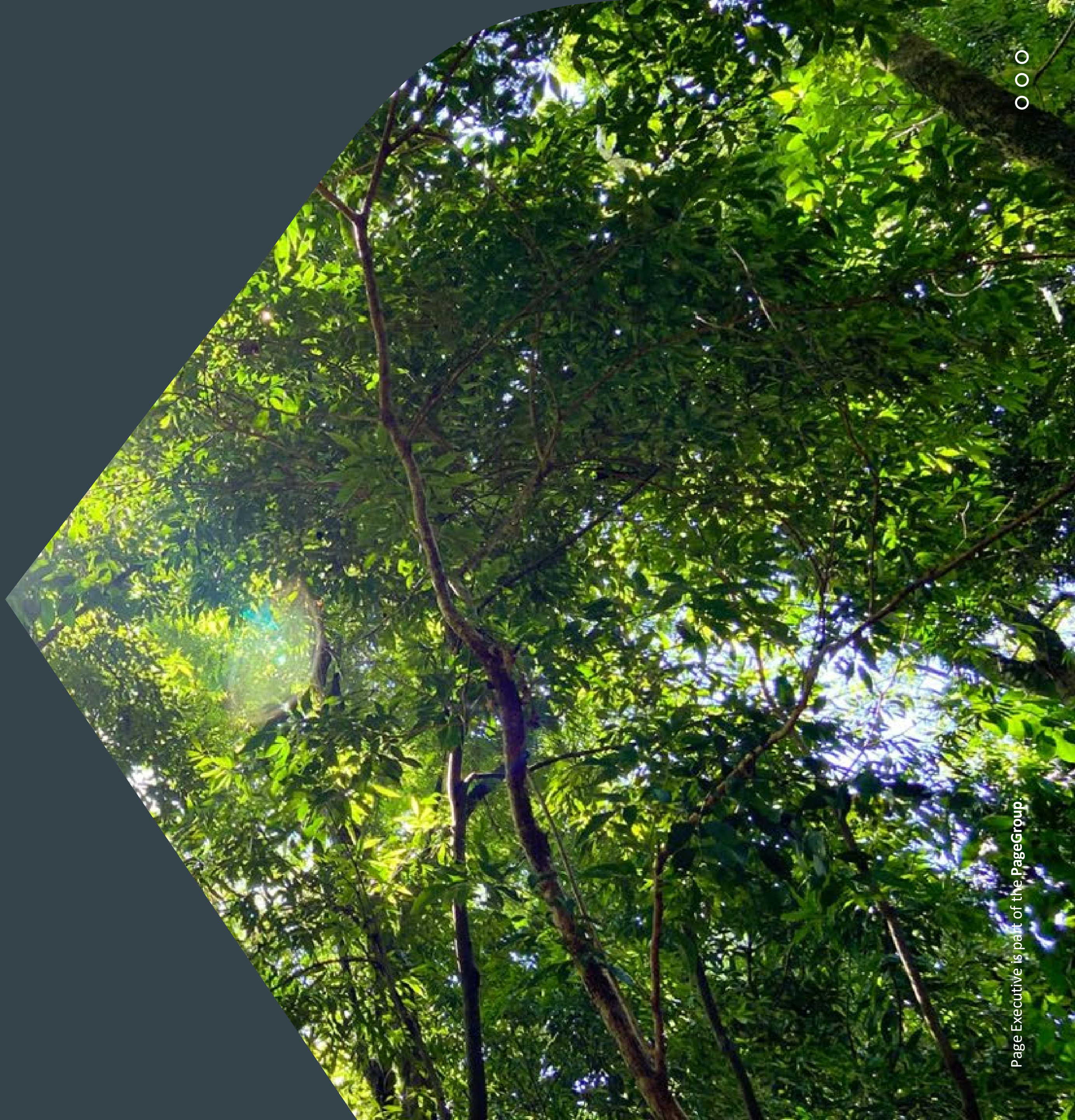

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