2024 ESG RISK & ROI SURVEY

Entering a New Age of Sustainability

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Sustainability strategies no longer operate in silos.

According to BDO's *ESG Risk & ROI Survey* results, businesses increasingly view sustainability as an integral part of corporate strategy. Survey respondents report shifting their focus over the last year beyond regulatory mandates, building ESG programs that improve risk management, competitive advantage, and strategic resilience. They have embedded sustainability and ESG factors into their overall operating and growth plans — to the benefit of their businesses, workers, stakeholders, and the environment.

Driving sustainable value is a long-term game, but companies are also seeing immediate impact on their talent pipeline and workplace culture. With job dissatisfaction at an all-time high, survey findings indicate employee engagement and retention are top priorities. Business leaders see ESG initiatives as a lever to address them both.

In the year ahead, new domestic and international reporting laws will add complexity to ESG compliance. Despite these challenges, businesses are better positioned than ever before to achieve their integrated sustainability and business goals.

Key Takeaways From the 2024 ESG Risk & ROI Survey

ESG programs are maturing.

Fifty-three percent of CFOs say they have embedded ESG principles into their core business strategy or are actively working on it.

CFOs will have a stronger hand in sustainability strategy.

Three-quarters of CFOs expect their involvement in strategic ESG conversations will stay the same or increase this year.

Tax credits may be overlooked in sustainable financing strategies.

Just over a third of CFOs are taking advantage of tax credits this year.

ESG risks are here to stay.

Sixty-one percent of CFOs anticipate ESG risks will increase or stay the same in 2024.

Generative AI poses new ethical quandaries.

Fifty-two percent of CFOs cite either a social or governance risk as their top generative AI-related concern.

METHODOLOGY

The ***2024 ESG Risk & ROI Survey*** is part of BDO's ***2024 CFO Outlook Survey*** series. The survey polled 600 CFOs with revenues ranging from under $250 million to over $3 billion.

Throughout this report, we refer to "**ESG-mature**" businesses: survey respondents that have integrated or are in the process of integrating sustainability principles into their core business strategy.

"**ESG-reactive**" businesses refers to survey respondents who primarily view ESG through a compliance lens or are just getting started on their ESG program.

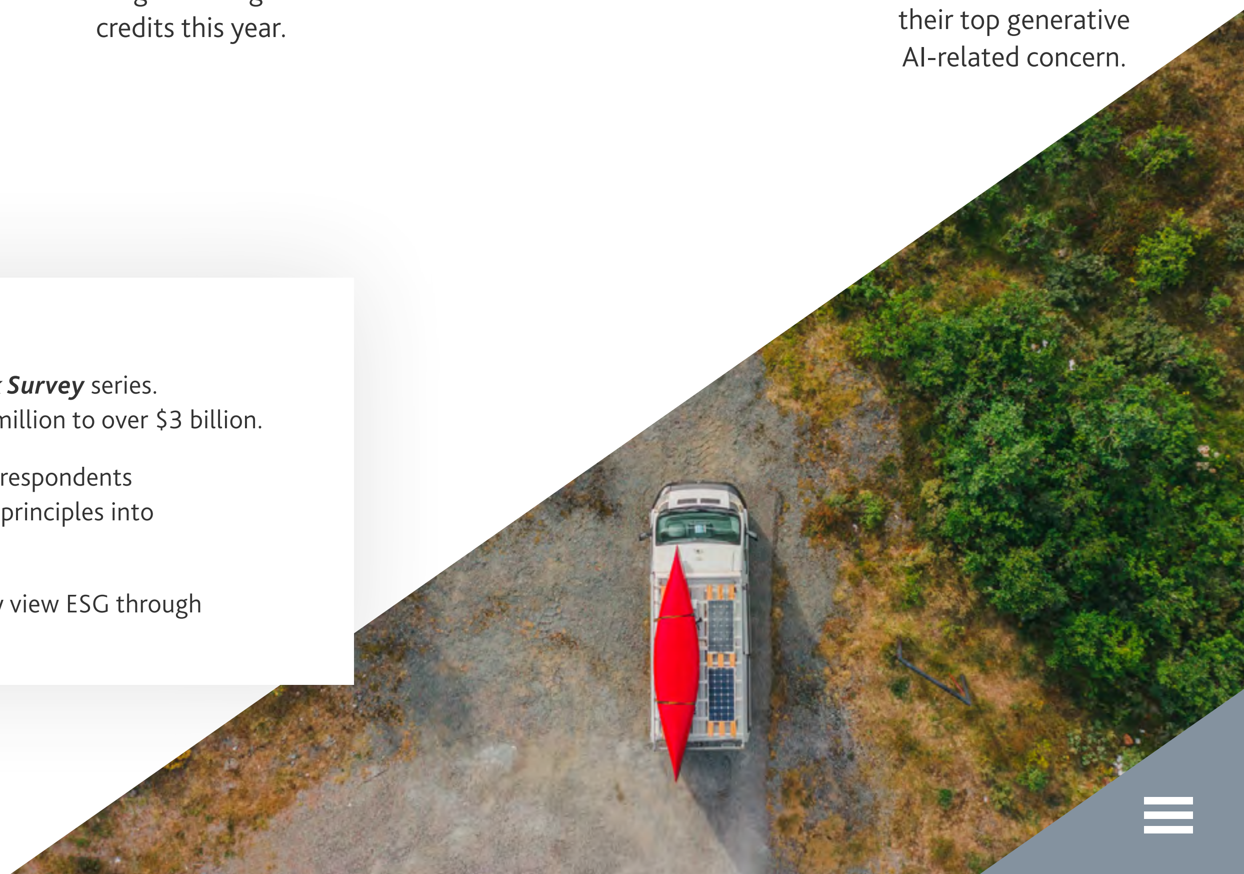
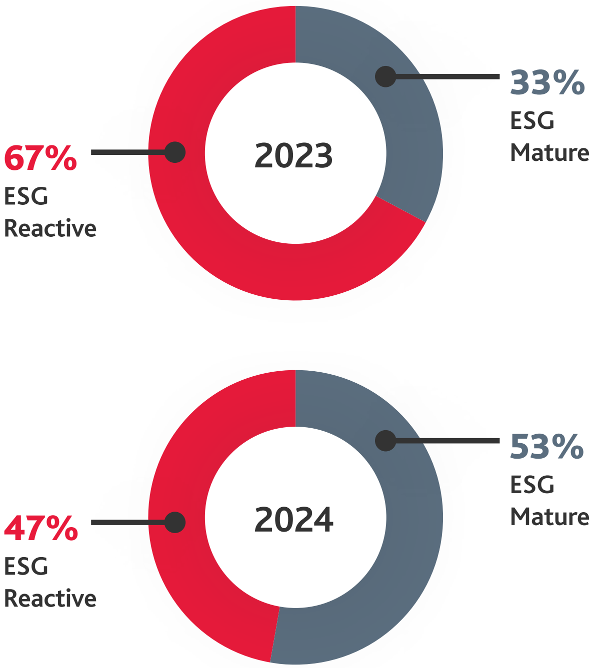


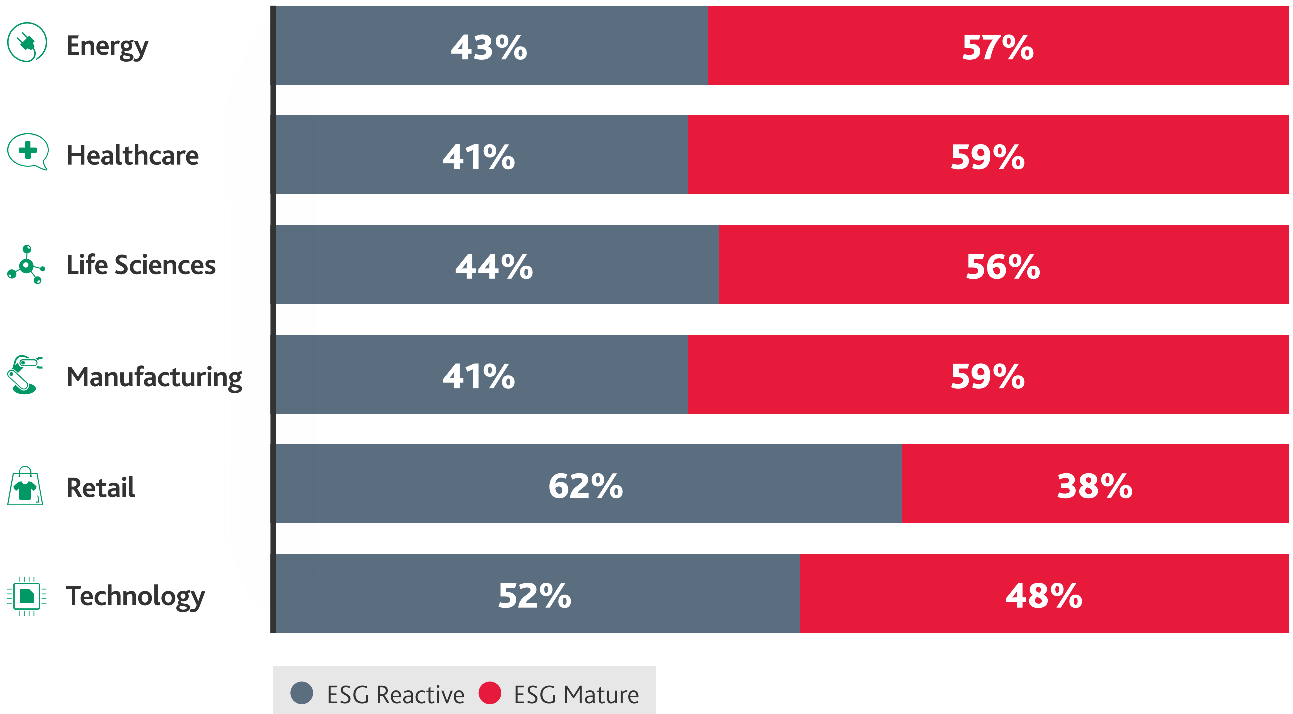
Table of Contents

ESG Programs Grow Up

ESG Program Maturity Increases

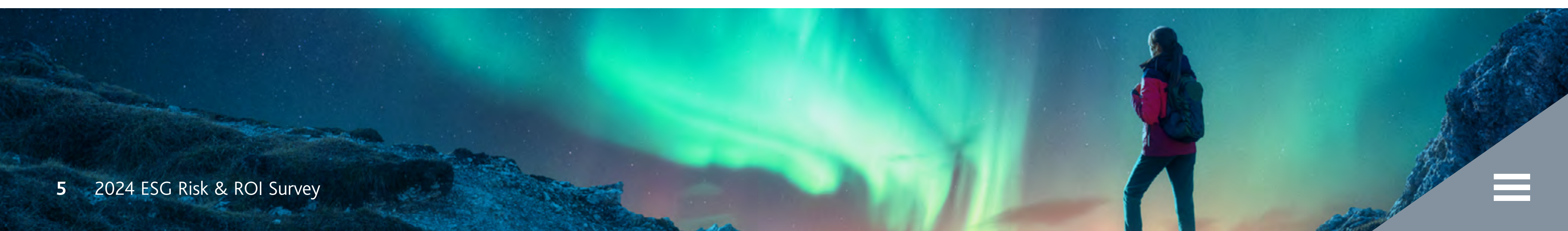


ESG Maturity By Industry



As businesses progress in their ESG journey, the distinction between sustainability efforts and business strategy blurs. Sustainable practices become not just ancillary but central to driving business success and resilience.

Indicating an evolution in ESG maturity, more than half of CFOs say they have embedded ESG principles into their core business strategy or are actively working on it, up from just one-third in 2023. However, ESG maturity drops to 38% in the retail industry, suggesting retail CFOs put sustainability on the back burner in 2023. Notably, 87% of the retailers surveyed report they either broke even or suffered financial losses last year.



In another sign of program maturity, finance leaders' business objectives for their sustainability initiatives are shifting.

Whereas compliance topped last year's ESG goals, it ranks eighth overall in this year's survey. CFOs have not lost sight of ESG risks, but they show increasing appreciation for the ways in which sustainability initiatives can create business value and competitive advantage. The most frequently cited objectives for 2024 focus on potential upside of ESG initiatives — from improved brand reputation to talent recruitment and retention to capital access.

Most Reported Objectives for ESG Initiatives

1. Improve Brand Reputation
2. Attract and Retain Talent
3. Improve Employee Engagement
4. Access Sustainable Financing
5. Improve ESG Rating

Changing Objectives for ESG Initiatives by Industry

How CFOs' Primary Goals for ESG Initiatives Have Changed Since 2023

INDUSTRY	2023 TOP OBJECTIVE	2024 TOP OBJECTIVE
ENERGY	Embed Sustainability into Investing Criteria	Attract and Retain Talent
HEALTHCARE	Management of ESG Risks and Compliance	Attract and Retain Talent
LIFE SCIENCES	Embed Sustainability into Business Strategy	Attract and Retain Talent
MANUFACTURING	Management of ESG Risks and Compliance	Improve Brand Reputation
RETAIL	Improvement of ESG Ratings	Improve Brand Reputation
TECHNOLOGY	Management of ESG Risks and Compliance	Improve ESG Rating

Recommendations

1

Evaluate your opportunities.

Link ESG priorities to opportunities that create differentiation, efficiency, and growth across the organization.

2

Stay focused on what's most material.

Ensure that sustainability strategies reflect the needs and mission of your unique business and stakeholders.

3

Create shared ownership.

Bring the finance function together with other core departments like tax, internal audit, human resources, and enterprise risk management to create a unified strategy and measurable goals.

Building your 2024 strategy?
Learn how to set effective ESG goals and targets.

LEARN MORE ▶

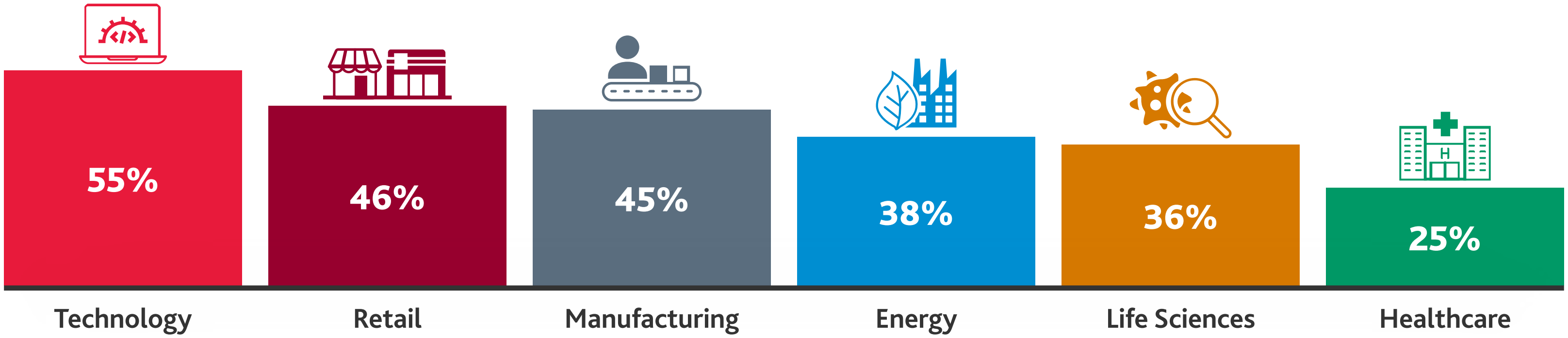
Finance's Counsel on Sustainability Matters to Company Success

With the rise of the chief sustainability officer, does the CFO still have a role to play in sustainability and ESG strategy?

In short, yes. Even as more companies appoint designated sustainability leaders, finance leaders are more vital than ever to their organization's sustainability and ESG efforts — and, for the most part, remain active participants. Three-quarters of CFOs expect their involvement in strategic ESG conversations to stay the same (34%) or increase (41%) in the next 12 months. Just 3% say they aren't involved in ESG discussions.

> *The finance leader's purpose goes far beyond ensuring ESG reporting and compliance efforts are timely, complete, and accurate. With a broader strategic perspective, CFOs often serve as a catalyst connecting — and balancing — new growth opportunities and risk driven imperatives across a wider set of stakeholders. By embedding ESG and sustainability initiatives into their organization's overarching strategic agenda, CFOs can help retain top talent, better manage risk, and drive long-term resilience.*
>
> **KAREN BAUM**
> Managing Principal
> Sustainability & ESG Center of Excellence, BDO USA
> Sustainability Services & Solutions, BDO Global

CFOs that Expect Their Involvement in ESG Conversations to Increase in 2024 by Industry



CFOs that Expect Their Involvement in ESG Conversations to Increase in 2024 by Ownership Structure

As leaders in the drive for sustainability, CFOs are instrumental in establishing ESG metrics and processes that not only meet regulatory and investor demands, but also pave the way to take advantage of the breadth of sustainable financing options. Their role in identifying and managing ESG-related risks and opportunities is critical for organizations aiming to secure favorable financing terms and tax credits.

While access to sustainable financing ranks fourth among CFOs' ESG goals, just 34% of respondents say they plan to claim tax credits this year. But with the Inflation Reduction Act's landmark renewable energy tax credits now available, CFOs may be missing out on opportunities to ramp up sustainable investments and improve their bottom line.

> *The renewable energy tax credits and transferability provisions introduced by the Inflation Reduction Act empower organizations to capitalize on the enormous upside of the energy transition. There are also a myriad of other state and local incentives that companies may be overlooking. Reaping those benefits requires a tax credit review and ongoing compliance. The investment is worth it — you don't want to leave money on the table.*
>
> **GABE RUBIO**
> Tax Principal
> Business Incentives Group

Recommendations

1

Actively participate in ESG conversations.

CFOs must remain involved in ESG investment discussions and proactively identify synergies with their broader business strategy and enterprise risk management.

2

Evaluate notification mechanisms.

Assess existing communication and feedback channels. How effectively is the finance department kept apprised of ESG-related updates from regulators, standard-setters, and other important entities?

3

Turn ESG initiatives into tangible cost savings.

Offset your organization's existing decarbonization and social investments by exploring available tax credits and incentives at the international, federal, state, and local levels. Even relatively simple measures, like switching energy sources powering office buildings, could lead to substantial cost savings.

Learn more about the CFO's essential role in ESG.

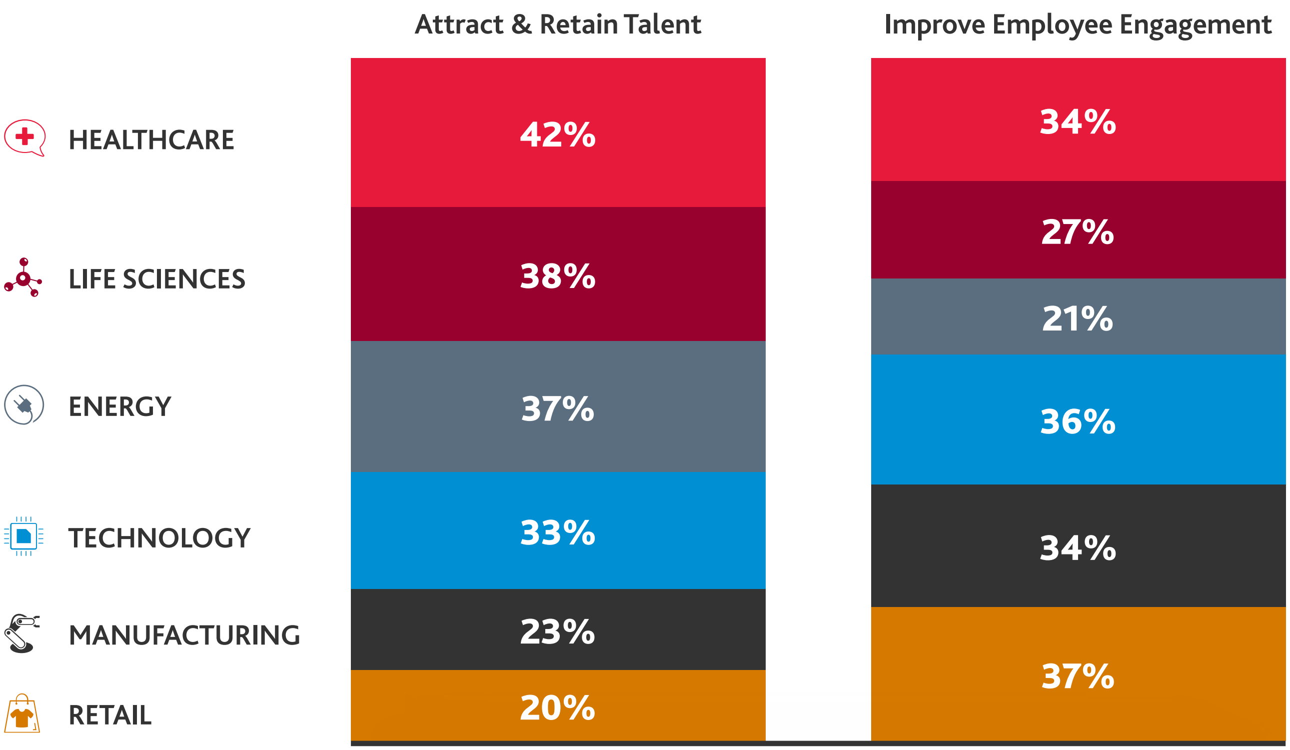
LEARN MORE ▶

Talent Management Drives ESG Initiatives

Despite high-profile layoffs in the headlines, it's still an employee's market. With jobless claims at historic lows, attracting and retaining talent and improving employee engagement round out two of the top three business objectives for ESG initiatives.

Emphasis on talent is consistent across industries, but healthcare CFOs show the most focus on leveraging ESG initiatives to attract and retain talent, a response to the prolonged healthcare worker shortage. While retail CFOs are least focused on talent retention, their primary focus is on improving employee engagement — likely because of the high correlation between employee engagement and customer experience.

CFOs Citing Talent in Their Top ESG Objectives



Amid this paradigm shift toward awareness of human capital management as a material issue, CFOs are heeding the call. Two-thirds of respondents say their involvement in strategic conversations about workforce strategy will increase (36%) or stay the same (30%) in 2024.

Many modern workers want their employers to take responsibility for their impact on society and the environment. To win and keep such talent, organizations should demonstrate genuine commitment to sustainable practices. Employers should thus closely align their purpose and vision with a thoughtful sustainability strategy, ensuring these principles guide decision making at all levels and inviting these targeted employees into the fold.

STEVE MATSON
Human Capital Management Consulting Practice Leader

CFOs See ESG Risks Evolving, Not Disappearing

CFOs are bracing for a year in which ESG risks are not just a boardroom buzzword, but a critical business reality. With the European Union's [Corporate Sustainability Reporting Directive (CSRD)], the SEC's [climate-related disclosure rule], and California's [own requirements for corporate climate disclosures], the regulatory environment is intensifying. At the same time, cynicism about greenwashing and the anti-ESG backlash add scrutiny of a different nature.

Against this backdrop, 61% of CFOs surveyed say sustainability and ESG risks pose the same or greater business risk this year as one year ago. Among ESG-mature CFOs, 41% say ESG issues pose a greater risk, compared to 31% of ESG-reactive CFOs. Companies steeped in sustainability are more likely to consider it a greater risk, reflecting a challenging truth: Many climate, human capital, and regulatory risks are not obvious. If proactive ESG risk assessment isn't baked into broader enterprise risk management, these risks may be missed until the consequences are felt. A risk not monitored is a risk not managed.

Perceptions about ESG risks are relatively consistent across industries, with retail as a slight outlier. With the lowest level of ESG maturity, retailers may be overlooking more risks than their peers in other industries.

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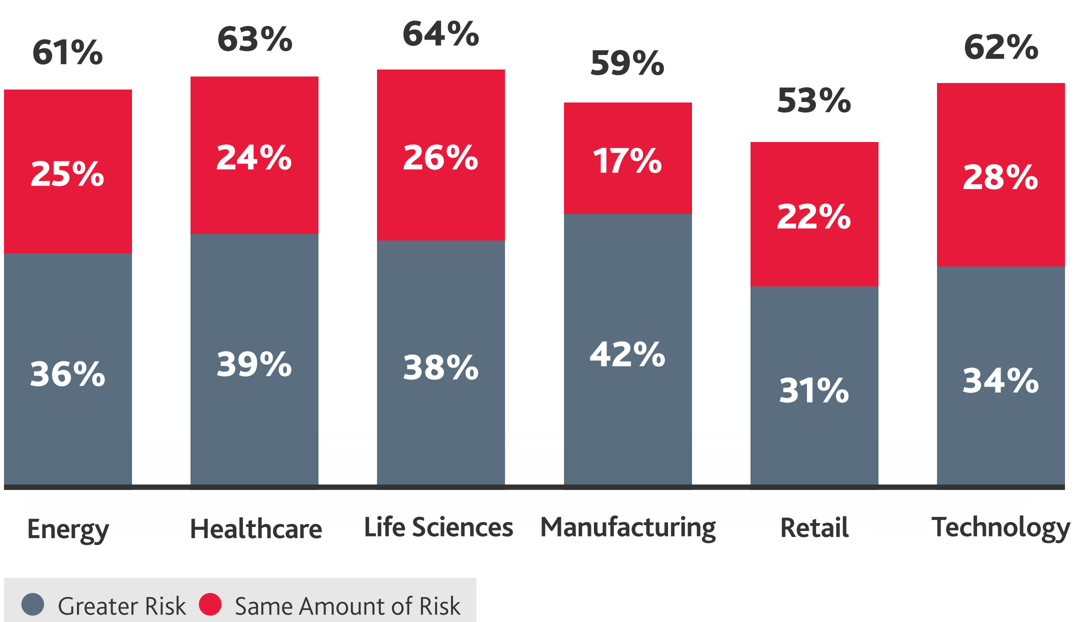
of CFOs say sustainability and ESG risks **pose the same or greater business risk** this year as one year ago.

ESG Risk Levels by Industry



Recommendations

1

Don't wait to prepare for ESG disclosure mandates.

Work with other core functions to identify and address all climate, human capital, and generative AI risks and verify that public disclosures communicate them consistently.

2

Increase the frequency of ESG risk identification exercises.

To enhance the agility and resilience of the full organization, regularly evaluate the quality of your existing risk and incident identification controls and technologies.

3

Create enforcement processes.

Develop robust risk monitoring and enforcement mechanisms, not just policies, to ensure that financially material risks are addressed and can be disclosed when regulators and stakeholders demand such information.

Will new ESG reporting regulations unearth new risks for your business?

LEARN MORE ▶

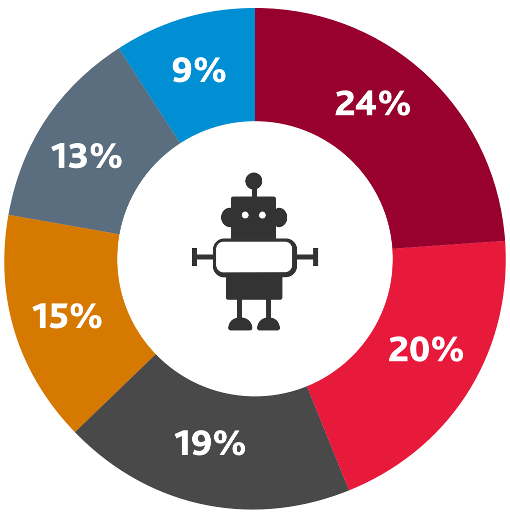
Generative AI: Is it an Ethical Nightmare or Governance Champion?

Most ESG strategies may be maturing; however, risks and opportunities associated with generative AI are still in their infancy.

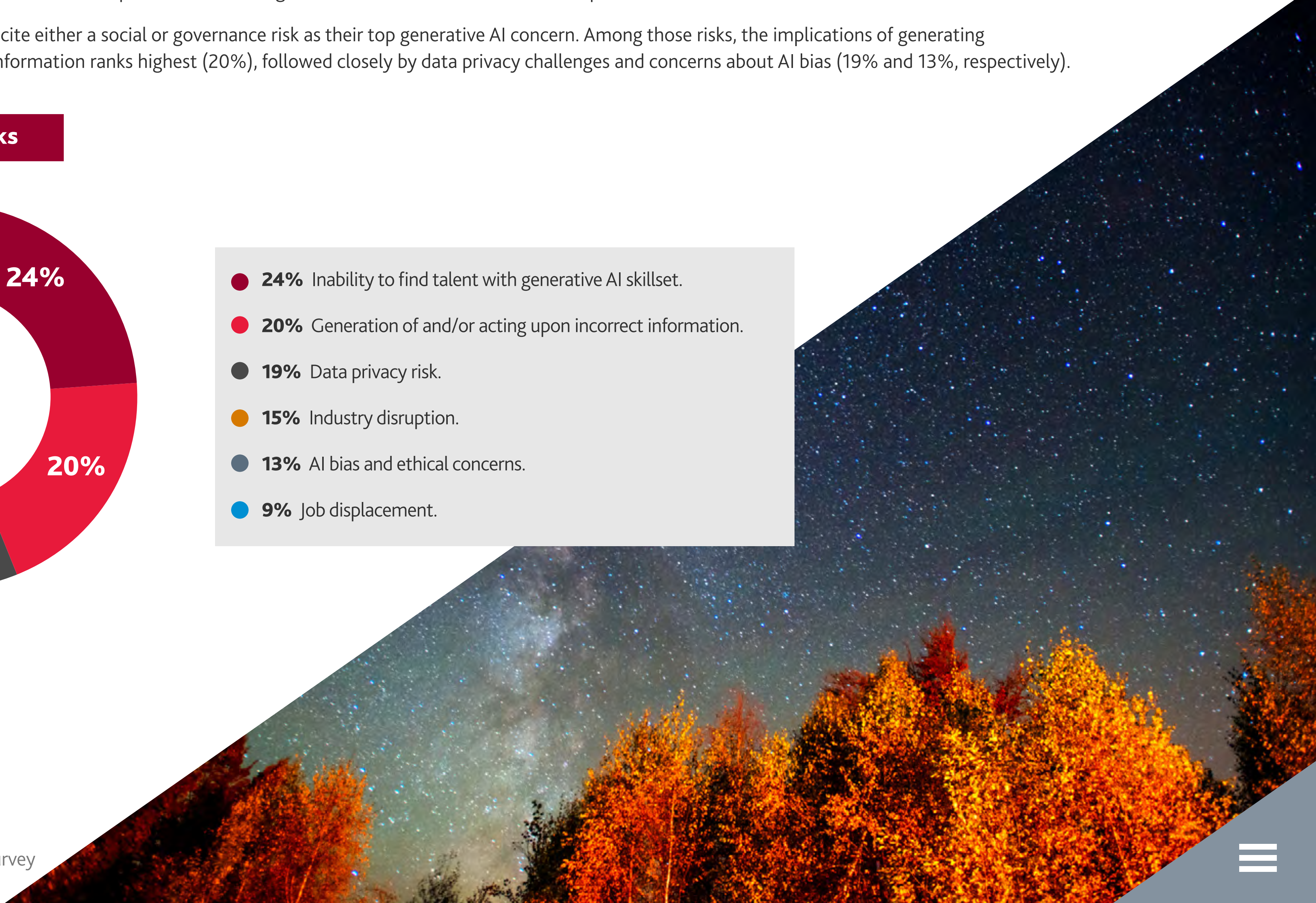
CFOs are simultaneously excited and leery. The potential financial upside of generative AI adoption is massive. However, it also poses significant non-financial risks that, without the right governance mechanisms in place, could have significant economic and societal consequences.

More than half of CFOs (52%) cite either a social or governance risk as their top generative AI concern. Among those risks, the implications of generating and/or acting upon incorrect information ranks highest (20%), followed closely by data privacy challenges and concerns about AI bias (19% and 13%, respectively).

Top Generative AI Risks



- **24%** Inability to find talent with generative AI skillset.
- **20%** Generation of and/or acting upon incorrect information.
- **19%** Data privacy risk.
- **15%** Industry disruption.
- **13%** AI bias and ethical concerns.
- **9%** Job displacement.



To manage these emerging risks without stifling innovation, 49% of CFOs have formalized or are in the process of formalizing a policy for generative AI use. However, because generative AI's risks are not fully understood, many policies will have critical gaps that expose organizations to ESG vulnerabilities.

Data privacy is crucial. While many companies focus on safeguarding their own data from third-party generative AI applications, few consider the large language model powering the application. Are there any personally identifiable information or copyrighted works in the data set used to train the model? Was the proper consent obtained? With regulations lagging reality, businesses must carefully evaluate the ethical implications of building or using gen AI applications trained on protected data.

KAREN SCHULER
Global and U.S. Privacy
& Data Protection Practice Leader

What about the long-term threat of job losses? In the last year, layoffs in the technology industry have been blamed in part on AI rendering some roles obsolete. Yet a far greater percentage of CFOs cite the inability to find AI-savvy talent as a top risk, rather than job displacement.

While AI presents some risks, it also serves as a powerful risk mitigation tool. CFOs rank compliance and reporting applications first among all AI opportunities over the next 12 months. Adoption of AI solutions could significantly ease the administrative and logistical burdens of sustainability-related data collection, quality control, and disclosure.

Generative AI is revolutionizing productivity as we know it. While we may see a small decrease in employment in industries with high AI exposure in the short term, generative AI will likely ultimately create far more net new jobs than it eliminates. In this period, businesses need to consider their responsibility to those employees most directly impacted. If you're concerned about finding talent with generative AI skills, why not upskill the talent you already have?"

KIRSTIE TIERNAN
National Data & AI Practice Leader

Recommendations

1

Set boundaries.

To avoid the proliferation of unsanctioned applications and other rogue behavior, issue interim guidance on permissible and impermissible AI use.

2

Educate on ethics.

Help your employees understand generative AI risks and their personal responsibility in mitigating data privacy and legal exposure.

3

Watch out for over-reliance.

Generative AI has the potential to streamline compliance processes. However, without the appropriate data foundation and governance mechanisms, inaccuracies and “hallucinations” — information fabricated by AI — may do more harm than good.

Understand the risk of AI bias and learn how to mitigate it.

LEARN MORE ▶

Finance Holds the Key to Sustainable Growth in 2024

Stakeholder and regulatory demands of companies are becoming more complex and intense.

The finance department is key to balancing responsible operations with financial excellence — and the CFO at its helm must stay focused on supporting sustainability and ESG strategies that reflect the needs and mission of the business. Ahead of the rollout and enforcement of major climate risk, emissions, and human capital disclosure regulations in the U.S. and abroad, CFOs should keep a watchful eye to ensure that the business is:

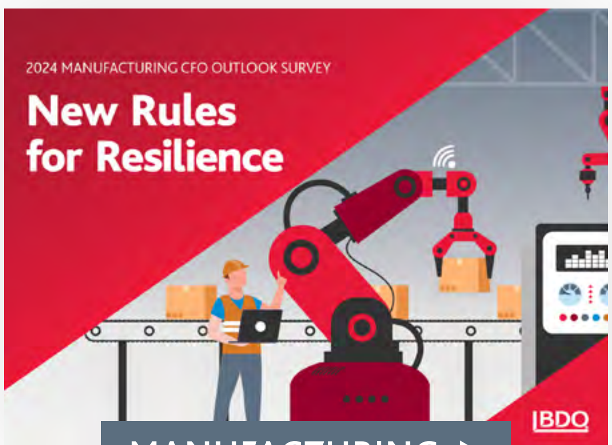
- Governing its financial data with rigorous controls and quality assurance processes.
- Engaging trusted partners to support emissions tracking and climate risk assessments.
- Taking a long-term view of how sustainably the business generates value.

For insights on other opportunities and risks at the top of the CFO's agenda, review the comprehensive overview or dig into the industry-specific cuts of our CFO survey data.

2024 REPORT ▶

HEALTHCARE ▶

LIFE SCIENCES ▶



MANUFACTURING ▶

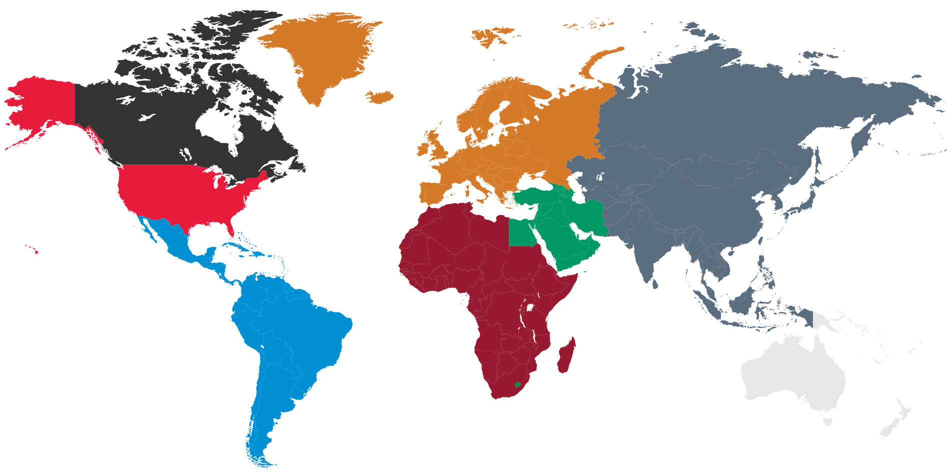
RETAIL ▶

TECHNOLOGY ▶

Methodology

The ***2024 CFO Outlook Survey*** polled 600 middle-market CFOs with revenues ranging from under $250 million to over $3 billion in October 2023. The survey was conducted by Rabin Roberts Research, an independent marketing research firm, using Op4G's panel of executives.

REGION



80% U.S. only

18% Canada

13% Latin/ South America

11% Europe

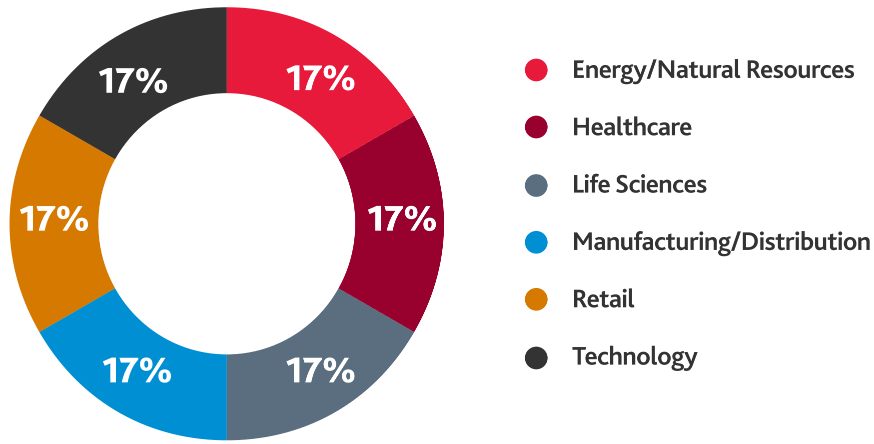
9% Asia-Middle East

9% Asia-Pacific

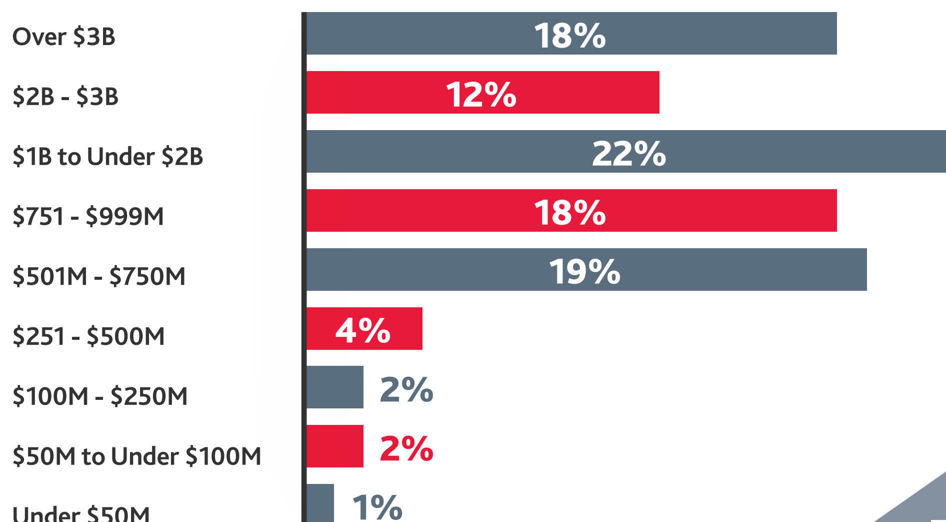
4% Africa

*All CFOs surveyed are at U.S.-headquartered companies.

INDUSTRY



REVENUE



BDO's Sustainability & ESG Center of Excellence provides BDO clients and professionals access to climate, human capital, generative AI, ESG disclosure, and other related technical subject matter knowledge and solutions. The ESG leadership team, comprising senior leaders across the firm, provides strategic oversight of the Center, the firm's internal focus on sustainability strategy and initiatives, and the delivery of ESG services and solutions to BDO's clients.

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