THE SUSTAINABILITY TALENT GAP IN FINANCE

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EXECUTIVE SUMMARY

Finance leaders find themselves before the confluence of two increasingly impactful reporting workflows—financial and sustainability. Additionally, companies are increasingly incorporating sustainability metrics into their strategic planning process, and new regulations and investor actions make it more and more difficult to avoid the financial relevance of these disclosures. In order to meet external and internal reporting needs, companies are increasingly relying on finance teams to lend their perspective and competencies to scale sustainability reporting capabilities. Finance professionals have the knowledge and tools to support sustainability reporting through a financial reporting lens, which means we are seeing the development of controlled, repeatable processes through which sustainability data will flow and be transformed into reportable metrics and disclosures. As sustainability reporting moves into the finance suite, many finance teams are finding they must enhance their knowledge and capabilities about sustainability matters. This report explores the sources of strain sustainability reporting represents for finance teams and their efforts to address the talent gap.

KEY STATS

- **Sustainability reporting is keeping finance teams busy** – more than 70% of companies are already disclosing scope 1 and 2 greenhouse gas emissions and are strengthening their processes to prepare for new SEC regulations.
- **Staffed up and waiting for what's next** – 50% of responding companies have hired finance professionals in full-time sustainability reporting roles.
- **Internal controls talent gap** – almost 70% of responding companies named internal controls over sustainability reporting as a skill they are looking to fill right now.

ABOUT THE RESEARCH

The Financial Education & Research Foundation and Persefoni collaborated to develop the survey, as well as devise interview questions designed to uncover the key sustainability reporting challenges companies are facing and how they are looking to talent as a solution. The report and its findings are based on a survey distributed to finance professionals from US-headquartered, publicly traded companies. In total, more than 50 chief accounting officers and controllers from some of the largest US companies participated in the survey. A subset of those participating in the survey (5) took part in qualitative research interviews.

FROM WHERE WE ARE TO WHERE WE ARE HEADED

EXTERNAL REPORTING

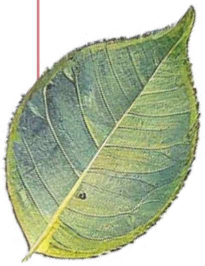
Companies are in a critical transition when it comes to sustainability: from voluntary to regulated reporting. Climate information is set to become a mandatory component of companies' annual 10-K filings—and the shift should not be taken lightly. It requires formal signoffs by board members, CEOs, and CFOs, along with personal compliance liability. With the possibility of auditors scrutinizing the integrity of these reports, robust internal controls over climate-related information are no longer a choice—they're essential. This underscores the importance of governance frameworks that prioritize accuracy, traceability, and completeness. Climate reporting will become a core element of corporate accountability that will impact a company's standing in the market and with investors.

The U.S. Securities and Exchange Commission (SEC) proposed rules aim to provide a consistent framework for public company reporting on climate-related financial risks. SEC's commitment to addressing investor demands for more consistent, comparable, and reliable information about these risks. In addition to the SEC's proposed rule, California—the world's fifth largest economy—enacted two climate disclosure bills into law in October 2023 that will reverberate throughout the country and its capital markets:

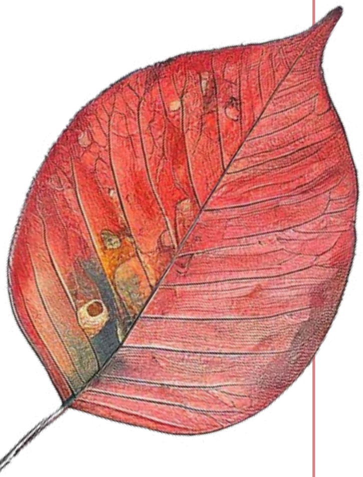
(1) Senate Bill 253, known as the Climate Corporate Data Accountability Act and the Climate-Related Financial Risk Act (SB 261). SB 253 requires both public and private US businesses with revenues greater than $1 billion operating in California to report their emissions comprehensively, including scope 1, 2, and 3, beginning in 2026 (for 2025), with scope 3 required the next year. SB 253 also requires reporting companies to obtain third-party assurance of their emissions reports.

(2) SB 261 requires corporations with annual revenues over $500 million that do business in California to issue a public report about their climate-related financial risks and mitigation strategies every two years, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

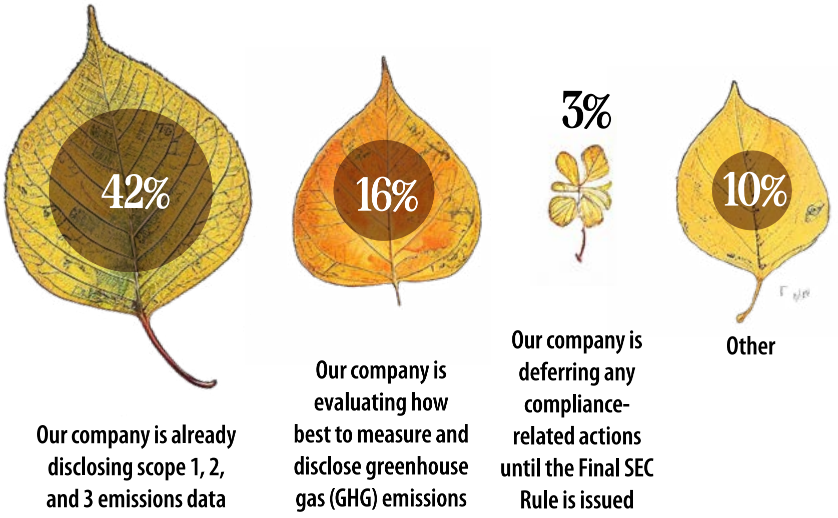
Of course, for those companies operating internationally, the Corporate Sustainability Reporting Directive (CSRD) and the potential adoption of the International Sustainability Standards Board (ISSB) standards in other countries represent other impactful compliance requirements for companies.



> “As we move from a voluntary to a regulated reporting environment, companies will need to focus on ensuring that the data they are reporting is sound and backed by appropriate procedures and controls so companies are able to show how they derived the information they are reporting to investors. Building strong internal controls over climate information will help ensure the information reported is complete and accurate. Companies will necessarily be much more focused on the integrity of their climate data as they move from disclosing in voluntary sustainability reports to SEC filings.”
>
> - KRISTINA WYATT, CHIEF SUSTAINABILITY OFFICER AT PERSEFONI



In preparation for the SEC climate disclosure rule being finalized, what steps are under consideration by your company to ensure compliance with any new SEC regulations?



Because of the uncertainty related to the SEC climate disclosure proposal, it is often reported that companies are deferring steps to prepare for implementation. However, our survey found more than 70 percent of companies disclose scope 1 and 2 emissions data, which demonstrates the level of importance organizations already place on climate reporting. Moreover, the remaining companies were either still in the process of evaluating how to best measure and disclose GHG emissions (16%) or were deferring compliance-related actions until the final SEC rules are issued (3%).

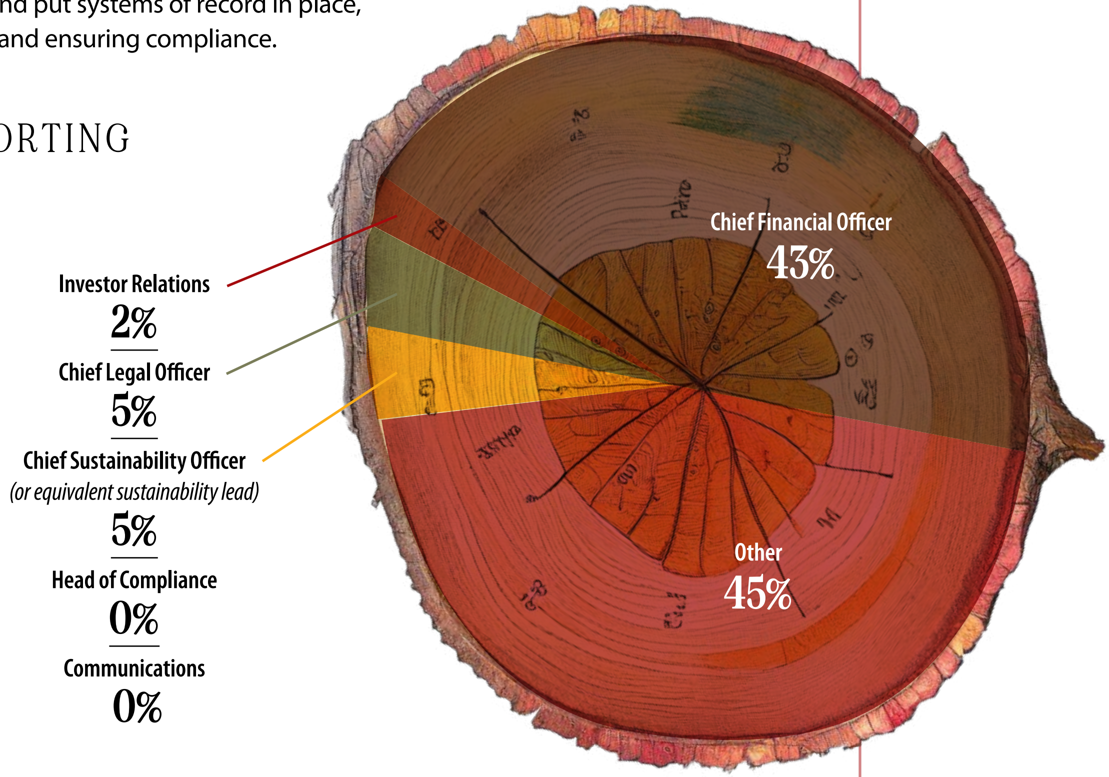
Still, even if more than 70 percent of respondents were already disclosing scope 1 & 2 data, it is not uncommon for the emissions data to be reported with a significant lag. In current practice, most companies’ sustainability reports are published three to six months after their annual financial reports, and emissions data can have even longer delays. For example, in one of the sustainability reports we examined as part of the research, the company disclosed its scope 1, 2, and 3 emissions with a 12-month time lag (i.e., 2021 instead of 2022). As reporting on this data has been voluntary to date, this is not surprising. Those whom we interviewed as part of the study also indicated that these time lags are not ideal, and they believe that the timeline for their carbon emissions reporting could accelerate once they have a clear mandate and can obtain and deploy more resources to accelerate reporting timelines.

Still, the uncertainty around the climate rule is a staffing headwind for finance teams as they work to scale their reporting efforts—as well as implement needed improvements to systems and processes. Many interviewees noted that they were able to increase their headcount and investment in systems in "fits and starts" as they continued to request increased resources without a defined mandate.

Proactive reporting builds investor confidence and trust, putting companies in a better position to raise capital and enhance shareholder value. Further, data gathering can be a time-consuming process that demands careful planning and execution. Starting early enables companies to establish robust controls and put systems of record in place, reducing the risk of errors and ensuring compliance.

INTERNAL REPORTING

Who does the highest Finance-ESG executive report to?



As it pertains to governance specific to finance-ESG, responding finance functions again displayed a significant diversity of practice, with just over 40 percent indicating that their highest finance-ESG executive reports to the Chief Financial Officer. Among those selecting "Other, please explain," we observed a trend of those reporting to Controllers, the VP of Accounting Policy, and the Chief Accounting Officer.

Given the breadth of functions in which sustainability data resides and the volume of data owners, some interview respondents did note some degree of challenge without a clear reporting mandate. One ESG controller commented specifically on the data governance challenges his organization is facing:

> "Unlike with financial reporting where you can go up through the CFO and everyone needs to comply, with ESG there's nobody below the CEO with full oversight—ESG data is owned across the company."

The implications of the lack of a singular owner of ESG reporting is that there is a lack of a clear mandate, so professionals have to rely more on soft power, as opposed to a mandate, which has left the ESG controller cited above focused on building goodwill and providing good client service for his/her business partners.

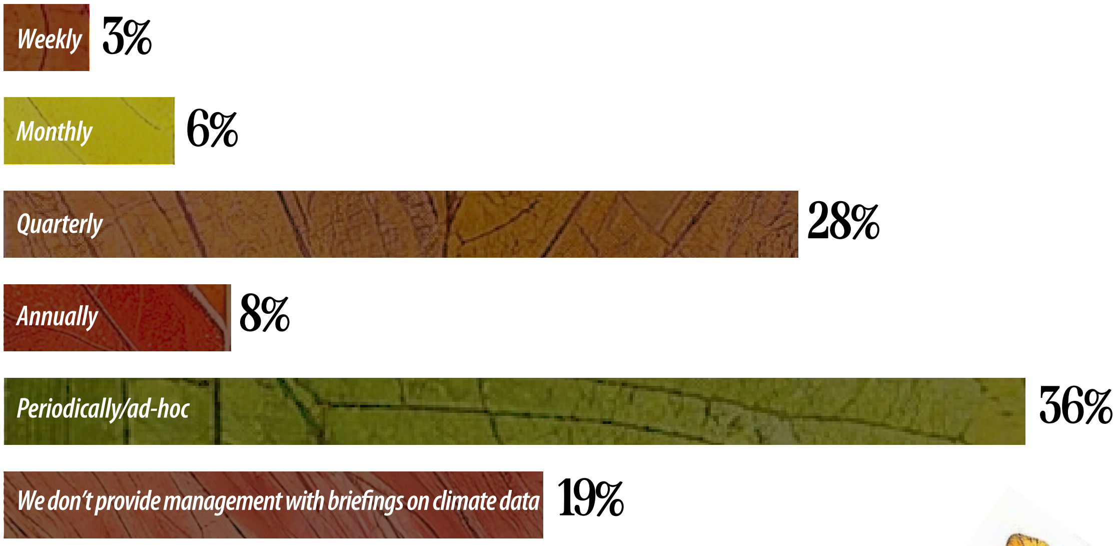
Beyond merely the role to which the highest finance-ESG professional reports, we are interested in the cadence of these briefings, and hypothesize that more frequent briefings would indicate an important step in the continued evolution of finance professionals within the corporate organization. Namely, finance professionals would be able to increase the scope of conversations in which they can contribute from corporate strategy to initiatives like new product design.

To this end, we observed that almost 40 percent of respondents reported briefing the highest executive overseeing finance-ESG reporting efforts on at least a quarterly basis, and a further 44 percent do so on an annual or ad-hoc basis, with the remainder not briefing management on climate data at all.

One financial leader whose organization updates management on sustainability metrics explained that quarterly feels like the right cadence for his organization, but that even that was difficult given the delays in sourcing the data from the various owners.

Still, other interviewees noted that they would like to provide more frequent briefings, but that isn't possible in their current reporting ecosystem. To make the data more decision-useful, it will have to come on a timelier basis; that said, one ESG controller we spoke to noted that the data quality and processes around their sustainability data were pretty far behind where his team would like to be.

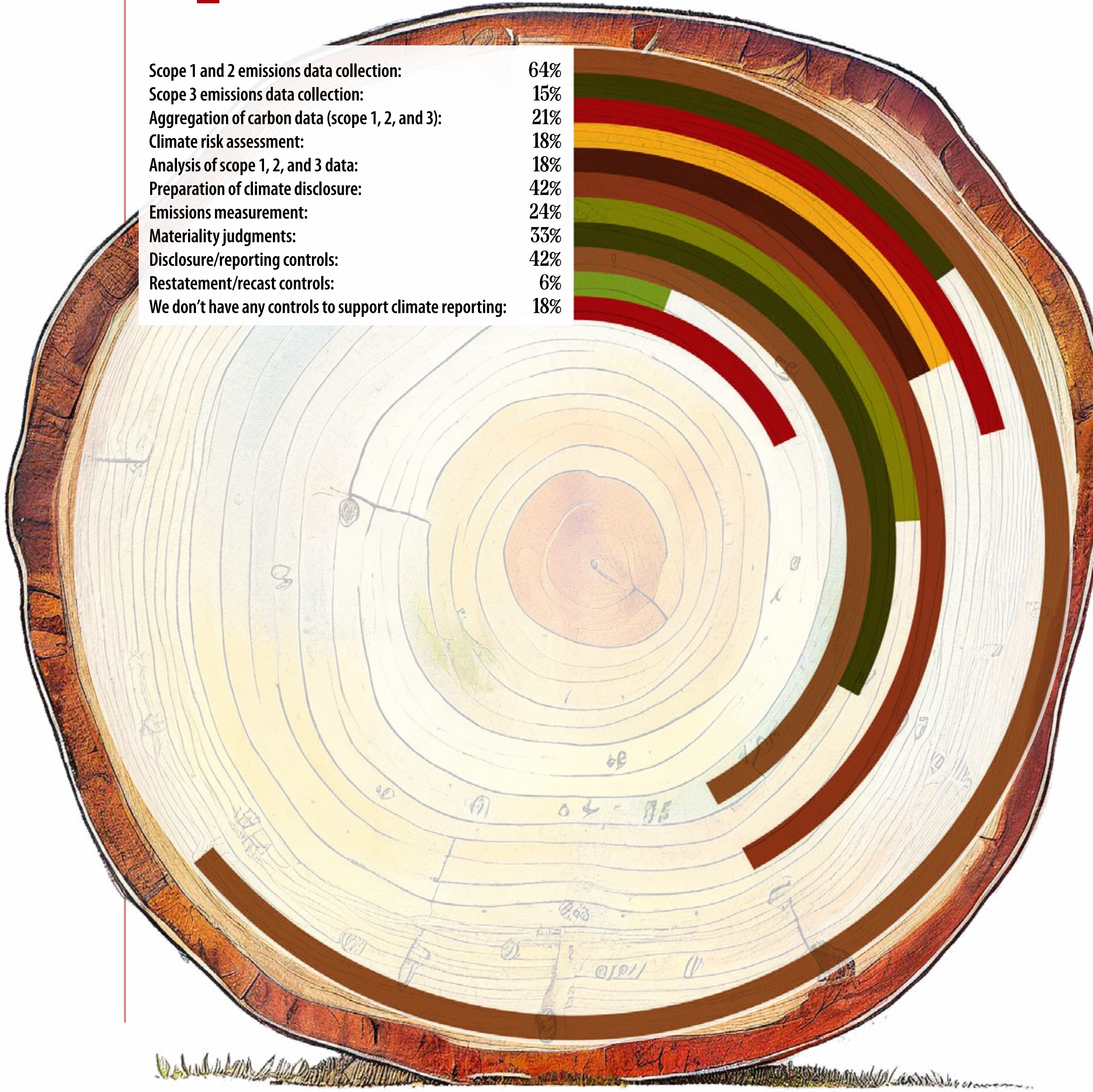
How often is the executive overseeing the department noted in the previous response briefed on climate reporting metrics or KPIs?



INTERNAL CONTROLS

Regardless of the level of sophistication of the process or the number of years a company has

For which of the following areas has your organization designed or implemented controls to support climate reporting?



Scope 1 and 2 emissions data collection:	64%
Scope 3 emissions data collection:	15%
Aggregation of carbon data (scope 1, 2, and 3):	21%
Climate risk assessment:	18%
Analysis of scope 1, 2, and 3 data:	18%
Preparation of climate disclosure:	42%
Emissions measurement:	24%
Materiality judgments:	33%
Disclosure/reporting controls:	42%
Restatement/recast controls:	6%
We don’t have any controls to support climate reporting:	18%

voluntarily reported sustainability metrics, finance professionals are now working to construct or bolster their sustainability reporting ecosystem in anticipation of future regulatory reporting and strategic planning requirements. So, in addition to ensuring the availability of the data and improving the velocity at which it moves through a company's ESG data infrastructure, finance professionals are trying to ensure its accuracy, auditability, and completeness and apply their internal control expertise to the ESG environment.

An ESG Controller on Voluntary to Mandatory Reporting

We're doing our best to think with the end in mind so when we switch from voluntary to mandatory reporting, our information is complete, accurate, and appropriate. I've worked with a lot of people on this, and we're all approaching climate reporting similarly to how we've been approaching financial reporting.

Given the increased focus on reporting on scope 1 and 2 emissions, it is of little surprise that safeguarding the collection of this data is the most controlled area to date. Relatedly, the data collection phase of the sustainability reporting ecosystem is the entry point for the sustainability reporting process, which is another application lesson learned from digital transformation—simply put, they're preventing a "garbage in, garbage out" scenario. In past research, as well as for this report, finance professionals described their data collection for scope 1 & 2 as highly manual, with one person describing their sourcing efforts as calling around to the various plant heads to get their carbon emissions. Importantly, as finance professionals further study existing processes and apply lessons learned from past digital transformation and data quality efforts, we can expect early improvements to the data collection process for scope 1 & 2 data, and further increases in the pace of reporting sustainability data.

Only slightly less commonly, we are seeing a significant number of respondents (over 40% in both cases) indicate that they were designing or implementing controls related to the preparation of the climate disclosure and for general sustainability disclosure. Again, we anticipate increased time and attention as climate reporting shifts from a voluntary to a regulated reporting practice. Importantly, disclosure controls around sustainability reporting have presented a challenge distinct from financial reporting given the different stakeholders in the process and the focus on the story they want to tell, as opposed to financial reporting's strictly defined generally accepted accounting principles (GAAP). As one finance professional helping to lead sustainability reporting efforts at his company explained: "The ESG world is very different because it's not the rule I start with. It's typically the story we want to tell, crafted by story writers, and then we are brought into the process at the end to determine how we put that controllership lens of controls and measurements on a well-crafted story on sustainability."

Outside of the three control areas listed above, materiality continues to be an area in which finance professionals are working to design and implement controls. Moreover, materiality has been a control focus since the SEC signaled their intention to introduce rules related to climate reporting up to this point, which points to the levels of complexity associated with materiality judgments for climate reporting. One ESG controller described the challenge to date:

We've been talking about materiality quite a bit. We can put tons of controls around our scope 1 emissions, but at the end of the day, they're a pretty small percentage of our emissions. Should we be setting it [materiality thresholds] as a percentage of our scope 1 emissions or our total emissions? How do we think about some of those things because they're on different orders of magnitude?

WHAT ALL THIS MEANS

As it stands, finance teams have already worked to provide significant contributions to their organization's sustainability reporting efforts. In this time without a mandate, many finance professionals are working to impart knowledge on good data quality management and governance, in addition to reporting practices. This is the status quo at many companies, and we will likely see incremental reporting improvement until there is a clear mandate, after which the velocity of change will accelerate. This acceleration offers significant benefits; for example, many organizations will increase their investment in digital transformation for sustainability information, which will increase its strategic usefulness. That said, the challenge of mandated sustainability reporting will require investments in time and resources. As one Chief Accounting Officer noted, "The burden of sustainability reporting is starting to be on the scale of how you think about talent and access to resources from a financial reporting perspective." As they power their sustainability reporting, teams will have to increase their allotments of human capital. The next section of the report will discuss how leading finance organizations are planning to navigate the human capital gap from plans around headcount to how they are planning to use technology to amplify their people.

One ESG Controller on Moving from Little League to Minor League to Major League Sustainability Reporting

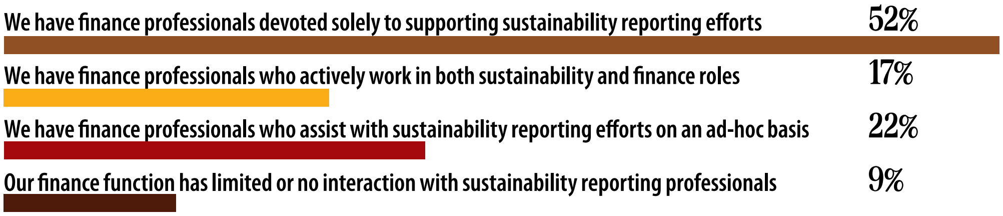
We're currently operating in the little leagues and we're quickly moving to the minors, and this represents a ton of change and generally a difficult transition for teams. But then I have to remind people that although we are driving towards the minors, the major league is coming. With moving to the minors, there are so many additional considerations, including data, systems, documentation, and limited assurance. Moving to the majors will involve much more as we move to reasonable assurance, which is a really big lift. We are focused on the minors but also absolutely starting the journey to the majors with reasonable assurance. We are currently meeting with our internal audit teams to educate and engage on the long-term considerations that need to go into our long-term strategy.

THE TALENT SOLUTION

HEADCOUNT NOW AND IN THE FUTURE

Headcount Right Now

To what degree does your finance function have a dedicated headcount for sustainability reporting?



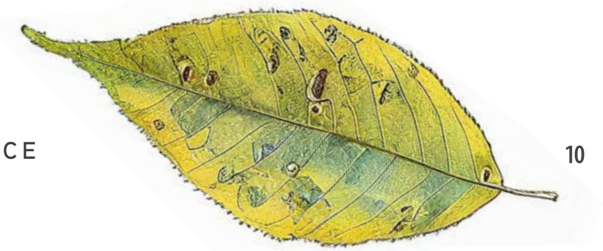
The survey data portrays a spectrum of approaches to finance function headcount for sustainability reporting. On one end, we see a continuing theme of higher finance professional specialization, with 50 percent of respondents working solely to support sustainability reporting efforts, and at the other extreme the minority of companies whose finance professionals have limited or no interaction with sustainability reporting professionals (9%). And then there's that place in the middle where the degree of involvement finance functions have with sustainability reporting efforts ranges from hybrid finance-ESG roles to more ad-hoc participation (42%).

A finance professional on the Finance-ESG Professional:

> *We filled our finance-ESG needs with professionals who have what I call controllership skill sets. Former accountant, CPA types. We tried to find some ESG experience or skill sets when we filled those positions, so I would say we have a mix of people who are just pure CPA internal control mindset that didn't have ESG experience and people that have ESG experience and those backgrounds. But it was important that they all have that internal control accounting, CPA skillset, and background regardless.*

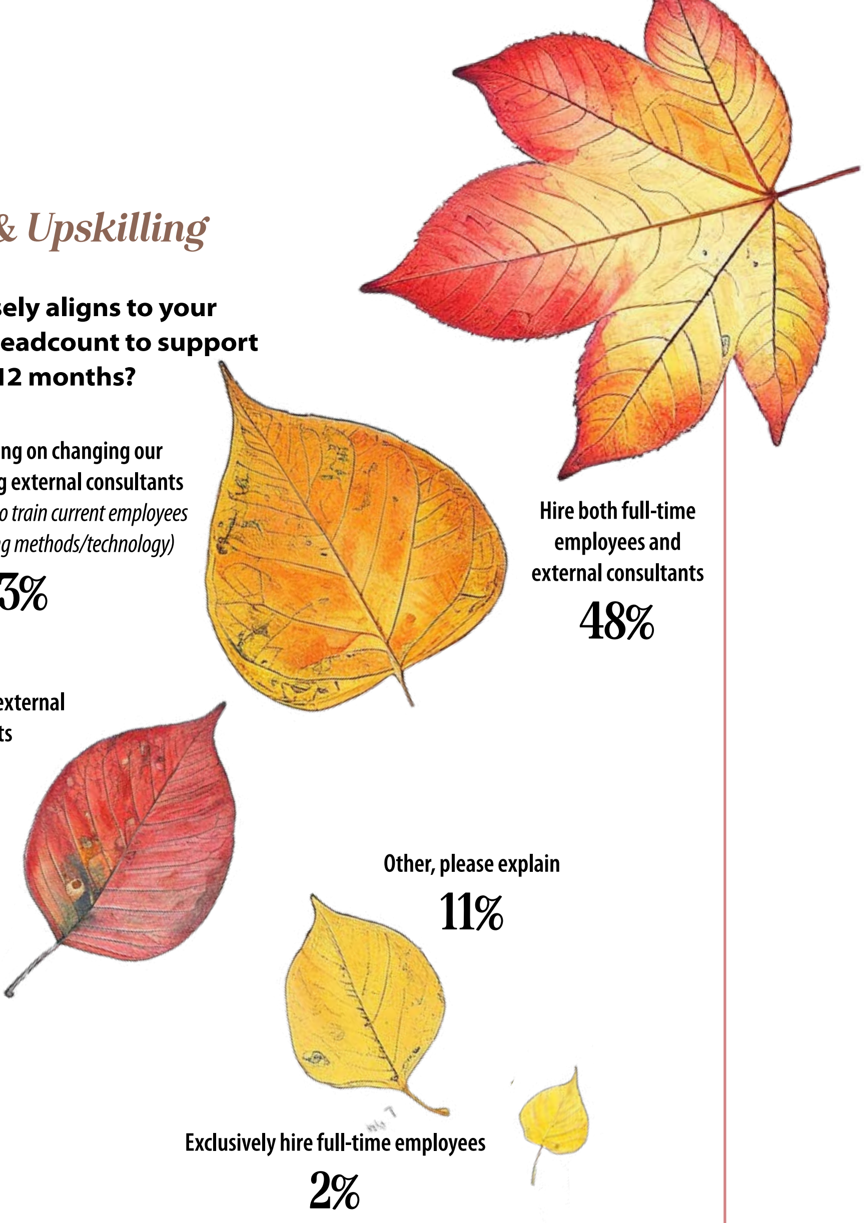
The finance function has always evolved as business needs have changed, and that cadence of change has only intensified in recent years. That said, we are seeing increasingly diverse roles and responsibilities for finance professionals. Although there is considerable overlap in the skill requirements for sustainability reporting and financial reporting, the need for technical acumen represents a considerable barrier to career entry, one many finance-ESG professionals are now working to overcome.

One ESG controller described the technical barrier, explaining, "If we need to make estimates or help the sustainability team out in a specific area, we at least have to be conversant in things like the greenhouse gas protocol, so that our recommendations are credible." Regardless, we expect there to be a continued diversity of practice with finance-ESG, as we have seen in other emerging areas. But we would expect the proliferation of finance-ESG specific roles to continue as organizations scale their sustainability reporting efforts.



Future Headcount Plans & Upskilling

Which of the following most closely aligns to your finance function's plan around headcount to support climate reporting over the next 12 months?



Hire both full-time employees and external consultants
48%

We aren't planning on changing our headcount or hiring external consultants *(e.g., we're planning to train current employees on carbon accounting methods/technology)*
23%

Exclusively hire external consultants
16%

Other, please explain
11%

Exclusively hire full-time employees
2%

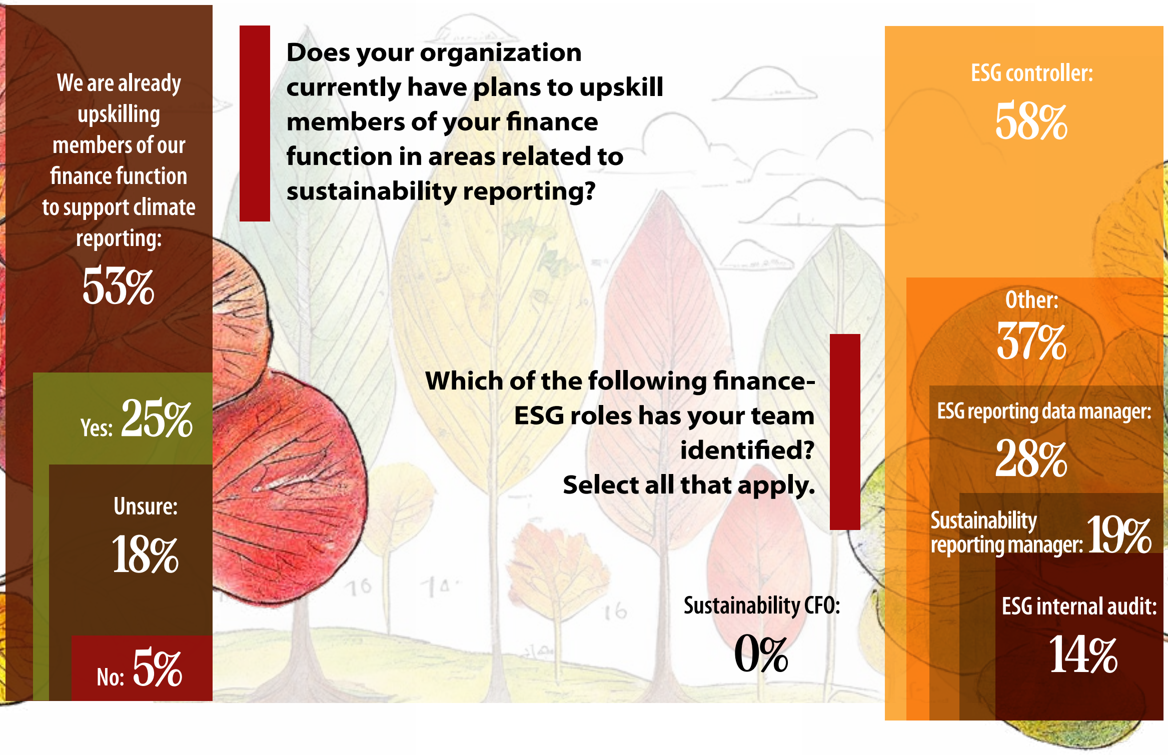
> "Given the magnitude of the lift to translate from voluntary to mandated reporting, the level of investment in personnel is unsurprising."

One interviewee described that her team is currently on external consultants in addition to the full-time headcount, to have the amount of help needed for this initial lift. Over time, this finance professional anticipates needing fewer external consultants, explaining that it takes more resources to build a process than to maintain and execute that process. In other instances, we saw a significant number of respondents indicate that they were prioritizing upskilling, as opposed to hiring additional headcount and bringing on consultants. One controller described the challenge she is facing as she tries to ramp up her organization's efforts, saying, "We're still struggling on how to get the right level of full-time resources, and it'll likely be tough until things become more imminent from the SEC."

One Controller on Upskilling

We expect that we probably have enough people coming into the company or people who are going to be looking for a new challenge that we can train them on what they need to know from an ESG perspective if they just use their project management skills, their financial reporting skills, and maybe even a little bit of their auditor skepticism.

As discussed above, the efforts to address headcount and skill needs have been a point of focus for some time. Given the economic environment, many finance functions have been dealing with either frozen or less headcount growth when compared to previous years. For these companies, addressing the human capital constraint via upskilling has been a key tool for financial executives, who are now seeing their roles evolve to "teacher in addition to coach, mentor, and whatever position they now hold. The goal in the short term is to teach the future finance-ESG professionals; the goal in the long term is to retain them, because as one corporate controller noted, "Individuals with these skills on their resume are going to be highly marketable and very poachable too."



Does your organization currently have plans to upskill members of your finance function in areas related to sustainability reporting?

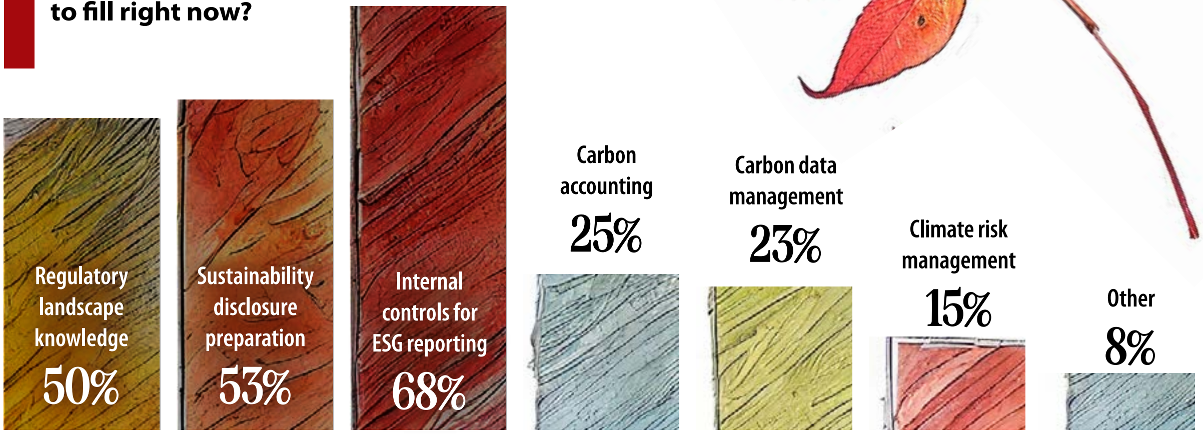
Which of the following finance-ESG roles has your team identified? Select all that apply.

ESG Roles

That the majority of companies responding to the survey indicated that the ESG Controller was one of the finance-ESG roles their team has identified is unsurprising. With the advent of the ESG controller being relatively nascent, several ESG controllers interviewed commented on the whirlwind it has been to figure out their role and how it fits into the finance function and the sustainability function, where applicable. Even as her new role has led to a lot of change, one newly minted ESG controller remarked: "This has definitely been a learning experience, and one that has been good so far. It's been really helpful for me to not only network with my peers and share experiences and best practices but also get that reassurance and to avoid feeling overwhelmed. Interestingly, this ESG controller also remarked about the level of collaboration and information sharing she has observed across companies, as she and her peers work to define their roles and best practices in sustainability reporting. In addition to their duties in helping drive sustainability reporting efforts, the new class of finance-ESG professionals are noting that a major component of their role is change management and helping to educate their peers in the finance function on ESG topics, along with helping those external to the finance function learn about the importance of internal controls and how to build robust reporting processes.

ESG Skills

Which of the following sustainability skills is your finance function most looking to fill right now?



We're looking for those crossover skills, one finance professional noted. She continued, "I would take someone from an internal audit at an analyst level if they were interested, because half of my battle is going to be figuring out how to not have SOX-like controls on everything but it in doing a risk assessment, tiering the metrics, and figuring out what Sox-like looks like for ESG." That the internal audit and higher-level internal controls knowledge was the most commonly cited skill finance functions are looking to fill (68%) is not unexpected given the approach finance functions are taking as it pertains to sustainability reporting. Considering the resource constraints and the knowledge constraints, it isn't feasible for finance professionals to approach sustainability reporting any other way.

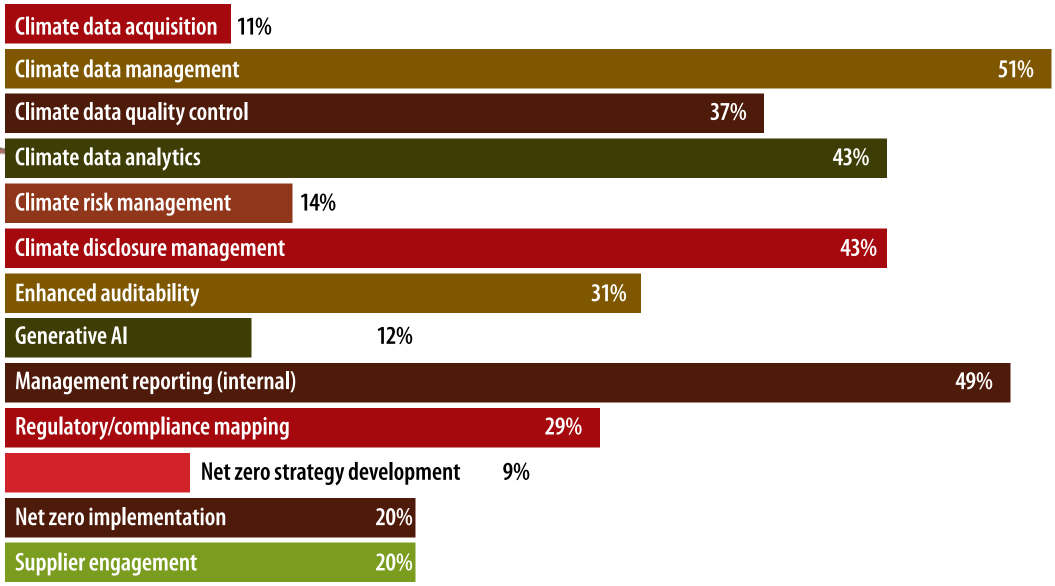
One finance professional on the importance of crossover skill sets

We're just people who can apply what they have in their core wheelhouse of skillsets. Whether it's that enterprise risk management and internal audit point of view, whether it's what makes for good financial reporting and controls, or how you hold third parties accountable. Those things are a few of a skill sets we're looking for.

As a result, we are seeing finance functions approaching sustainability reporting in much the same way they would for financial reporting. It follows that sustainability disclosure preparation (53%) and regulatory landscape knowledge (50%) are the second and third most commonly cited skillsets finance respondents were looking to address. In the future, we could reasonably see carbon accounting, carbon data management, and climate risk management—all of which were selected as attributes finance functions are looking to fill by fewer than 30 percent of respondents—increase in their prioritization, but that would likely come after there is a greater need for finance to own that skillset and for university curriculums to adjust to meet company needs. In the meantime, the skills of carbon accounting, carbon data management, and climate risk management are either owned by other teams or the respective data owners, or those skills are outsourced to technology, which is depicted in the graph below. Fifty-one percent of respondents are looking to augment their finance team members with technology solutions for climate data management, and 43 percent of respondents are looking to do so for climate data analytics.

With climate data being seen as a strategic imperative in many organizations, it is logical that climate data management and climate data analytics were perceived as key technological features. Similarly, the 49 percent of respondents who said internal management reporting is a technology feature they are planning to adopt is also noteworthy.

Which of the following technology features is your organization planning to adopt to enable members of your finance function to meet increased climate reporting requirements? Select all that apply.



One ESG controller on her short- and long-term technology priorities

With CSRD being effective for us in 2024, we have a lot to do in the short term. Our number one priority is getting through assurance and getting the report out. We're focused on a reporting tool, getting it set up, and then working with teams on the underlying data systems. So, it's a lot of focus on data, data quality, and data readiness. Long term, we are looking to set up a data lake, which would represent a joint effort with our broader sustainability team. There's a lot to consider as we think about our long-term technology solution as this would be tantamount to a general ledger for us, but we recognize that it is critical to start the discussions now, even while we focus on our short-term priorities.'

CONCLUSION

The numbers reflect the significant evolution sustainability reporting has already wrought in finance functions. We have seen new roles develop, new points of contact with diverse business units, and the opportunity for many to redefine their functions role as trusted business partners. That said, the regulatory horizon portends to cause additional change and adaptation, and it seems that many finance functions are already undergoing a subsequent digital transformation, albeit smaller in scale when compared to what we saw in the late 2010s. "The clock is ticking," one finance professional noted. "The climate reporting process takes most companies six to eight months from period end to defining and disclosing GHG metrics. We will need fundamental process changes, automation, and estimation, if our main objective is to bring investor-grade quality to our ESG reporting within a regulatory reporting timeframe."

ABOUT PERSEFONI

Persefoni's Climate Management & Accounting Platform (CMAP) provides businesses, financial institutions, and governmental agencies the software fabric for managing their organization's climate-related data, disclosures, and performance with the same level of rigor and confidence as their financial reporting systems. The company's software enables users to simplify the calculation of their carbon footprint, identify decarbonization strategies and perform climate trajectory modeling aligned to temperature rise scenarios set forth by the Paris agreement, and benchmark their impact by region, sector, and/or peer groups.

Persefoni is a proud signatory of both The Climate Pledge and Carbon Call to achieve a net zero carbon future by 2040.
For more information about Persefoni, please visit https://persefoni.com/

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