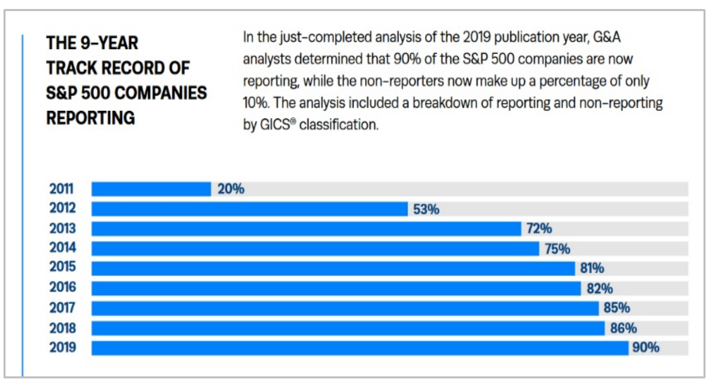
MBAEDGE™

MBA Skillset: **Sustainability Reporting**

Overview

As consumers, employees, and investors increasingly hold companies accountable for their social and environmental impacts, sustainability reporting has arisen as a key tool for understanding and measuring these impacts. Rigorous and transparent sustainability reporting—often synonymous with the term "ESG (environmental-social-governance) reporting" or "corporate responsibility reporting"—is largely expected by a company's stakeholders today.

Most major corporations (and many smaller ones) report their sustainability impacts; 90% of S&P 500 companies published sustainability reports in 2019.[i]



Source: Governance & Accountability Institute, 2020 Flash Report S&P 500,

How and When to Use

Reporting on ESG impacts is an essential task of any corporate sustainability department (it may be managed by other departments as well) and is often one of the first steps in a company's sustainability journey. As the adage goes, what gets measured gets managed. The data-collection process inherent in a reporting effort is often the first step toward measuring progress, identifying gaps in performance, and setting goals.

The sustainability reporting process can be used to:

- Benchmark a firm's sustainability performance against that of industry peers
- Communicate sustainability impacts (or environmental/social "footprint") to customers, supply chain partners, employees, NGOs, and the media

- Inform investors about ESG risks and their implications for financial performance
- Increase stakeholder engagement and build trust with key stakeholder groups
- Articulate sustainability goals, as well as progress over time
- Show the financial implications of performance on key sustainability issues

Sustainability reports vary greatly in scope, length, and detail. Reports often include both anecdotal stories and a discussion of aspirational goals in addition to reporting quantitative data on topics like: carbon footprint, energy use, waste, water use, material inputs, labor and human rights, community impacts, philanthropy, diversity and inclusion, workforce engagement, and other ESG topics. In order to measure some of these impacts, a sustainability team will have to be familiar with topics like greenhouse gas (GHG) accounting, science-based targets, product lifecycle analysis, diversity audits, and other types of analysis.

Putting together a sustainability report may be done in-house or with outside consultants. The work typically requires gathering, verifying, and analyzing data from many different places in the company and its supply chain, using data to set goals, and measuring and communicating progress over time. Reporting teams also have to think about how to write, organize, and edit content into a compelling sustainability narrative. Some companies choose to have their reports assured by an external party before publication (an estimated 29% of S&P 500 reporters seek external assurance[ii]).

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Many companies report in alignment with specific disclosure systems. Most important to know are:

- Global Reporting Initiative (GRI) Standards. The most widely used framework, the GRI Standards provide a comprehensive set of ESG indicators as well as guidance for how data should be reported. Practitioners can acquire a certification in GRI reporting.
- CDP Disclosure System. CDP provides a disclosure system for both companies and communities to report carbon, energy, and water impacts. CDP then issues scores (graded from D- to A) to each company. CDP scores are displayed on Bloomberg terminals and CDP data is used in a variety of investment products.[iii]
- Sustainability Accounting Standards Board (SASB) Standards. SASB standards are designed to focus on ESG issues that are most financially material to specific industries. Like GRI, SASB offers a practitioner certification. SASB plans to merge with the International Integrated Reporting Council and has a new effort underway to coordinate with GRI and CDP on joint market guidance going forward.[iv]
- Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations. Created by the Financial Stability Board, the TCFD provides recommendations on why and how companies should disclosure their climate-related physical and transition risks to financial stakeholders. The UK will make TCFD reporting mandatory for certain companies by 2025;[v] other regulators may follow.

There are other frameworks, as well—like the Climate Disclosure Sustainability Board Framework, ISO 26000 and ISO 14000 Standards, Voluntary Principles on Security and Human Rights, and UN Guiding Principles on Human Rights. Many companies choose to address the UN Sustainable Development Goals (SDGs) in their reports. Moreover, there are industry-specific guidelines, such as GRESB for real estate. Some ESG investment analysts also have their own questionnaires that companies are asked to complete.

Limitations

Sustainability reports can be **expensive and time-intensive** to prepare. Reports for multinational corporations are often over 100 pages long (and compiled in both digital and print formats) and reflect the work of a team for months in gathering, analyzing, and presenting data. Further, as with financial reports, sustainability reports are **only as useful as the quality of the data** that go into them. Many firms do not have robust systems for tracking all of their environmental and social impacts, and may have difficulty getting reliable data from suppliers—for example, about upstream labor issues or environmental performance. This is particularly challenging for multi-tiered global supply chains.

Comparison of Reporting Systems

	GRI	CDP	SASB	TCFD
Scope	ESG	Climate, water, and forest impacts	ESG	Climate risk
Type of Guidance	Standards	Questionnaires and scoring	Standards	Framework
Scope	General and topic-orientated	Sector-specific	Industry-specific	General and sector-specific
Point of View	The company's impact on the world	The company's impact on the world	The world's impact on the company & its financial performance	Climate risks affecting the company and its financial performance
Target Audience	All stakeholders	Investors and large purchasing organizations	Investors	Investors, lenders, and insurance underwriters

Teams might also have to prepare multiple versions of their report to meet different investor requests. Many reporting professionals and investors alike are frustrated by the **complexity and redundancy of multiple frameworks**. The World Economic Forum, the International Financial Reporting Standards (IFRS) Foundation, and others have announced plans to unify sustainability standards, but a de facto standard is yet to emerge.

Finally, without a unified set of standards (akin to financial GAAP), there is also a great risk of **"greenwashing"** in sustainability reporting. Companies have opportunities to spin metrics to their advantage, reporting only performance that looks favorable. Watchdog NGOs and analysts have become savvier about the issues and often will shine a light on inadequate or misleading reports, but companies still find ways to omit relevant disclosures.

Bottom Line

Sustainability reporting is a complex but essential tool for managing ESG impacts and a requirement for responding to the investment community, which has become increasingly sophisticated about the ways ESG impacts value creation.

Further Reading

- Sustainability Practices, 2020 Edition, The Conference Board, 2020.
- More than values: The value-based sustainability reporting that investors want, McKinsey & Co., 2019.
- Five steps to good sustainability reporting, BSR, 2020.
- Early sustainability reporting lessons from COVID-19. GreenBiz. 2020.

[i] http://www.ga-institute.com/fileadmin/ga_institute/images/ FlashReports/2020/G_A-Flash-Report-2020.pdf
[ii] Ibid. (same link as previous note)
[iii] https://www.spglobal.com/esg/csa/yearbook/articles/interview-with-cdp-climate-disclosure-a-first-step-to-step-change
[iv] https://www.sasb.org/blog/progress-towards-a-comprehensive-corporate-reporting-system/
[v] https://www.natlawreview.com/article/mandatory-climate-risk-disclosures-uk-2025