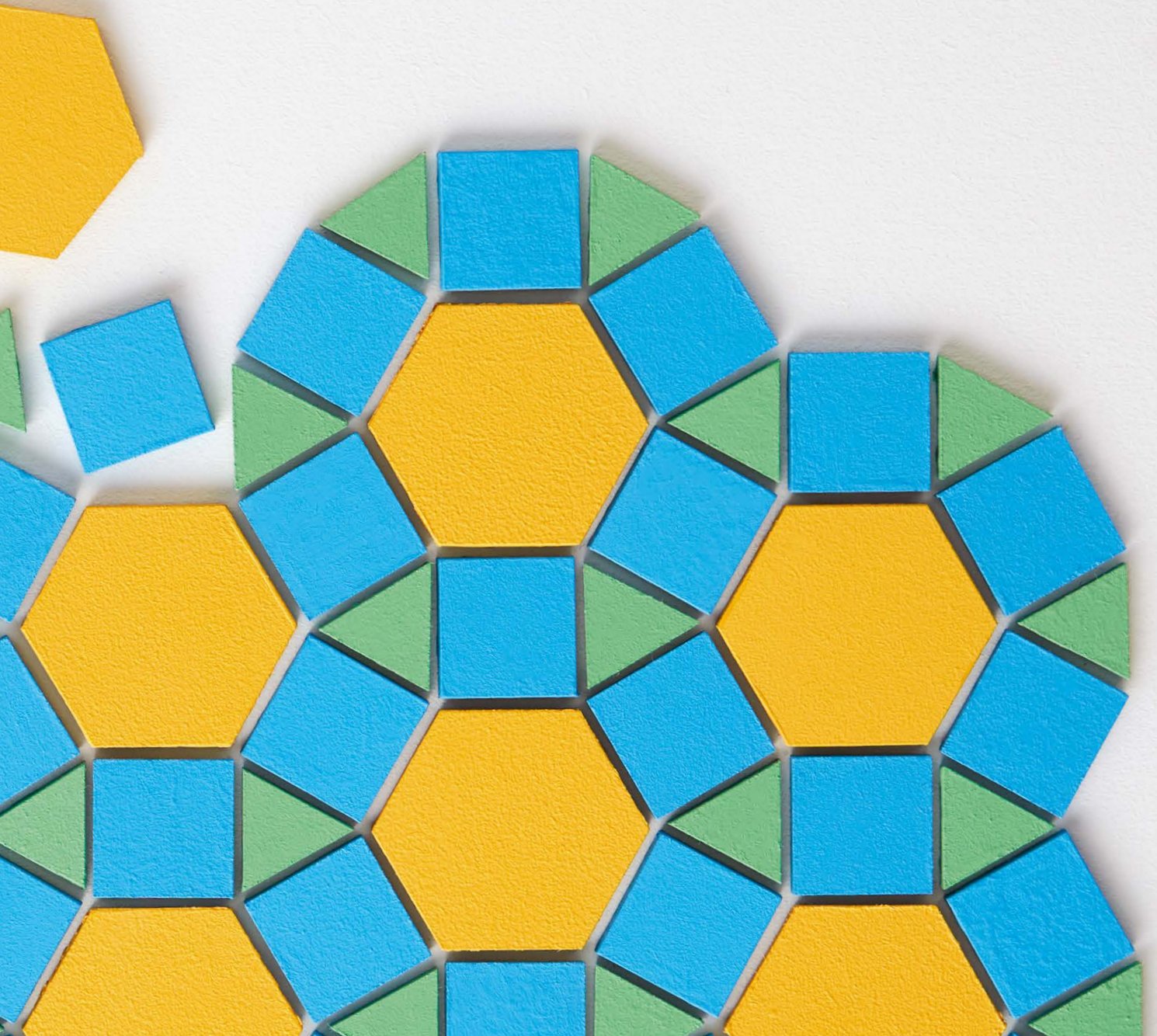


The Art of Alignment

Sustainability & Financial Transparency



The Art of Alignment:

Sustainability & Financial Transparency

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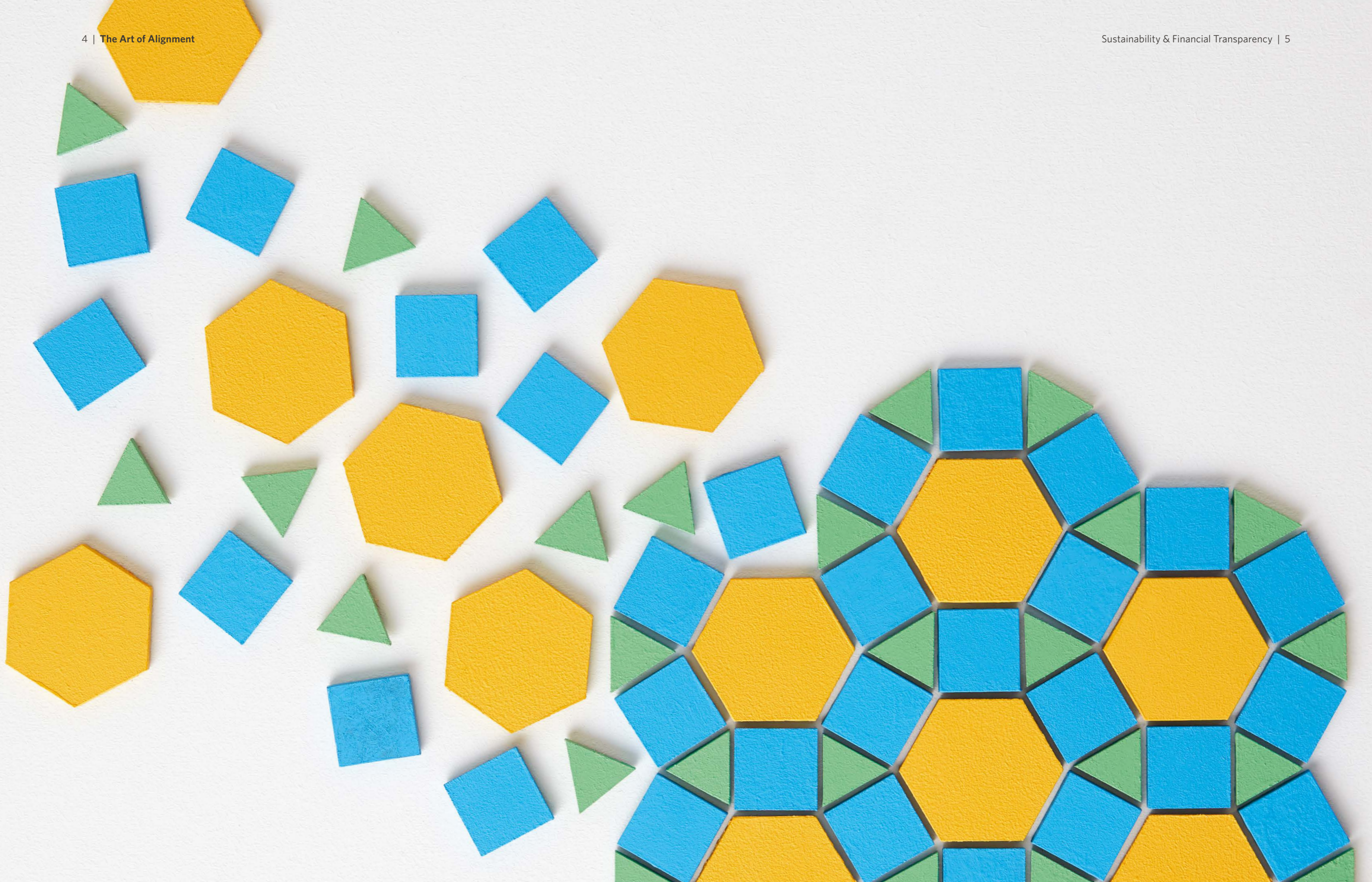
London | New York | San Francisco

December 2019



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Executive Summary

Corporate transparency has evolved and progressed considerably in the last three decades. Public expectations of the private sector have shifted also, with greater emphasis being placed on corporate purpose beyond profit.

Investors in particular are increasingly requesting sustainability performance data. Companies are responding to stakeholder demands by communicating how the company is generating long-term value. Better aligning sustainability and financial disclosure is a core part of this response. Many frameworks, ratings and standards have emerged in recent years to provide guidance and incentives for companies to ensure coherent and consistent financial and sustainability disclosures, but there is no unified or accepted common practice approach.

Our research explores the trend toward alignment of sustainability and financial transparency in order to:

- Help practitioners better understand the evolution of sustainability transparency as it relates to financial disclosure
- Provide guidance on best practice to help practitioners better align their companies' sustainability and financial transparency
- Encourage best practice transparency as a driver for shifting capital towards companies that are more sustainable.

Benefits of alignment

More aligned sustainability and financial transparency enables companies to:

- **Communicate** - Better communicate to investors the company's long-term value
- **Understand** - Deepen internal understanding of sustainability, its impact on finance, and vice versa
- **Improve** - Improve other stakeholder communications.

Alignment roadmap

Our research led us to create a roadmap to better align sustainability and financial transparency. We outline the core elements of the roadmap below. Each presents opportunities and challenges to those seeking to advance their company's approach to transparency.

Delivery

Reach your audiences through the formats that work best for them

Audience

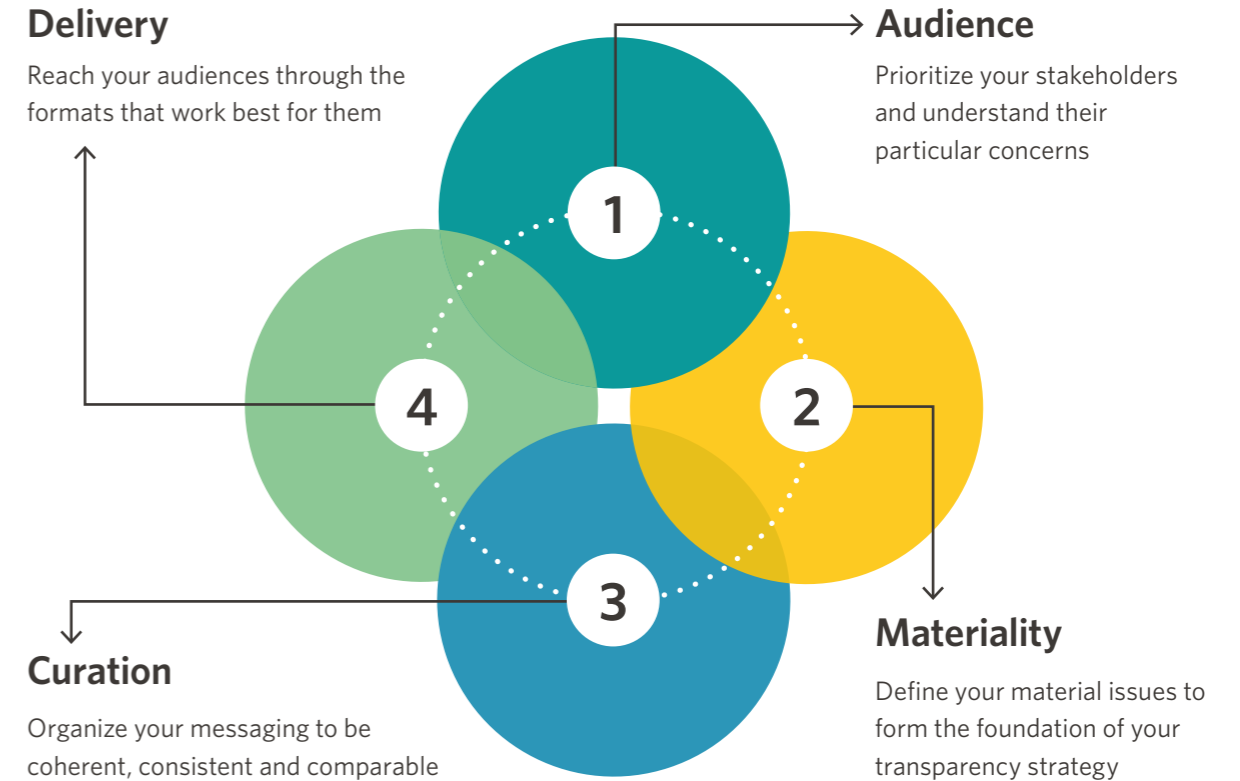
Prioritize your stakeholders and understand their particular concerns

Curation

Organize your messaging to be coherent, consistent and comparable

Materiality

Define your material issues to form the foundation of your transparency strategy





1 Audience

Investors are the primary audience demanding greater alignment between financial and sustainability transparency.

However corporate reporting and communications must also serve other stakeholders. Gain insights on stakeholder needs via engagement. Best practices include requesting feedback via direct emails, surveys, facilitated discussions and direct conversations.



2 Materiality

Although we see action from regulators on mandating non-financial disclosure, in particular in Europe, it is still largely up to companies to determine what they will disclose.

We outline some core aspects for companies to consider, with a focus on the investor audience.

- Hone in on the most material issues
- Balance responsiveness with proactively owning your story
- Address both the past and the future approach to transparency.



3 Curation

There are many decisions to be made on how best to communicate your material issues in an aligned way.

We outline some recommendations below, again with an investor focus.

- Craft the core narrative
- Use just a few key reporting frameworks
- Balance the positive and the negative
- Focus on impacts and point to intersections with financial metrics
- Use assurance for increased credibility.



4 Delivery

Companies can better convey their aligned messaging by adjusting the timing, format and channels of communication.

We outline some best practices below.

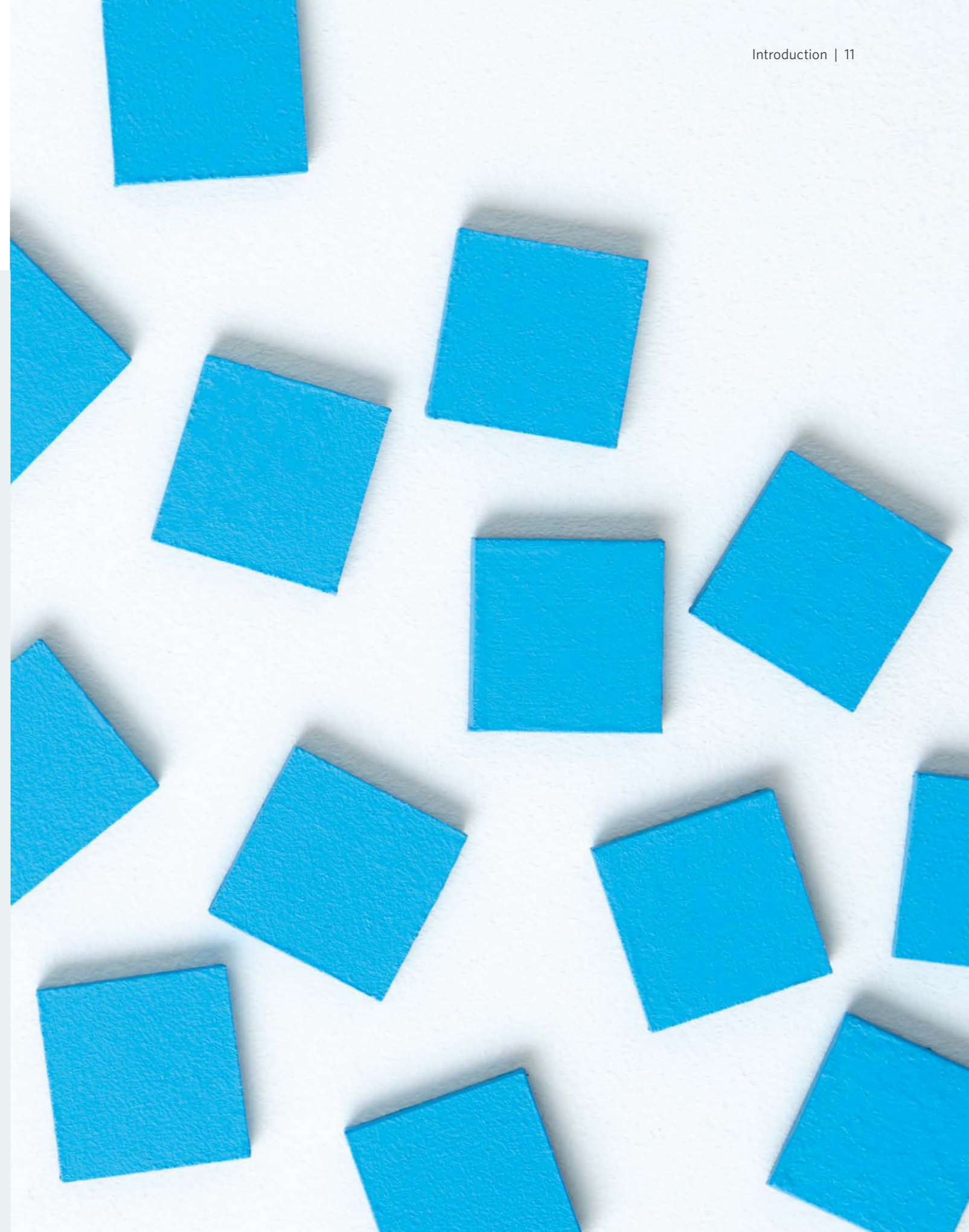
- Synchronize publication dates
- Customize the information
- Broadcast out to investors
- Be selective with ratings agencies
- Do not underestimate the power of direct engagement.

Future trends and conclusion

As we look out to the next three to five years, we see a range of trends that have implications for the shape of corporate transparency going forward.

- Drivers of alignment of financial and sustainability reporting will continue to gain momentum and raise the leadership bar
- Framework complexity will continue to pose challenges, but increasing overlap will help reporters navigate the landscape
- Climate and diversity & inclusion will be early issues to mature, but others will follow
- A greater emphasis on context and impact will raise expectations for corporate transparency
- Assurance of data and even qualitative information in sustainability reporting will become the norm
- Technology will play a critical role in data collection and analysis.

SustainAbility is encouraged by the progress made by leaders and encourages all companies to continue their transparency alignment journeys. By providing greater visibility into corporate strategy and performance, businesses can enable more informed stakeholder decision-making. Ultimately, those decisions have the power to reward businesses that drive sustainable development and support construction of a future where the interests of the economy, society and the planet are all aligned.



1 Introduction

Corporate transparency has progressed considerably in the last three decades. SustainAbility's 2014 report *See Change: How Transparency Drives Performance* highlighted materiality, externalities and integration as key elements of best practice transparency.

These concepts are even more relevant now as expectations of companies to serve a societal purpose have risen and investor interest in Environmental Social & Governance (ESG) issues has escalated. There is growing demand for companies to report on sustainability performance in ways that are aligned with financial reporting and other business communications. While there are countless frameworks, guidance documents and standards for companies pursuing alignment to follow, the dizzying number can be overwhelming, making it difficult to discern the right path forward.

In this research, we examine the push toward aligned transparency, its benefits and how to overcome common barriers. The second half of this report provides a roadmap for sustainability practitioners to use to bring together their company's sustainability and financial disclosures and meet the needs of their stakeholders in efficient and effective ways. The research finds investors are the primary stakeholder looking for greater alignment between sustainability and financial transparency and focuses on them, while offering additional guidance on transparency related to other key stakeholders.

Objectives

Our research explores the trend toward alignment of sustainability and financial transparency in order to:

- Help practitioners better understand the evolution of sustainability transparency as it relates to financial disclosures
- Provide guidance on best practice to help practitioners better align their companies' sustainability and financial transparency
- Encourage best practice transparency as a driver for shifting capital towards companies that are more sustainable.

Methodology

Our methodology for this report is outlined below:

1 Desk research

We conducted a literature review of current research, thought leadership and trends in sustainability transparency in order to understand the current landscape as well as gaps and emerging topics.

2 Interviews

We interviewed 29 experts in corporate sustainability transparency, including academics, NGO representatives and other thought leaders, as well as corporate sustainability practitioners, to further understand the challenges, opportunities and trends driving aligned transparency.

3 Focus groups

We conducted focus groups with members of the SustainAbility Transparency Network. Twenty-eight corporate members with significant expertise in sustainability and financial reporting, representing 16 member companies participated in three focus groups.

4 Data analysis

We used the AI-powered data platform Datamaran to analyze information in financial and non-financial reports and other sources.

Definitions

For the purposes of this research, we have defined the frequently used terms below:

Transparency

Transparency signifies any type of communications, reporting and/or disclosure that a company makes public about its strategy and/or performance.

Sustainability transparency

Sustainability transparency encompasses communications, reporting and/or disclosure about a company's ESG strategy and performance within stand-alone sustainability reports, integrated reports, on websites, in social media, and in disclosures including CDP questionnaires, DJSI submissions, etc. For the purposes of this publication, we view ESG and sustainability transparency as interchangeable.

Financial transparency

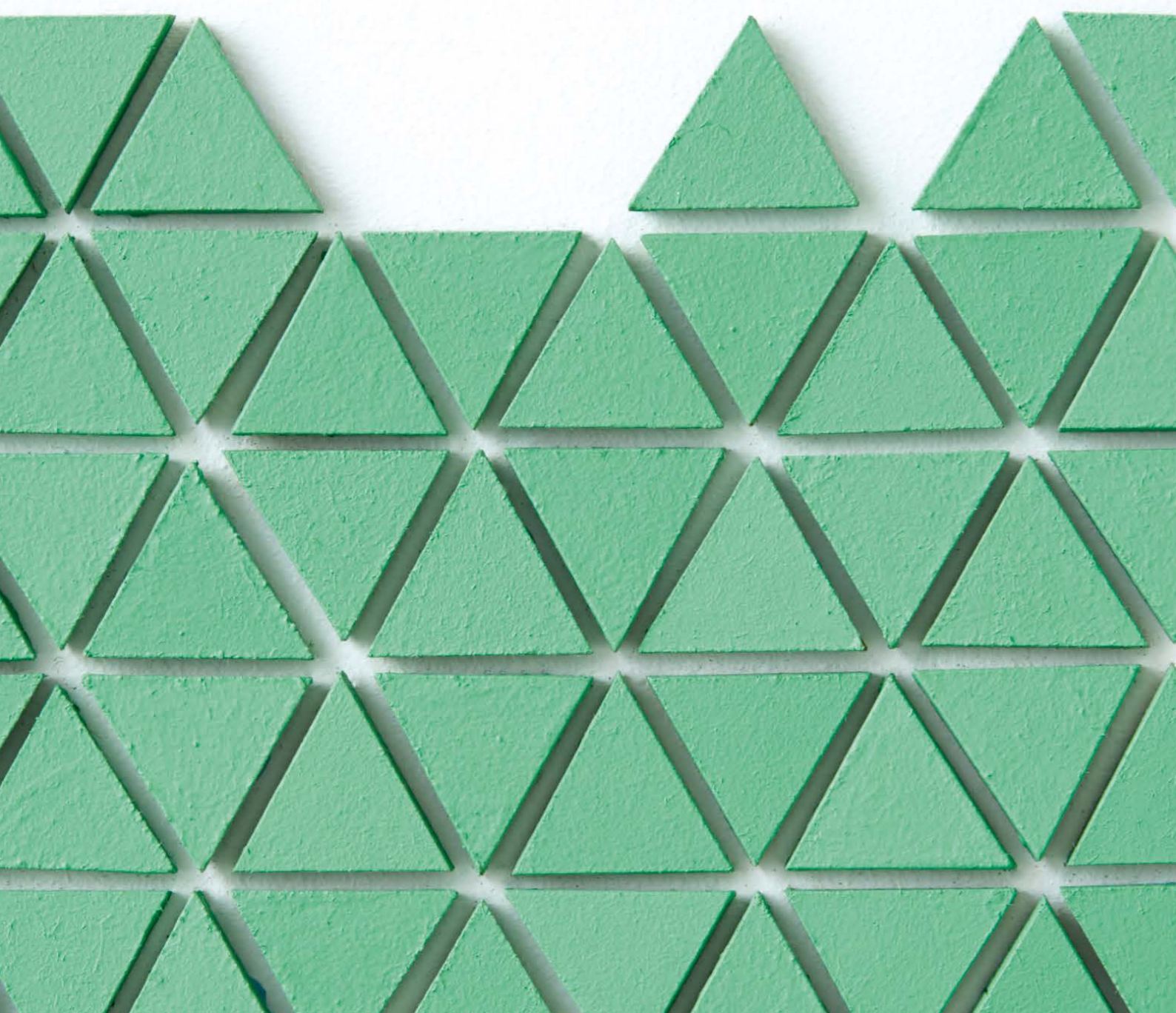
Financial transparency includes communications, reporting and disclosures about a company's business strategy and financial performance, including a company's financial filings, annual report, shareholder meetings and proxy statements.

Aligned transparency

We use aligned and alignment as terms for describing the ways in which sustainability strategy and/or performance is communicated within the context of a company's overall financial strategy and/or performance and vice versa.



2 Drivers and Context for Alignment



There is increasing pressure on companies to show the connection between sustainability and financial data. This chapter explores some of the key trends that are shaping approaches to more aligned transparency.

Public expectations of the private sector are shifting, with greater emphasis being placed on corporate purpose beyond profit.

The mounting impacts and urgency of climate change, wealth inequality and other pressing issues, combined with political shifts globally, are focusing attention on companies' roles in addressing environmental and societal challenges. Grassroots movements, changing demographics, fluctuating employee expectations, evolving consumer trends and other factors are putting more onus on businesses to disclose their policies and impacts as relate to key sustainability challenges.

Younger voices are being heard. Greta Thunberg, the 16-year-old activist behind the Climate Strike movement, has become a powerful voice of her generation, demanding more accountability from government, business and other institutions. According to a recent study by BBMG and GlobeScan: "Gen Z is three times more likely to say that the purpose of business is to serve communities and society rather than to simply make good products and services, and they are more likely than all others to call on brands to make a difference by using their voice to advocate or speak out on the most pressing issues of our times."¹

But Gen Z is not alone in asking more of brands and businesses. Employees and prospective employees' expectations are rising as well, and jobseekers are more likely to base their decisions about where to seek employment on perceptions of corporate purpose. According to a 2016 Cone Communications study, 70% of Americans surveyed would be more loyal to a company that helps them contribute to social and environmental change.² Recent employee-led movements in the technology sector (including at Google and Amazon, where employees have organized to demand action on company policies related to diversity, climate change and data privacy), indicate growing employee interest in how companies conduct business.³ Consumers too are asking companies about how sustainability relates to the business; data from a 2019 ERM survey shows that 71% of companies surveyed are influenced by consumer pressure to adopt and integrate their sustainability agenda into the business.⁴

Gen Z is three times more likely to say that the purpose of business is to serve communities and society rather than to simply make good products and services.

“ ”

The Gen Z Reckoning, BBMG and GlobeScan

Perhaps the strongest recent signal of companies responding to such pressure is the announcement from The Business Roundtable in the US (signed by 181 member company CEOs) that it has updated its “Statement on the Purpose of a Corporation” to include all stakeholders – customers, employees, suppliers, communities and shareholders – a shift away from focusing primarily on shareholders.⁵ Chief Executives for Corporate Purpose® (CECP), a coalition of CEOs from 200 companies, demonstrates a similar view and encourages strategic movement toward engagement with stakeholders beyond shareholders as essential to long-term business success.⁶ Overall, rising stakeholder pressure has led to greater expectations that companies not only speak about their purpose but also communicate their sustainability performance in ways that align more directly with the core business.

Investors are increasingly requesting sustainability performance data.

In 2018, sustainability investment assets under management (ranging from negative screens to more thorough integration of ESG in investment decisions) rose to \$30 trillion globally, up more than 30% in just two years, with much of this activity in Europe and the U.S.⁷ Investor requests for data on a company’s sustainability performance have subsequently grown. “We’ve seen a huge increase in investor interest,” Melissa Tominack, Senior Sustainability Coordinator at American Electric Power told us. “Our sustainability team has been working with Investor Relations, Legal, Treasury and Risk Management more and more to develop an ESG strategy to respond to inquiries.” We heard this trend echoed across the corporate practitioners we spoke with in interviews and focus groups.

However, there are still significant gaps in how and to what extent companies share sustainability performance data. According to a 2017 EY survey, 80% of investors did not think companies

Our sustainability team has been working with Investor Relations, Legal, Treasury and Risk Management more and more to develop an ESG strategy to respond to inquiries.

“ ”

Melissa Tominack, Senior Sustainability Coordinator at American Electric Power








adequately disclosed ESG risks and 60% called for more disclosure.⁸ Increasing support for shareholder resolutions related to sustainability topics also indicates that there is a gap between what companies disclose and what investors want to know. Since 2004, the level of shareholder support for resolutions addressing environmental and social issues has grown from 12% to 29%.⁹

In the absence of mandatory disclosure on sustainability, a plethora of frameworks, ratings and standards have emerged in recent years to provide guidance and incentives for companies to align financial and sustainability transparency.

A real mix of guidance has emerged over the years as sustainability transparency has evolved. We have outlined on page 20 a snapshot of some of the frameworks that provide guidance for companies on how to report sustainability performance in greater alignment with financial disclosures.



Foundational frameworks, ratings and standards guiding sustainability and financial alignment

Framework/ Rating/Standard	Launch date	Context for sustainability and financial alignment
	1999	DJSI's indices evaluate a company's ESG performance and management practices. The indices are fed by the RobecoSAM survey, which provides a guide to self-disclosures on an array of ESG issues.
	2000	GRI's guidance helps companies understand and communicate their environmental, social and governance impacts in a manner that provides stakeholders with a holistic view of a company's sustainability risks and opportunities.
	2002	CDP provides a framework for self-disclosure of climate, water and forest-related risks, opportunities and impacts that can provide investors with the information needed to make more informed decisions.
	2011	SASB's standards provide guidance on what companies should disclose, particularly to investors, based on sector-specific financially material sustainability topics.
	2011	The IIRC's Integrated Report <IR> framework provides guidance for how companies should assess the non-financial risks and opportunities that affect their ability to create value over the short, medium and long-term.
	2015	The SDGs outline the global goals that must be met to achieve prosperity, peace and protection of the planet. The UN Global Compact provides guidance for how the private sector can align to and report on its impacts against the 17 SDGs.
	2016	The Future-Fit Business Benchmark is a management and reporting tool that gives companies a clear science-based destination comprised of 23 "Break-Even Goals" that are designed to help achieve a society that is environmentally restorative, socially just and economically inclusive.
	2017	TCFD's recommendations are focused specifically on climate-related financial risk-focused disclosures.



GRI has become the most used framework. GRI reports that 82% of the world's 250 largest companies that publish a sustainability report follow its guidelines.^{10,11} Despite its prevalence, GRI's guidance leaves a room for interpretation by companies about what exactly to disclose and how. "Frameworks help guide companies through the breadth and depth of the subject matter, but guidance to even the most widely used frameworks can be painful to follow. Oftentimes the language can be convoluted and hard for users to fully appreciate," cautions Junice Yeo, Director for Eco-Business.

According to our Datamaran analysis of financial and non-financial reports, visualized in the chart on page 82, GRI is the most mentioned framework, standard or rating from 2011 through 2018. CDP is the second most mentioned over the same period. Some newer frameworks and standards, including the International Integrated Reporting Committee (IIRC), the Sustainability Accountability Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD), have had varying success in terms of corporate uptake and usage. In the trends indicated by our Datamaran analysis, GRI and CDP have maintained prominence and seen overall steady increase in use, while the SDGs and TCFD appear to be gaining momentum quickly, relative to their more recent launch dates. Though

the Datamaran data is a measure of a prevalence of the terms in reporting, as opposed to adherence with the frameworks, it is an insightful indicator of use and trends.

Regulation of sustainability disclosures is accelerating

Regulations are establishing more mandatory sustainability disclosure. Our analysis from Datamaran shows a dramatic upward trend in mandatory, voluntary and conditionally mandatory disclosure regulation. We are encouraged by this trend as it will raise expectations for corporate transparency, leading to more rigorous and comparable information being made available to stakeholders.



See appendix (Figure 1) for full results



In China, where less than a third of public companies voluntarily disclose ESG information, the China Securities Regulatory Commission introduced requirements that, from 2020 onwards, companies must disclose ESG risks associated with their operations.¹² In the European Union, companies with more than 500 employees must report on environmental, social and employee-related, human rights, anti-corruption and bribery matters, including outcomes and risks, per the 2017 Directive on non-financial and diversity.¹³ Another EU rule, as part of the Directive and formalized in 2019, outlines how ESG risks and opportunities must be integrated into processes, as well as how financial market participants should communicate ESG risks to investors.¹⁴

In the United States, the regulation of corporate ESG topic disclosures is beginning to play out on the legislative stage as well. In 2018, a coalition of investment managers, public pension funds and NGOs petitioned the SEC to develop a mandatory ESG disclosure framework.¹⁵ And in July 2019, five draft bills were introduced to the House of Representatives that would mandate disclosure on ESG topics, including The ESG Disclosure Simplification Act of 2019 and The Climate Risk Disclosure Act of 2019.¹⁶ The introduction of these bills highlights growing understanding among investors, regulators and lawmakers of the financial materiality of sustainability topics. As Mindy Lubber, CEO and President of Ceres testified before Congress: “Some like to believe that sustainability risks are not real financial risks. But let’s be clear: Risks are risks, and they need to be disclosed – whether they come from trade agreements, fluctuating commodity prices, inflation, or climate change.”¹⁷

Stock exchanges are also driving ESG disclosures. One leading example of this is the Johannesburg Stock Exchange (JSE) in South Africa, which has required listed companies to prepare an integrated report since 2009.¹⁸ As a result of the rule, South African companies make up the greatest share of

those reporting using the IIRC framework, with 357 companies as listed on the stock exchange as of August 2019.¹⁹ Globally, the Sustainable Stock Exchanges (SSE), a United Nations initiative, encourages support of sustainable development through engagements and dialogues among stock exchanges, companies, regulators and investors. Currently 90 stock exchanges are Partners of the SSE and committed to “the promotion and development of sustainable and transparent capital markets.”²⁰

To show the big picture of climate and other sustainability impact, we need more companies to show leadership and disclose ESG risks.

“ ”

Sheila Bonini, Senior VP of Private Sector Engagement at WWF

Investors, executives and other stakeholders increasingly support these actions. In a recent study, more than 80% of investors and two-thirds of executives cited support for legal requirements for companies to issue sustainability reports.²¹ Momentum for action from stock exchanges is encouraged as well by NGOs, including World Wildlife Fund (WWF), whose Senior VP of Private Sector Engagement, Sheila Bonini, noted in an interview: “Business increasingly understands how material environmental risk is to their operations and supply chains. To show the big picture of climate and other sustainability impact, we need more companies to show leadership and disclose ESG risks.”

Standard business and finance-related terms have become more prevalent in non-financial reporting. Between 2011 and 2018:

See appendix (Figure 3) for full results

“business risk” was used **56%** more in non-financial reports

“business strategy” was used **32%** more

mentions of **“financial impact”** more than doubled.



Companies are responding to stakeholder demands by striving to align sustainability and financial transparency.

A result of all this interest, from investors to consumers to regulators and so on, is that more companies are communicating the financial and business relevance of sustainability strategy and performance. A recent study by ERM found that more than 81% of companies are “integrating sustainability and financial reporting or plan to in the next two years.”²²

Within sustainability reports published by companies, data suggests that businesses are beginning to provide more business context about sustainability topics. In 2018, the term “business risk” was used in 56% more non-financial reports than in 2011, “business strategy” was used in 32% more, and the number of non-financial reports mentioning “financial impact” more than doubled.²³

At the same time, companies are including more sustainability information in financial reporting. A recent study from EY found that the percentage of Fortune 100 companies highlighting sustainability commitments in their voluntary proxy disclosures increased significantly in the last three years, from 29% to 60%.²⁴

There is no single roadmap capturing the best way to align financial and sustainability transparency.

Although companies have many frameworks, standards and guidance to follow, since most of it is voluntary and unregulated, there is no one “right” way to report on sustainability performance. The sometimes conflicting guidance can even overwhelm companies, especially those with small sustainability teams and limited resources. “Sustainability practitioners are drowning in information requests. With so much reporting to do and so many surveys to respond to, they don’t have the time to push key strategic initiatives forward internally,” says Blair Bateson, Company Network Manager at Ceres. Indeed, sustainability practitioners have reached a level of fatigue. Cristiano Oliveira, Sustainability Manager at Suzano summed up his frustration this way: “There’s saturation for saturation’s sake in the current state of voluntary reporting frameworks.”

Adding to the confusion, data aggregators, including MSCI, Bloomberg and Sustainalytics, use data from corporate sustainability disclosures to assess companies’ sustainability performance. Each rating undertakes its evaluation using different metrics, presenting challenges for businesses in terms of determining what and how to disclose. Companies are overwhelmed. SustainAbility’s *Rate the Raters* research suggests that businesses are beginning to limit the frameworks and ratings they engage, creating piecemeal approaches that work best for their own company and that their teams can manage.²⁵ The lack of unity could hinder the legitimacy of sustainability reporting, according to Richard Barker, Professor of Accounting at Saïd Business School at Oxford University who suggested: “You don’t get decent reporting if you don’t standardize.”



Sustainability practitioners are drowning in information requests... there's so much reporting to do and so many surveys to respond to.

“ ”

Blair Bateson, Company Network Manager at Ceres

These challenges are widely acknowledged, and some action is being taken to provide clarity. Organizations like the Corporate Reporting Dialogue – a platform convened by IIRC and whose members include organizations such as GRI, CDP and SASB – have emerged to “promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements.”²⁶ The Corporate Reporting Dialogue’s Better Alignment Project in particular is an effort for standard setters to map their guidance and “to better align the frameworks in the ESG reporting space (SASB, GRI, CDP) and frameworks that promote further integration between non-financial and financial reporting (IIRC, CDSB).”²⁷

Until either regulation or some harmonization of voluntary frameworks standardize sustainability reporting, practitioners will be left to make their own decisions about how to reasonably align sustainability and financial transparency in ways that meet the demands of various stakeholders. Reporting presently demands “...more and more effort and manpower. It’s important for us to have an annual review of frameworks and decide which are the most relevant,” one corporate sustainability practitioner told us.

Companies are aligning sustainability and financial transparency in a variety of ways, often broadening communications beyond a standalone sustainability report.

Without clear direction on how to combine sustainability and financial transparency, companies are finding their own way of responding to stakeholder interest in aligned transparency. As Joe Franes, Vice President of Sustainability at Coca-Cola European Partners, put it: “Like many leading companies, we have been communicating the business relevance of sustainability, alongside our sustainability performance. But we have much more to do to embed sustainability into our day-to-day business operations.”



The ecosystem of aligned transparency

Companies disclose sustainability information in multiple communications channels including financial reporting, sustainability reporting and business communications.



Those companies that are further along on the journey of more closely aligning their financial and sustainability transparency are realizing some strong benefits, which we outline in the next chapter.

3 Benefits of Alignment

Companies are benefiting from aligned transparency. We capture what we heard in our research on the advantages below.



Better communicate to investors the company's long-term value

Increased alignment between sustainability and financial transparency builds trust between the business and investors, reassuring investors that they have chosen a good investment.

Strong performance on material sustainability topics is linked to long-term financial growth.²⁸ Part of the demand for sustainability disclosures is because ESG performance data helps investors better understand long-term risks and opportunities. Ultimately, communicating sustainability and financial strategy and performance in a more aligned way can result in attracting investors with an interest in long-term value creation.

Marian Fernando, Public Affairs Manager at Nestlé, shared the company's experience: "We are increasingly integrating elements of sustainability in our annual report because we want to push the discussion further with our mainstream investors. We want investors to assess the value of the company in regard to sustainability as well."

Proactive disclosure of sustainability strategy and performance may reduce the potential for shareholder resolutions from investors. Eric Holdsworth, Senior Director, Climate Programs at Edison Electric Institute (EEI), noted that his members (all US electric utilities) have seen a drop in resolutions since they have been using the EEI ESG template, which was created in collaboration with investors.²⁹



Deepen internal understanding of sustainability, its impact on finance, and vice versa

Business leaders have greater visibility into risks and opportunities arising from social and environmental issues, which can lead to more informed business decisions.

While alignment has been driven primarily by external stakeholders, the results often also benefit internal decision-makers. In order to communicate the risks and opportunities of sustainability topics, a company must undertake a process to identify and understand their impacts. This can have a catalyzing effect, forcing introspection and analysis of how sustainability intersects with the business. Catherine Aitken, Sustainability Report Delivery Manager at Shell, shared the impact of expressing the business case for sustainability inside Shell: “When you can communicate the financial value of an initiative, it is easier to convince internal stakeholders to implement it.”

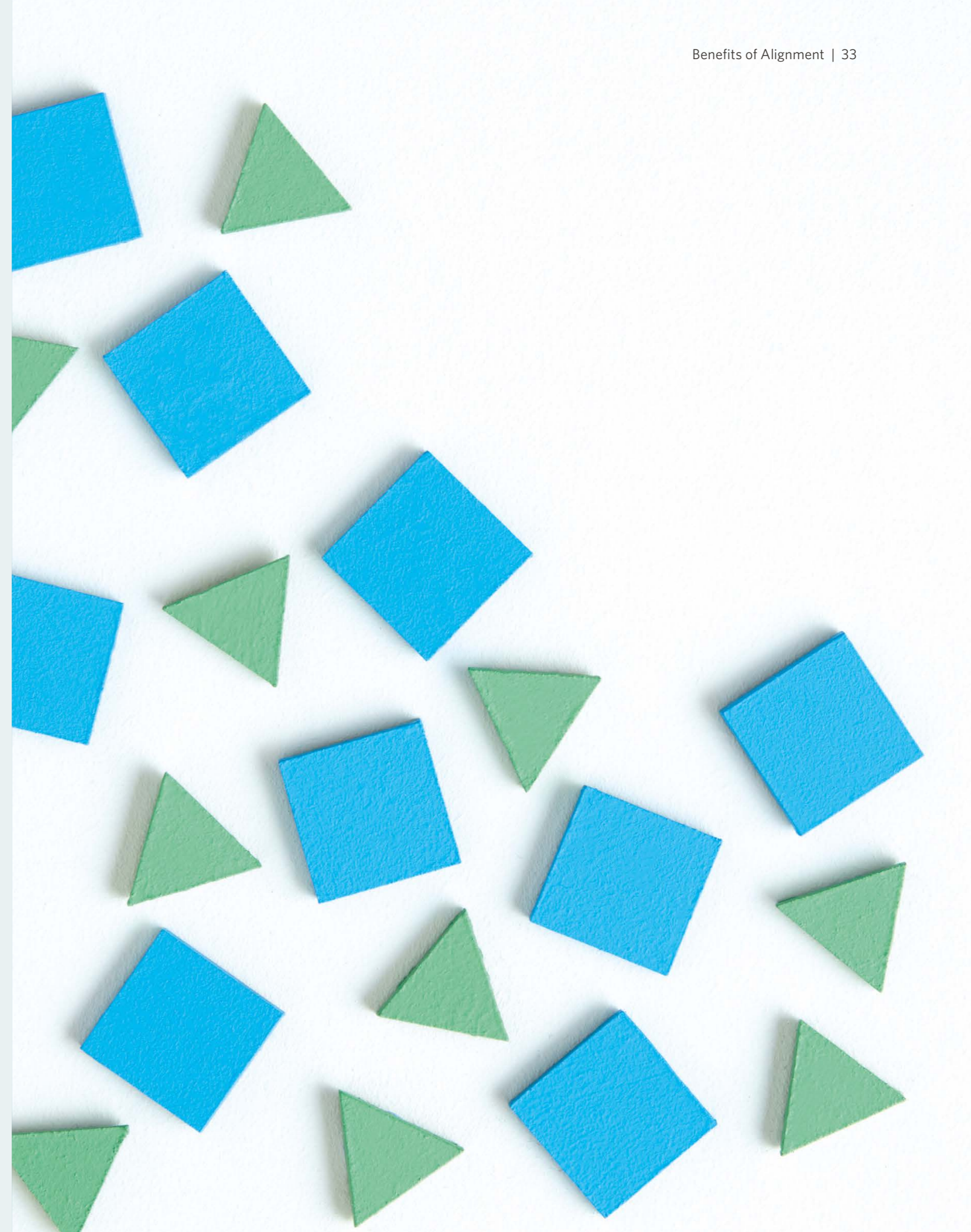


Improve other stakeholder communications

Alignment can force a clearer narrative of why the company is acting on sustainability.

Though investors are the key stakeholder group asking for greater alignment, the process itself and the resulting content can provide a strong foundation for communication with other stakeholder groups. For example, by focusing on its most material issues a company can simplify its disclosures. Messaging needs to be translated into the right language and format for different stakeholder groups, but this is easier when sustainability and financial reporting are well-aligned. Samuel Vionnet, Sustainability Expert and founder of Valuing Nature, said that: “Sustainability reporting is moving from a compliance approach to using communication as a tool to change the company and its stakeholders.” Better aligned communications help to integrate sustainability and demonstrate authenticity with stakeholders.

Despite these benefits, many practitioners say that there are numerous hurdles to overcome before sustainability and financial transparency can be more aligned. We explore some of the barriers to alignment in the next chapter.



4 Common Roadblocks and How to Navigate Them

Companies disclose sustainability information in multiple communications channels including financial reporting, sustainability reporting and business communications.



Lacking the right data or resources for rigorous data collection

Because sustainability transparency is not regulated, many questions remain about what data to share, which is true even when following frameworks like GRI and SASB. Melissa Tominack, Senior Sustainability Coordinator at American Electric Power, summarized the challenge: “We ran an analysis, and there are currently over 1,000 corporate metrics that only overlap by 20%. Everything is being asked in different ways and with different measurements. This can be an incredible challenge to sustainability teams that are normally quite small in number.”

Collecting appropriate and adequate data, especially across multiple brands or operating units, can be complicated, requiring understanding and engagement from multiple internal data owners. “There is a lot of data in the company but it takes effort and time to get it under the right form,” shared Marian Fernando, Public Affairs Specialist at Nestlé. “It is dynamic between our headquarters and all of our sites, but in many areas we are still computing the data manually.”

How to navigate:

Prioritization is key. We recommend identifying the most important sustainability topics on which to be transparent, then, from there, determine the gaps that exist in how data is collected. New data collection processes take time to establish, but this should not deter companies from taking the first alignment steps with at least limited sets of metrics.



Difficulty of quantifying complex issues in financial terms

While some areas of sustainability data, like carbon emissions, can be more simply translated into financial metrics, others are harder to quantify. As a result, according to World Benchmarking Alliance's Research Director, Richard Hardymont: "What we see is companies typically have internal systems to collect the data, but they disclose on the inputs not on the impacts." In many ways the difficulty in translating sustainability impacts into financial metrics is the crux of the challenge of sustainability transparency. "How can we convince the world that human rights and biodiversity can't be assessed on a balance sheet, but they're crucial for the world and to companies? The overall economic argument is not always the most powerful. Economics shouldn't be the main determinant of society's and business's success," notes Junice Yeo, Director for Eco-Business.

Diversity reporting illuminates this issue. Gawain Patterson, SVP of Corporate Citizenship at Citi, explains the challenge: "There's good research around the value-add of diversity. But when talked about from a financial perspective, it can be hard to quantify. There's certainly progress to be made in measurement, going beyond measuring representation to looking at the financial impacts, but representation is an important place to start and transparency from companies is critical."

How to navigate:

For areas where numbers alone may not tell the whole story of sustainability impacts, especially those that are felt beyond a company's four walls, frameworks like the SDGs and the IIRC's six capitals outlined in its <IR> Framework (financial, manufactured, intellectual, human, social & relationship and natural) provide guidance on what qualitative information is helpful to include. Some companies including Ørsted have taken this guidance and created their own way of explaining financial impacts of sustainability performance. For example, Ørsted has collaborated with its internal accounting team to create accounting policies for social indicators that are "more tangible and transparent on societal performance." Anders Larsen, Sustainability Advisor at Ørsted, explains: "It's essential that companies work with their internal teams to decide how best to demonstrate the impacts of sustainability topics. It will require internal support, alignment, data collection and (external) validation to be successful."



Internal pushback - based on legal and competitive positioning issues - against voluntarily sharing more information than required

Voluntary transparency can present some risks. Marian Fernando, Public Affairs Manager at Nestlé expressed concern, saying: "As soon as you put a number, you're held accountable. This can be daunting." Legal action targeting claims made in sustainability reporting periodically emerge. For example, in litigation related to the BP Deepwater Horizon explosion, a federal district court ruled that ESG statements made by BP about the implementation of safety programs were misleading and thus actionable under law.³⁰ In 2015, Chiquita Brands faced class action lawsuit litigations asserting that it made misleading claims about its environmental performance that were in violation of California state consumer protection law.³¹

These cases indicate that sustainability disclosures are being scrutinized more closely. Still, the risks appear minimal and are likely exaggerated. In 2018, Robert Eccles and Michael Krzus tested their hypothesis that companies already share the data they are concerned about adding to sustainability reporting in risk assessments. Eccles and Krzus demonstrated this by developing a mock integrated report for Exxon based solely on publicly available information.³² Instead of dissuading companies from reporting about sustainability performance, any bona fide potential risks and legal implications should encourage companies to collect sustainability data and disclose it with the rigor and oversight given to regulated information, including financial reporting.

How to navigate:

Companies should assess the areas with highest risk potential and work closely with internal teams to understand how best to set up processes to ensure buy-in from legal reviewers at the outset. Faye Eson, Senior Manager, Sustainability, at LyondellBasell, explained the approach that her company has started to take to make the process more efficient and ease concerns about legal risk exposure: "We engaged the internal audit team early on in the process of drafting the sustainability report and hired a third-party audit company to look at data management and collection. We highly recommend managing risk as early as possible."

Spotlight on: Nestlé



Behind the curtain at an experienced reporter

Marian Fernando, Public Affairs Specialist at Nestlé, heads up the food manufacturer's reporting on its Creating Shared Value (CSV) strategy. In the condensed interview below, she shares some recent activities and aspirations on aligning sustainability and financial reporting.

How is Nestlé communicating the business relevance of sustainability to its external stakeholders? We've made more of an effort to integrate CSV into our annual review because it has business relevance. Then we produce a more detailed CSV report for people who want to dig into it.

What frameworks do you use to guide your reporting? We've been doing GRI for the last few years, and we are currently looking at the option of the SASB standards to focus on what investors want us to focus on more. We let frameworks guide us because they give us insights on future directions to take, but at the same time we have also felt a bit constrained by frameworks.

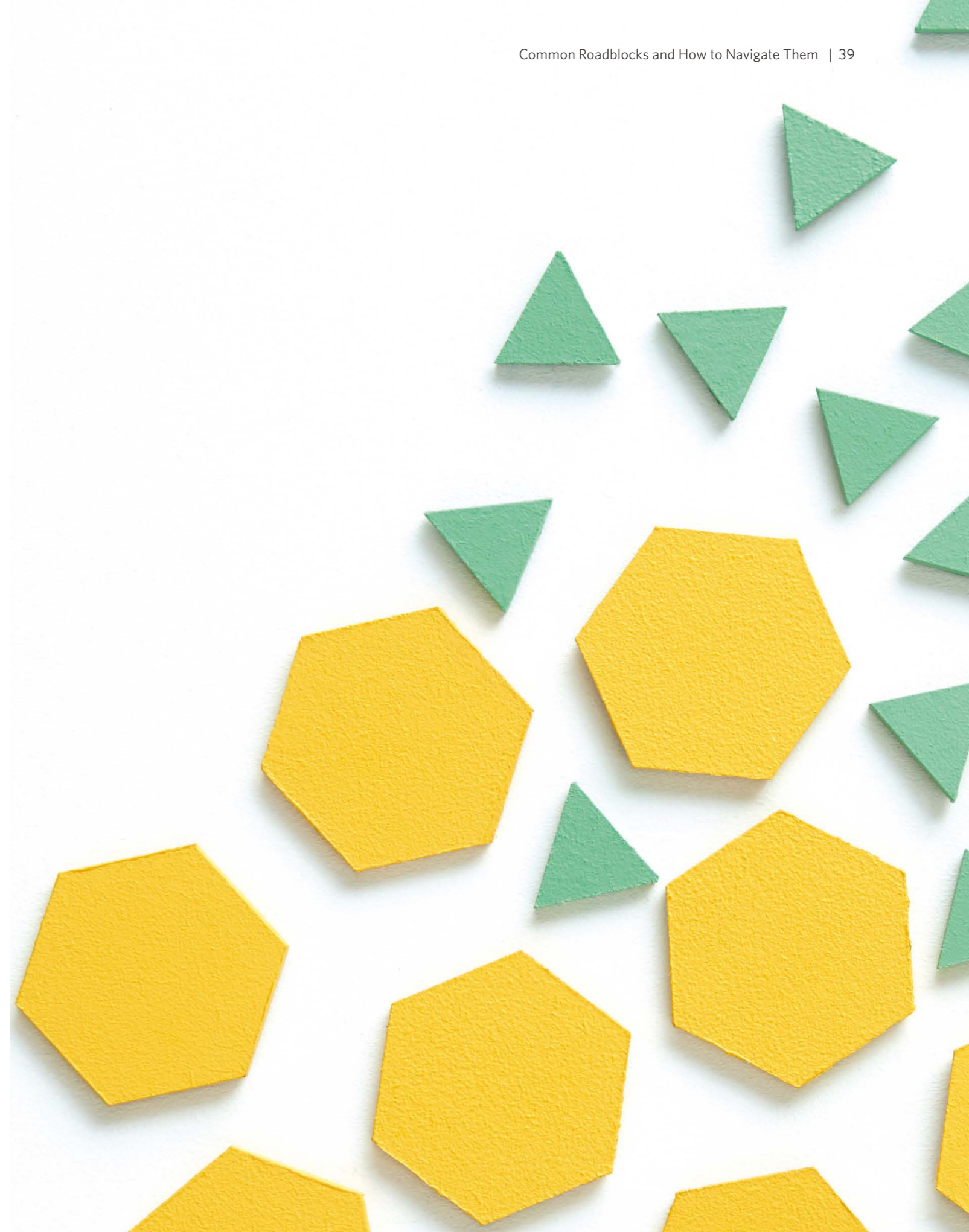
What is the role of data in communicating the business relevance in sustainability? We are increasingly hearing requests for more data from investors, so this is an area we want to improve. We have better data in some areas over others.

It's difficult to have a formal, automated process to collect data everywhere in a big company.

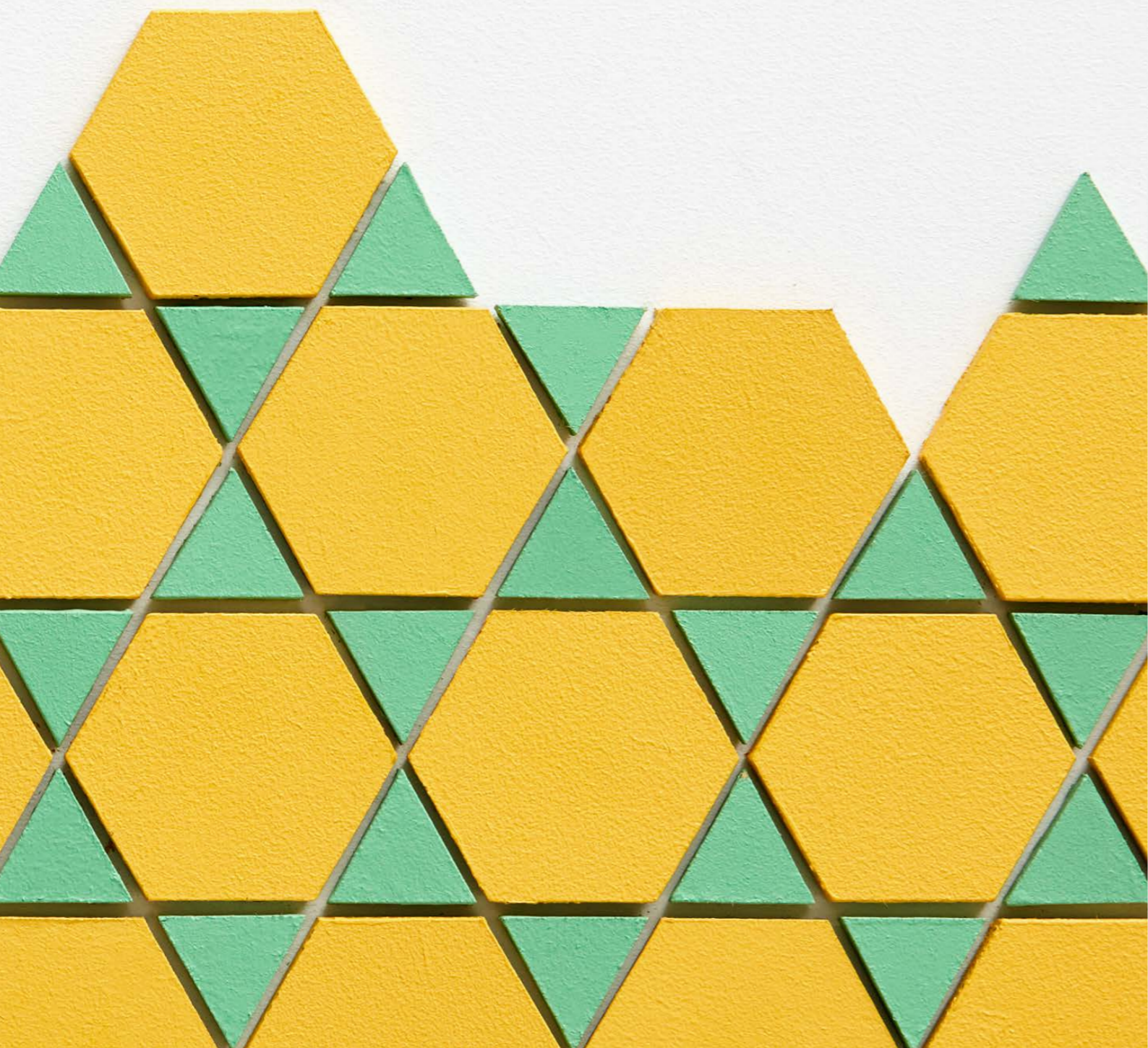
How are you addressing the challenge of robustness of your data? One of the ways we tackle it is by having an independent verification process. It's useful for Nestlé to gain that credibility especially when we may not have access to quantifiable data to back up statements. In 2017, we wanted to make a better connection between financial and non-financial reports. We had an external consultant come in to calculate our business and social impact return of our Global Youth Initiative. The study showed great impact on business and on society. We published the methodology and results on our website.

How do you foresee Nestlé's corporate disclosure evolving over the next three to five years? I am an optimist. I foresee Nestlé leading the way in pushing for more credible impact evaluation and disclosing more information that is supported by data and verified. Also continuing to strengthen the CSV part of our business strategy in our reporting.

Though the challenges above are significant, companies can overcome them and successfully make progress in aligning sustainability and financial reporting. We provide practical guidance for companies looking to do so in the next chapter.



5 Alignment Roadmap



Our research led us to create a roadmap to support the alignment of sustainability and financial transparency. We outline the core elements of the roadmap, each of which present opportunities and challenges for practitioners seeking to advance their company's approach to transparency.

One fundamental best practice that cuts across all these elements is the importance of internal engagement to enable better alignment. It is vital to find allies within the company who can not only share their expertise but help to find the best ways for sustainability information to dovetail into existing internal processes. Key departments that came up in our research were of course investor relations but also legal, internal audit, and risk. Others called out the C-suite and the Board more broadly as important stakeholders to gain buy-in. Strategic and effective corporate transparency requires collaboration across the company.

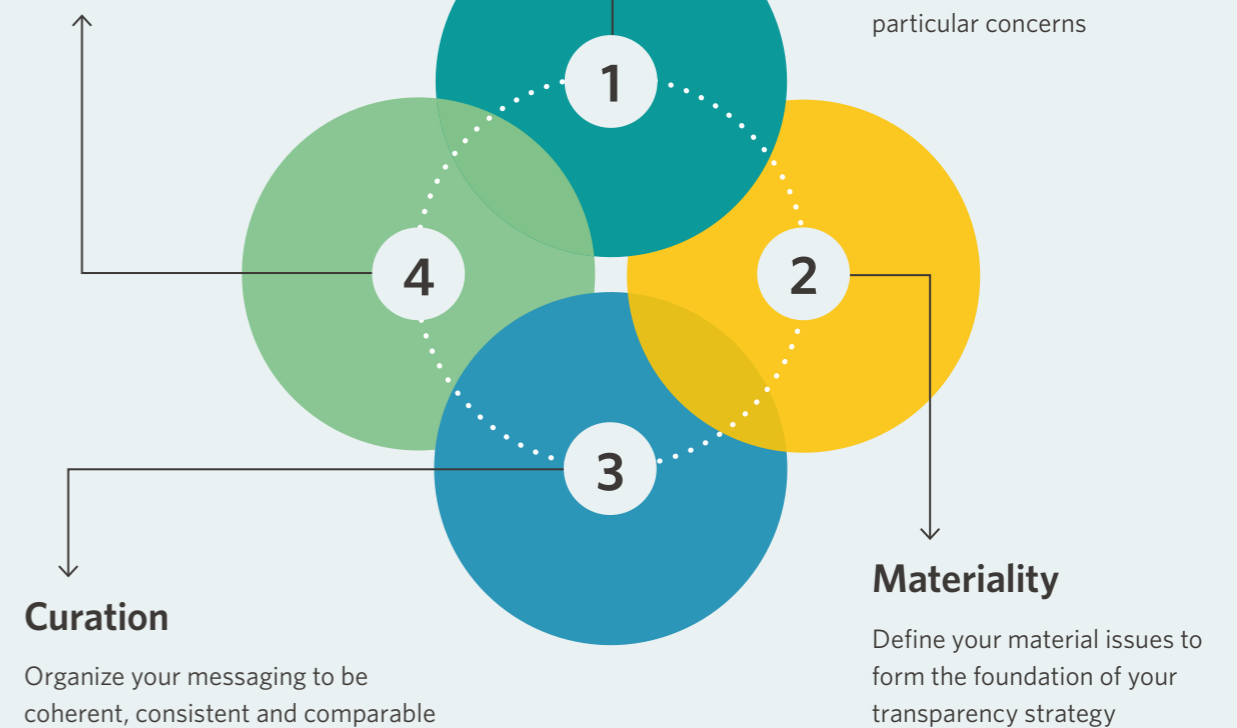
Alignment roadmap

Delivery

Reach your audiences through the formats that work best for them

Audience

Prioritize your stakeholders and understand their particular concerns



Curation

Organize your messaging to be coherent, consistent and comparable

Materiality

Define your material issues to form the foundation of your transparency strategy



1 Audience

Identifying and prioritizing stakeholders is vital for ensuring communication objectives are met.

Transparency is not just about conveying a message, but also about engaging with stakeholders and enabling a two-way dialogue. We outline the key corporate stakeholders that company reports and broader communications serve, and explain how aligning sustainability and financial transparency can benefit them. We include a best practice case study on Abbott (page 50) and its approach to focusing sustainability transparency on key stakeholders.

Weighing the benefits of targeted communications

We heard from sustainability practitioners in our interviews and focus groups that there is a growing trend toward tailoring communications by stakeholder type (and even more granularly). Cora Olsen, Global Lead Integrated Reporting at Novo Nordisk, raised the importance of targeted communications: “It all comes back to language. You have to know who you’re talking to and know their trigger points.”

However, more customized communications can present challenges. Bianca Conde, Sustainability Consultant at Suzano said: “We know targeting is good, and you get more engagement, but it’s hard to measure the ROI. There’s a lot of effort, cost, and sometimes fatigue with saying the same things in different ways. The advantage is you create a specific channel with stakeholders, so when you do receive feedback, it’s more in-depth and constructive.”

We agree that good communication does require targeting specific stakeholders. A one-size-fits-all approach suits no one. Companies should balance their investment of effort, focusing more time and resources towards those stakeholders that are higher priority.

Investors

As we highlight in the Drivers and Context for Alignment chapter, investors increasingly are looking for information on corporate sustainability strategies and performance. They are using ESG metrics and data to help predict future performance and to enable sound investment decisions. ESG information helps investors understand how businesses generate long-term value.

Investors need both qualitative and quantitative information to get the full picture, something Ceres highlights in their recent report *Change the Conversation*.³³ Specifically, they need a narrative to help them interpret the data. “A challenge for investors is whether you get any visibility of intentionality through the data,” said Freddie Woolfe, Head of Responsible Investment and Stewardship, Merian Global Investors. “We can look at a snapshot or series of data, but does that tell us whether the result is deliberate or circumstantial? Just the number doesn’t tell you why or how you’ve done it. In terms of understanding the intentionality, it comes down to what is a company’s purpose.”³⁴

Investors are at different stages of ESG integration, so they have diverse needs in terms of the information they require. There is also variation amongst shareholders on how to use ESG information. “ESG investors’ needs vary. They have their own requirements in terms of the information they want, but disclosing companies may not be privy to what these needs are,” pointed out Junice Yeo, Director at Eco-Business. The divergent requests from investors can present a challenge in shaping disclosure that meets their needs. We are seeing some anecdotal evidence of investors collaborating on their ESG data templates, but this is not the norm. To better understand investor expectations, we recommend directly engaging with your investors.

Best practice guidance

Sustainability and investor relations teams should partner to identify what matters to their company’s investors. Consider asking a targeted set of questions to your top 50 shareholders on what is important to them and what they want to see from your company’s sustainability communications. Questions to consider include:

- 1 What issues do you consider to be most material to our company and sector?
- 2 What metrics do you use to compare our company to our peers?
- 3 What format and timing do you find to be most useful for receiving information?
- 4 How do you use ratings (if at all) in your assessment of companies?
- 5 Which ratings and rankings does your company use most often when assessing ESG performance?

This effort would produce a logical, data-driven way to understand what your investors see as financially material and how they want to receive that information. The responses can help to shape what your company deems material, which may be broader than financially material. This can then direct your reporting and wider strategy.

See the Travelers Companies case study on page 48 to learn how they approached this type of research.

Ratings and rankings agencies

As information synthesizers for investors and other stakeholders, ratings agencies are a growing audience for companies. They each have their own methodologies and inputs, with most either compiling public information or requesting a survey response. SustainAbility's *Rate the Raters* research illuminated some key trends amongst this stakeholder group, one of which is the rise of AI and data scraping by traditional agencies and by new agencies like TrueValue Labs and S-ray, a trend we explore further in the Future Trends and Conclusion chapter. We also see an increase in topic-specific ratings and rankings, such as the Corporate Human Rights Benchmark and Workforce Disclosure Initiative. This puts pressure on companies to disclose in a more detailed way to those ratings or rankings focusing on specific material issues.

Best practice guidance

We recommend establishing a ratings strategy to prioritize which ratings and rankings you will communicate with, either directly or via your report. This enables you to focus your efforts on compiling and communicating the information that matters most to those priority ratings. It is essential to understand what those ratings are looking for. One best practice is to map the data requested by priority ratings against what you currently track in order to identify key gaps. We also suggest proactive engagement with rating firms to enable you to be aware of potential upcoming methodology shifts so you can get out in front of future requests.

Advocates

NGOs, academia, thought leaders and other advocates are looking for evidence of companies' sustainability performance and commitments on sustainability, whether on a single issue or on overall sustainability leadership. They have historically not been as interested in how the issues impact the business, instead focusing on it being the right thing to do. However, many advocates now understand the importance of integration of sustainability into the business (as opposed to it being an add-on or philanthropy) for driving long-term, deeper impact. James Morris, Director at GlobeScan, pointed out: "NGOs and other stakeholders are increasingly saying: If there's not a business case, why are you doing it? If there isn't a business case for it, then the activity is unlikely to be as impactful or enduring." This type of stakeholder often scrutinizes company communications very closely. Ilishio Lovejoy, Project Manager at the Fashion Transparency Index said: "Great disclosure is a holistic look at your impacts. We want to see detail, but the crucial thing is to see progress and outcomes, not just policy and guidelines."

Best practice guidance

Mapping and prioritization can be a helpful exercise for this stakeholder type given their wide diversity of needs. In general, these groups are seeking to hold companies to account for their business impacts, so any storytelling needs to be backed by data to be credible. Companies need to understand what data is critical for stakeholder advocates to use to assess the company as well as how they use the data. Special effort is required to communicate how stakeholder focal issues relate to and/or are affected by your business model.

Customers

The rise of customer questionnaires, many of which focus on Key Performance Indicators (KPIs), indicates corporate customers' desire for data that can help them make better procurement decisions. However, many companies are also seeking more qualitative information from their suppliers to enable them to better communicate about the sustainability of their products. Customers are demanding greater traceability of materials, which enables both sides of the business relationship to illuminate both stories and data.

Best practice guidance

Companies need to recognize the importance of surveys for meeting customers' needs and take adequate time to respond. They should also explore deeper ways to tell their story in order to meet customer expectations. When communicating to customers, it's key to explain how your sustainability efforts are leading to better and more reliable products and services. It's also helpful to emphasize commonly held values between your organizations.

Consumers

Consumers increasingly purport to want to buy from purpose-driven companies, yet communication focused on the business value of sustainability would likely land flat. Most consumers would not have the appetite or patience for the nuance and granular data that sustainability information requires. They are much more interested in stories that demonstrate authenticity and commitments. Most just want to be able to trust the company to make sustainable choices. Joe Franses, Vice President of Sustainability at Coca-Cola European Partners shared that: "reaching and inspiring consumers on sustainability remains a significant challenge, and we have much more to do to get this right. The key is keeping messaging simple and easy to understand, and not forgetting that many sustainability topics are complex. That's certainly the case with recycling, where we face challenges in talking about recyclability and our use of recycled plastics. Consumers simply expect businesses to do the right thing, and marketers have to work hard to ensure that messaging hits the right note."

Best practice guidance

Companies need to draw on market research to understand their consumer demographics. This can enable them to identify key trends that require greater transparency (e.g. perhaps ingredients disclosure for a food manufacturer or retailer). Understanding the fundamental values that your consumer base holds and highlighting how your business purpose demonstrates those values is key to health in this stakeholder relationship.

Employees

Employees care about the company’s overall financial performance inasmuch as it enables job security and professional development. Employees want to hear about stories of the business’ sustainability efforts and how it is embedded in the business. Data can be compelling when it is specific to their geography or department. Current and prospective employees want to know what their personal contribution can be to a bigger company purpose. Monica Batchelder, Sustainability Communications Lead at Hewlett Packard Enterprise (HPE) pointed out that: “Employees care less about creating shareholder value and more about how sustainability relates to their specific business role, their own KPIs, and their values.”

Best practice guidance

Companies should use surveys to identify what topics employees most want to hear about. It is important to tap into department heads to understand what will resonate most with their respective teams. We recommend emphasizing how the company is strengthening its business strategy by considering environmental and social issues, and looking at how employees can help implement the strategy through their work.

Government

Market-specific information is critical for meeting these stakeholders’ needs. Monica Batchelder from HPE also told us: “This year, we created four in-country sustainability report summaries for government stakeholders in which the content was similar, but where each presented country-specific data.” The rise in mandatory disclosure across various regions and parts of government presents businesses in unregulated markets with the opportunity to get ahead of these trends by voluntarily disclosing key metrics. This may not stem the tide of regulation (as some businesses will only disclose key information if it is mandated), but it will enable leadership positioning.

Best practice guidance

Companies should consider not only what’s needed for compliance now, but engage with policymakers and regulators to understand what information they might be looking for in the future and use that information to get out in front of regulatory trends.

The data-story continuum



One of the key tensions in communicating to multiple stakeholder groups is finding the right balance between data and storytelling. Best practice calls for both. We map out below where stakeholder types fall across a continuum. The narrative on corporate purpose is fundamental for all stakeholders.



Case Study: The Travelers Companies



Proactively engaging investors on their views

Yafit Cohn, Vice President, Chief Sustainability Officer and Group General Counsel at the US insurance business The Travelers Companies, recently conducted research on the company's investor perspectives on ESG. She engaged with half of Travelers' investor base, as well as other key actors in the ESG space.

Her findings align with our research and can prove helpful for other companies' approaches to meeting investor needs. The following is a summarized excerpt from Ms. Cohn's remarks at an SEC Investor Advisory Committee discussion regarding Disclosures on Sustainability and ESG Topics on December 13, 2018.

- **Meaning of ESG.** US asset managers seem to be coalescing around a general definition of ESG by speaking of it in terms of: 1) Risks and opportunities; and 2) Value, rather than values (i.e., non-balance sheet items that could have an impact - positive or negative - on the company's competitiveness and value over the long-term).
- **Hallmarks of Strong ESG Reports.** When asked what constitutes a particularly helpful sustainability report or what principles should guide issuers in creating a "gold standard" ESG report from an investor perspective, many investors offered the following:

- 1** Focusing on issues that are salient to the business and its ability to create shareholder value over the long-term, with fewer "human interest stories"
- 2** An articulation of the connections between ESG information and the company's business/strategy
- 3** A discussion of opportunities, not only risks
- 4** An explanation of the company's process for determining which ESG topics to cover
- 5** A focus on governance around the E&S.

Travelers' investor engagements served as the foundation for its approach to reporting, the framework and standards with which it has aligned its disclosures and the specific topics it covers. As a result of Travelers' research, the company has decided to focus its reporting on the issues that were raised by investors as important for its industry and to use IIRC, SASB, TCFD and GRI as guides for their reporting.

You can read the full remarks here: scsgp.informz.net



Case Study: Abbott



Mapping audiences for targeted ecosystem of content

For Abbott's 2018 Global Sustainability Report, the company assessed its target audiences in an effort to streamline its PDF report. For this one-size-fits-all report, its key stakeholders included ESG specialists, ESG analysts, ratings and ranking agencies, as well as employees.

First, the Abbott sustainability team took a step back to assess the company's reporting and decided to approach its reporting as an ecosystem rather than a single document. For investors, the company focused on data, and for customers, employees and business influencers, it focused on storytelling. With ratings and rankings agencies a key audience, it undertook a detailed content analysis of its 2017 report to understand exactly what seven of the most relevant frameworks to Abbott were asking for, what overlaps existed, and what areas of the content to put in the PDF report that were not being asked for by target raters and rankers.

As a result of this exercise, Abbott streamlined its report by more than 40%, reducing it from 60,000 to 33,000 words. Abbott has also developed multiple targeted communications channels, curating the messaging in each to a specific audience. This ecosystem includes a PDF sustainability report focused on meeting the needs of Abbott's priority rating and ranking agencies, a standalone key

metrics PDF, and a one-pager for suppliers. It also spent more resources on dedicated sustainability messaging in Abbott's corporate social media and blogs to reach stakeholders more interested in storytelling. Colleen Wade, Sustainability Specialist at Abbott, shared: "The feedback we've received on this report has been really positive. Our internal leaders like it because it is nice and short, our investor relations team can find information more easily, and our external stakeholders find that it answers the questions they have."

The feedback we've received on this report has been really positive. Our internal leaders like it because it is nice and short.

“ ”

Colleen Wade, Sustainability Specialist at Abbott



2 Materiality

Although we see action from regulators on mandating non-financial disclosure, in particular in Europe, it is still largely up to companies to determine what they will disclose.

We outline some core aspects for companies to consider for this stage below, with a focus on the investor audience.

Hone in on the most material issues

Best practice requires more focused transparency, prioritizing effort and word count for those issues that are most material. Anders Larsen, Sustainability Advisor at Ørsted recommended: “Move away from reporting for the sake of reporting. Stick to your core societal impact. Answer the question: ‘Why do you exist?’” This will help to target transparency on the issues that matter most to the business and to its stakeholders. Ultimately, streamlining the time and resources spent on reporting should help to free up time and resources for driving improvements in performance.

In our Network focus group, members shared that some stakeholders are pushing companies to be stricter in their definition of materiality in order to focus on fewer issues, but this can be difficult to deliver. Ines Roessler, Sustainability Manager at Volkswagen Group, shared: “The challenge is that we can’t be focused on all material topics. Our materiality matrix currently has 18 issues, but we are trying to focus on just a few very material topics. Organizational customers in particular want this ranking of importance.”

Move away from reporting for the sake of reporting. Stick to your core societal impact. Answer the question: ‘Why do you exist?’

Anders Larsen, Sustainability Advisor at Ørsted

Even within a long report, companies should explicitly highlight those issues that are highest priority. Robert Eccles, Visiting Professor of Management Practice at Saïd Business School at the University of Oxford, suggested: “Do what SAP has done: be clear on what are material, financial and nonfinancial variables, and which aren’t clearly material for investors but still relevant.”

The many meanings of materiality

There is no one agreed upon definition for materiality: companies, stakeholders and reporting frameworks all vary in their approaches.

The Corporate Reporting Dialogue published Common Principles of Materiality, in which they define material information as “any information which is capable of making a difference to the evaluation and analysis at hand.”³⁵ Some frameworks emphasize the significance to the business (e.g. SASB, IPIECA), whereas others focus more on the impacts of the business (e.g. GRI), but all include stakeholders to some degree.

Ultimately, whether an issue is material is subjective and varies based on different stakeholders’ perspectives. This underlines the importance of companies identifying what their particular stakeholders’ key issues are; knowing lets them focus transparency efforts on the information that will resonate most. Such stakeholder sensitivity shapes the materiality methodology companies use. For example, Alex Hausman, Director, Purpose Communications and Reporting at Nike Inc said: “We’ve found that issue prioritization may seem straight-forward, when in fact it’s a combination of art and science. That’s why we analyze quantitative and qualitative stakeholder information in determining our highest priority issues.”

Investors are starting to consider non-financial issues as material and as predictors of future risks and opportunities. Adam Kanzer, Head of Stewardship, Americas at BNP Paribas Asset Management, pointed out: “The US SEC definition of materiality allows for so-called non-financial

It’s difficult to have sustainability issues as the top-level risks because they have to compete with a plethora of financial risks within our company’s risk ranking system.

“ ”

Corporate interviewee

or extra-financial information. As an investor, it isn’t enough to know the immediately foreseeable risks to the business. I also need information on the risks the business creates, for a variety of reasons. First, because these risks affect my clients, and I’m a fiduciary. Second, because we may carry those risks in our portfolios, as diversified investors. And third, because these impacts may ultimately become financially material to the company when stakeholders, including governments and consumers, choose to hold the company accountable for the damage it is causing.” This need to focus on both the issue’s financial impact on the business and also the impact of the business on the issue is what the European Commission calls “double materiality” in its recently published Guidelines on Reporting Climate-related Information.³⁶

However, internally there are still challenges to using the word “material.” The Enterprise Risk Management (ERM) process is a fundamental internal system for financial materiality, but one corporate interviewee explained: “It’s difficult to have sustainability issues as the top-level risks, because they have to compete with a plethora of financial risks within our company’s risk ranking system.” This quote illustrates the challenge that sustainability practitioners face around perceived relevance of social and environmental issues to financial performance and the timeframe in which the issues may impact the business.

As an investor, it isn’t enough to know the immediately foreseeable risks to the business. I also need information on the risks the business creates.



Adam Kanzer, Head of Stewardship, Americas at BNP Paribas Asset Management

As one way to get around this debate on materiality, SustainAbility Transparency Network members shared that they use different terms to describe material topics. Some spoke to the restrictions imposed by the US SEC legal definition and said they prefer to call material environmental or social topics “priority issues.” “We do not use the term ‘material’ in our Sustainability Report. We describe the process as the ‘priority topic selection process’ and ‘priority topic selection outcome,’” shared Catherine Aitken, Sustainability Report

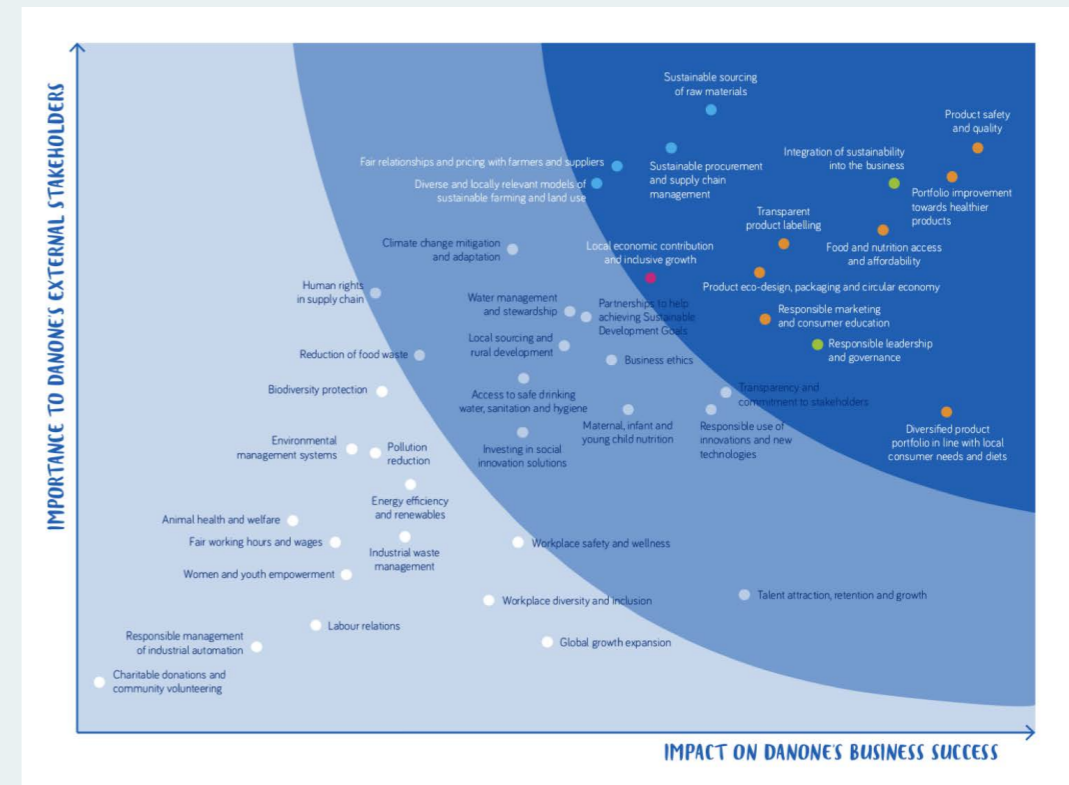
Delivery Manager at Shell. “We prefer to describe materiality rather than use the word itself to avoid confusion with the financial definition of ‘material.’”

The term “materiality” has evolved over time and is still undergoing shifts in this era of more aligned reporting. If companies want to prioritize investor needs in their reporting, they should apply a more rigorous financial lens to their materiality assessments. Curtis Ravenel, former Global Head of Sustainable Business & Finance at Bloomberg, pointed out: “If we want broad market integration of ESG, we need to focus on financial materiality, though that doesn’t mean at the exclusion of everything else.”

We recommend balancing financial materiality with other stakeholder concerns emphasizing non-financial elements. One approach to this is to clearly tier your issues. Danone’s 2019 Integrated Report provides a good example of this approach (see image). They explain that the first tier is made up of “the 14 priority topics that are the most material to both Danone’s external stakeholders and the company’s business success. These topics are intimately linked to Danone’s evolving business model. They are core to the activation and delivery of Danone’s ‘One Planet. One Health.’”³⁷ In another example, ALDI analyzes its impact on the issues and the level of stakeholder concern, but then indicates which issues are “very highly relevant to business success,” as determined by senior management (all other topics are “highly relevant”).³⁸

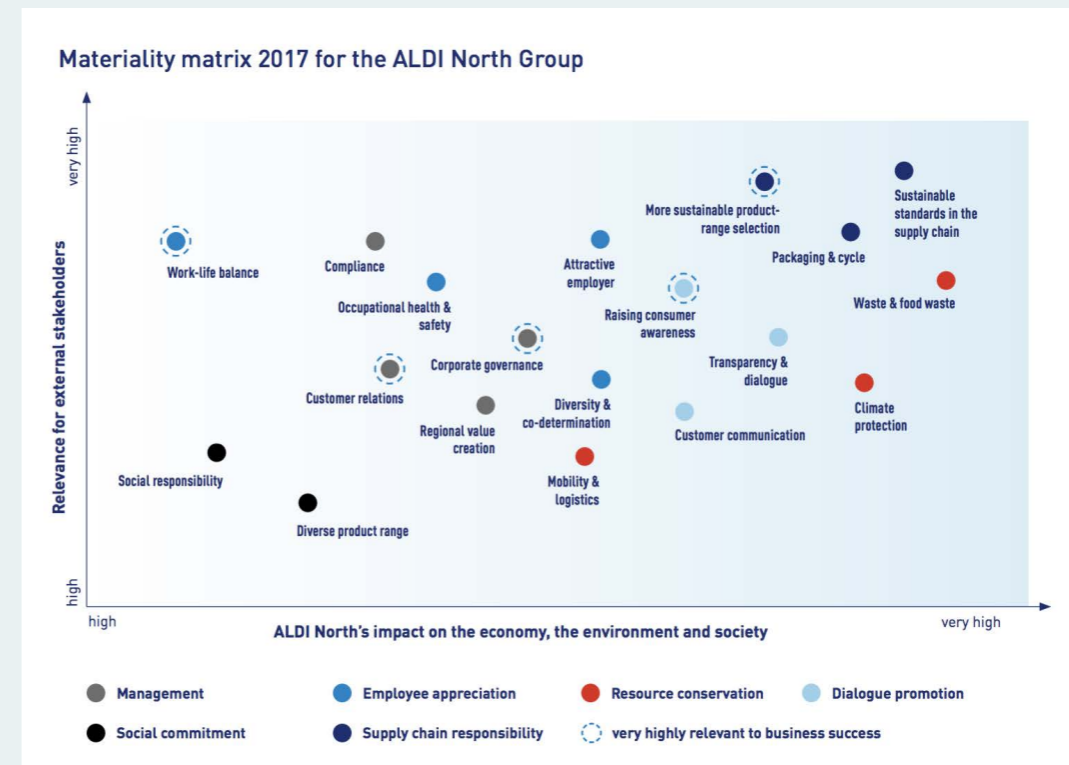
Danone – Materiality Matrix

Source: Danone 2018 Materiality Matrix



ALDI – Materiality Matrix

Source: ALDI 2017 Sustainability Report



Balance responsiveness with proactively owning your story

Deciding what matters requires both analysis of what stakeholders are asking for and proactively defining what is fundamental to your business model. A corporate sustainability practitioner explained: “On the one hand you want to respond to questions and meet expectations, particularly for an audience who may be perceived as negative to your industry, but you also have your own story that you want to tell. A company needs to acknowledge that there are questions they are required to have a response to (even if it’s not as relevant to the business) but [in those cases the company should] include business context [in the response] too.” Focusing more time and resources on the proactive narrative is best practice (and many teams aspire to do this more). However, when being reactive with disclosures, companies should explain how the additional transparency fits into the broader business strategy and industry.

Address both the past and the future

Stakeholders want to know how a company has performed but also what it aspires to do; ultimately, they need both to make decisions about their relationship with the company. Olivia Prentice, Chief Operating Officer, Impact Management Project, pointed out: “Investors want to see what changed in the results. It’s crucial to explain, like a financial report, what you thought would happen and then what did happen.” Though historically sustainability transparency has focused more on the past, it is best practice for companies to also look forward, to explain how goals help to build long-term financial value and address the company’s societal, environmental and/or economic impacts. “Time horizons are being evaluated: we’re seeing a shift from more immediate past to future,” shared Cristiano Oliveira, Sustainability Manager at Suzano. Though financial transparency has been backwards looking, more aligned sustainability transparency enables stakeholders to understand how the company is setting itself up for success. Ultimately investors are looking to predict how you will perform in the future.

Case Study: JetBlue



Streamlining reporting to focus on the most material topics

In 2016, JetBlue was one of the first companies to publish a standalone SASB report. While this was noteworthy, JetBlue’s approach was groundbreaking in another way: when they published their SASB report, they also stopped reporting in accordance with GRI.

“Disclosure is not a static concept. Markets are dynamic and disclosure must keep pace,” JetBlue says of its approach in its 2016 SASB report.³⁹

Part of the objective for JetBlue was to streamline its reporting to only focus on its most material issues as defined by SASB. As Sophia Mendleson, Head of Sustainability, told SASB in an interview: “As a publicly traded company, we have a duty to do what’s best for our investors. The questions that always came up as we compiled our past sustainability reports were, are investors really looking at or interested in the ‘feel good’ CSR report? Do they care about how we are inspiring humanity as much as they care about cost-cutting initiatives? The SASB standard for the airline industry offered a reporting solution for us, as it allowed us to better target investors by focusing on the ESG metrics material to our industry, rather than reporting on broad metrics that are less applicable to aviation.”⁴⁰

This shift to SASB reporting does not mean JetBlue has stopped telling those “feel good” stories. JetBlue directs its report readers to its annual financial report and website for additional information about ESG topics not required by SASB, which includes information on philanthropy, volunteerism and disaster response. By being intentional about which audiences are of most importance to them – and defining materiality accordingly – JetBlue has set itself apart as a sustainability leader in the airline industry and beyond.



3 Curation

There are many decisions to be made on how best to communicate your material issues in an aligned way. We outline some recommendations below, again with an investor focus.

Craft the core narrative

Members in our focus group emphasized the need to ensure consistent messaging across all communications to provide external stakeholders with a clear picture of why the company is investing in sustainability. The uptake of purpose into business has been a foundational element of this more coherent picture. One corporate interviewee shared: “There is now a centrality of purpose messaging with everyone we talk to.”

“You need a narrative to connect non-financial with financial. You have to be able to explain things beyond numbers,” said Robert Eccles, Visiting Professor of Management Practice at Saïd Business School at the University of Oxford. Similar sentiment was expressed by another expert: “When

I look at a company to understand the impact of it, it has to be threaded through the strategic narrative, it has to be a compelling business case, otherwise I don’t think you can make points about impact credible,” explained Freddie Woolfe, Head of Responsible Investment and Stewardship, Merian Global Investors.⁴¹

Best practice is to use a sustainability or integrated report as the mechanism to develop that coherent narrative and then use the core messages to craft stakeholder-specific content (e.g. employee brochures, investor webinars) as needed.

You need a narrative to connect non-financial with financial. You have to be able to explain things beyond numbers.

“ ”

Robert Eccles, Visiting Professor of Management Practice at Saïd Business School at the University of Oxford

Use just a few key reporting frameworks

The need for cross-company comparability of performance and strategy underlines the importance of reporting frameworks. Recent McKinsey research found that investors value financial materiality, consistency and reliability.⁴² That same research found 89% of investors surveyed thought there should either be just one reporting framework or at least fewer than there are today.

Investors use reports following the GRI Standards but complain about having to wade through pages of text to get to the data they need. Investors are, on the whole, supportive of integrated reporting. SASB has gained support in the US and has recently expanded its work globally, in part because its standards were already being used by investors outside the US. Investors are also increasingly asking for companies to report against the TCFD. As we call out in the Drivers and Context for Alignment chapter, each framework serves a different purpose, but there is increasing overlap among them.

Our research suggests current best practice is to use GRI standards to guide your sustainability report and to use the <IR> framework for integrated reporting. It is worth noting that good integrated reporting demands more than just putting sustainability and financial reports together; it requires integrated thinking. This mindset can take time to develop, but this should not deter practitioners from starting to shift towards integrated reporting.

Reporting against SASB standards and implementing TCFD recommendations is leadership behavior compatible with the GRI and <IR>. Creating an index against key frameworks that matter to your priority stakeholders is also viewed as a good way to help readers navigate content, and sector-specific frameworks are often especially helpful for investors. Finally, though not a reporting framework, the SDGs have had more and more attention amongst stakeholders who view them as a meta guide for framing and reporting on sustainability strategy and performance, but SDG uptake is not yet widespread among mainstream investors.



Balance the positive and the negative

This is a core principle of most reporting frameworks and increasingly table stakes for any company wanting to be seen as credible on sustainability. Work on accounting for externalities represents a shift towards companies starting to own their role in society. One corporate reporting expert called out: “Most companies have “fluffy” reports. Most companies produce negative externalities, but it’s hard to find a sustainability report that discloses and/or explains them, for example how much plastic from their products is going into the ocean.” Companies should outline how such positive and negative impacts affect the business and wider society. It is important to explain what’s gone wrong and what you have learned from that to apply to your decision-making going forward.

Investors increasingly understand how to interpret these non-financial indicators into their calculations.

“ ”

Monica Batchelder, Sustainability Communication Lead at Hewlett Packard Enterprise

Focus on impacts and point to intersections with financial metrics

We are now at the point where simply disclosing policies and management approaches will not satisfy stakeholders. There is greater scrutiny on the actual outcomes and impacts of companies. Investors seek raw ESG performance information to support their own assessment of the company’s impacts. Monica Batchelder, Sustainability Communication Lead at Hewlett Packard Enterprise explained: “Sustainability indicators are financial indicators. So long as we report on material ESG indicators, rather than broad commitments, investors increasingly understand how to interpret these non-financial indicators into their calculations.”

“First and foremost, it is important for companies to report on activities,” Jeff Hales, Chair of SASB, elaborated. “Financial statements don’t give you a price to pay for the company, just financials. Then individual investors do the analysis. Sustainability reporting is the same; companies report activities and let the market decide if they represent risk and how they may impact the business. Translating such reporting into dollars is analysis, and we don’t all agree on one way to do analysis.” That said, it can be helpful for investors to see the real or projected financial impact of investments on sustainability in addition to the ESG impact data. “Investors are generally interested in integrated indicators that can help show correlations between sustainability performance and financial performance,” Anders Larsen, Sustainability Advisor at Ørsted shared.

Use assurance for increased credibility

Given greater usage by investors, sustainability transparency is being elevated to a similar level of rigor as financial transparency in terms of verification. We repeatedly heard: “Investors want investor-grade data for ESG data.” However, sustainability data at most companies is still less of a priority compared to financial data. Cora Olsen, Global Lead Integrated Reporting at Novo Nordisk, called out that: “Data quality is an area where we need to improve as an industry. You should have the same internal controls and apply the same rigor as you do for financial reporting.” Members in our focus group recommend enlisting the help of both internal and external audit and legal teams to ensure the accuracy of reported data. Jeff Hales from SASB added: “Assurance is valuable. When you know the information is going to be assured, you gather it differently.”

Data quality is an area where we need to improve as an industry.

“ ”

Cora Olsen, Global Lead Integrated Reporting at Novo Nordisk



Case Study: Olam



Communicating a cohesive message aligned around purpose

Olam, a food and agribusiness company headquartered in Singapore, has been publishing integrated reports since 2015 and recently reset its purpose to “Re-imagining Global Agriculture and Food Systems.” The company’s 2018 Integrated Report outlines how sustainability is integral to the business.⁴³

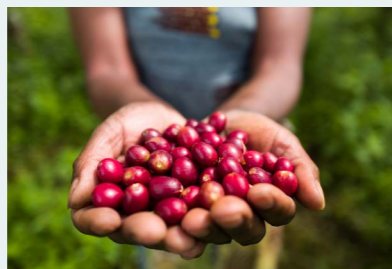
One way it does this is by explaining how its new six-year strategic plan is shaped by key stakeholder trends.

Olam has seen a rise in more explicit links between sustainability and financial indicators from a wide range of stakeholders. “Investors are interested, but so are other institutions like the World Bank,” shared Chris Brown, Vice President, Corporate Responsibility & Sustainability. “Customers and NGO interest in business relevance could also be on the rise. The indicators they request are getting more in-depth and therefore link to business

relevance because you need to show the information is part of your business and publicly disclosed.”

Olam’s integrated report seeks to meet stakeholder expectations in terms of demonstrating impact. Nikki Barber, Group Head of Public Relations advised: “Don’t just list a random bunch of numbers; it’s about providing context in your narrative. What are you doing about these things? You need to bring in a strong link to materiality and the business. Don’t just tell nice stories to shield yourself from the broader questions.”

Its integrated report is the key mechanism to report back to stakeholders on Olam’s business, but Olam also publishes sustainability standards, a GRI report and a website with stories, as well as reporting to CDP, to complement the integrated report.⁴⁴ In addition, it integrates sustainability messaging into its investor roadshow and AGM.



Case Study: Vodacom



Leading the way in integrated reporting in South Africa

South Africa's leadership in integrated reporting is well established. Among South African companies, the telecommunications company Vodacom has received particular praise for its reporting. Its 2018 integrated report achieved a perfect score in a study by Robert Eccles and others on integrated reporting.⁴⁵

The authors gave Vodacom high marks for "materiality, risks and opportunities, strategy and resource allocation, performance, and outlook."

The 2019 Integrated Report was guided by the principles and requirements contained in the International Financial Reporting Standards, the IIRC's International Framework, the King Code on Corporate Governance 2016, the JSE Listing Requirements, the South African Companies Act of 2008 and the GRI.⁴⁶ The report demonstrates a core purpose-led narrative from senior leaders. Chairman of the Board, Phillip Jabulani Moleketi wrote: "[Vodacom's] strategic ambitions are informed by its drive to be a purpose-led company, 'connecting for a better future' by playing a meaningful role in promoting socioeconomic transformation in all its markets. It will do so by delivering on its commitments to promoting digital inclusion, providing innovative digital services, and reducing its environmental impact."

It also explains how it is being responsive to timely stakeholder concerns: "While there are always many different stakeholder interests that we have to deal with, we have prioritized this financial year's four most visible 'hot issues' which we believe have a material bearing on our ability to create value."

Vodacom's transparency is an example of an aligned approach, in which the company produces an investor-focused integrated report while also publishing a supplemental sustainability report for other stakeholders.⁴⁷ The sustainability report overlaps in some core content but explores the company's three sustainability strategy pillars with more storytelling and granular data.



4 Delivery

Companies can better convey their aligned messaging by adjusting the timing, format and channels of communication. We outline some key best practices below.

Synchronize publication dates

One tactic is to time the release date of your sustainability report with your annual report or AGM. For example, Disney releases its CSR update at its AGM.⁴⁸ Our research suggests this is a helpful way to enable shareholders to better integrate ESG information, and we know of investors advocating that companies report sustainability metrics and performance on the same timelines as financial performance. This might also speed up sustainability data collection, review and publication process. Overall, while aligned timing can present challenges, it also offers synergies if leadership reviews it all as part of the same suite of disclosures.

Customize the information

The increasing expectation for more targeted communications suggests customizable websites and downloads are a smart approach. This type of site, that enables stakeholders to “create your own report,” helps to address the issue of materiality to some degree, as readers can curate their own content. As long as companies are clear about which issues are financially material, investors can hone in on performance and strategy on those

issues. See the Shell case study on page 68 for an example of this approach.

Publishing a data scorecard as one way to curate the information was called out by many interviewees as a best practice. Scorecards point stakeholders to those key metrics that matter most to the business. It is increasingly common for companies to create a downloadable scorecard PDF; the Hewlett Packard Enterprise Living Progress Data Summary 2018 is a good example of this.⁴⁹ Some go further and leave such indices in Excel, which makes it even easier for stakeholders to use and manipulate data as they make their own assessments. Most US electric utilities report out key quantitative impacts in the Excel ESG template created by the Edison Electric Institute (EEI), and EEI links to company examples from its website.⁵⁰

Broadcast out to investors

Investors use an ecosystem of sources of information. A baseline best practice is to link to relevant documents from the Investor Relations webpage. “We put links to several of our ESG-focused surveys and reports on our Investor Relations website where investors go to easily access info,” shared Melissa Tominack, Senior Sustainability Coordinator at American Electric Power.

Financial filings are clearly a foundational investor communications channel. Company approaches to integrating sustainability information into these financial documents vary widely. Ceres’ SEC Sustainability Disclosure Search Tool highlights examples of companies mentioning key environmental and social risks in their SEC filings.⁵¹

Best practice is to include language on how the company’s strategy enables the business to address financially material social and environmental risks and opportunities.

ESG information should also be incorporated into investor webcasts. Monica Neufang, Vice President, Enterprise Governance and Policy at Johnson & Johnson, noted: “After we publish our sustainability report we host an investor webcast, creating a stakeholder engagement opportunity. Senior enterprise leaders present on our priority topics, after which we open up the webcast to Q&A. We find this to be a productive way to engage with investors, as it allows us to answer questions that may be on the minds of other investors in a forum where we can collectively respond.” SustainAbility called this practice out in our report *Closing the Sustainability-Investor Relations Gap*, the output of the 2016 SustainAbility Transparency Network research project.⁵²

Be selective with ratings agencies

Compiling information for raters and rankers is an often bemoaned activity by practitioners. We recommend establishing a ratings strategy designed to prioritize which ratings and rankings you will engage with, and to what degree. We suggest focusing on those ratings that your investors use most. Our soon-to-be-published *Rate the Raters* research identified MSCI and Sustainalytics as the sources that investors most value, but it is important to understand your own investors’ usage. Honing in on fewer ratings will enable you to focus on the information that will be most pertinent to you and the end users (investors).

Putting the data these ratings agencies want in your report will also save you time in survey responses. Nikki Barber, Group Head of Public Relations, Olam added: “You need to draw a line on what you can’t do. The key is to signpost to key information. You

You need to draw a line on what you can’t do. The key is to signpost to key information. You can’t respond to everything fully.

“ ”

Nikki Barber, Group Head of Public Relation at Olam

can’t respond to everything fully.” Joe Franses, Vice President of Sustainability at Coca-Cola European Partners elaborated: “Companies need to work hard to tailor sustainability disclosure to the needs of the broader investment community and ensure that they are prioritizing performance data related to material issues and business risks. The days of a long-form sustainability report are over. Now it is all about using owned digital channels to provide full transparency about material risks and being clear about what your business is doing to respond. Perhaps one day we’ll get to a place where questionnaires and rating assessments become obsolete, because companies provide full transparency online, in an easy to access format.”

Do not underestimate the power of direct engagement

Members in our focus group called out the best practice of complementing written communication with direct engagement (e.g. webinars) to make sure stakeholders understand the nuances of the relationship between financial performance and material issues. See the Citi case study on page 69 for their approach to direct engagement.

Case Study: Shell

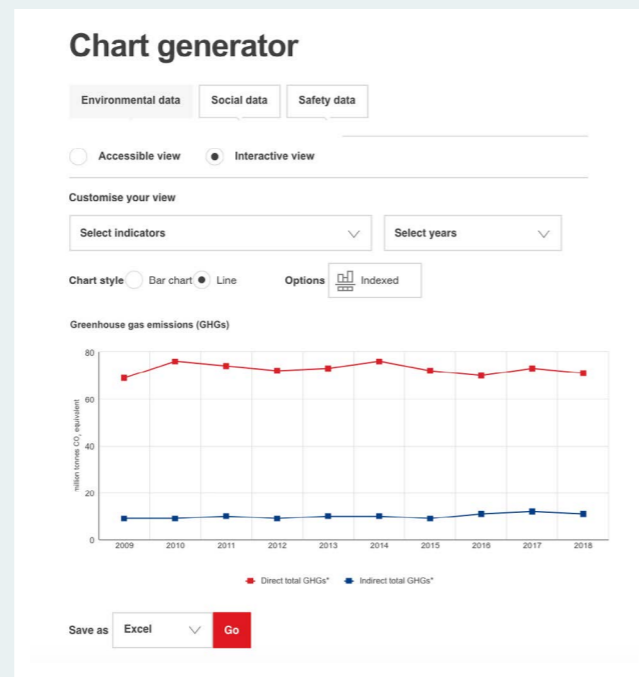


Targeting stakeholders through customizable features and engagement

Royal Dutch Shell has long been a leader in sustainability reporting and communications. The company has developed a comprehensive approach to its disclosures, creating tailored communications for specific audiences.

Shell publishes an annual sustainability report that includes a chart generator, illustrated to the right, that readers can use to sort and review the most relevant environmental, social and safety data. The data can be arranged by year and exported and downloaded in a spreadsheet. On its download page, Shell provides standalone section options, including a GRI Index and Performance Data document to better serve stakeholders interested in specific content. Similarly, Excel data spreadsheets can be downloaded directly for use by investors, raters and rankers looking for detailed data.

Shell also uses its sustainability report as a launching pad for in-person and virtual stakeholder engagement. “Targeted outreach is undertaken to get the final report to stakeholders. It is emailed, promoted on our website, and on social media,” Catherine Aitken, Sustainability Report Delivery Manager at Shell shared in a focus group. The report is also a key resource for our annual responsible investor event held shortly



after publication. Shell also developed an app for its sustainability report, which makes it more accessible for stakeholders viewing it on a mobile device. The report also has interactive elements that can be customized and downloaded depending on the reader’s interests.

Spotlight on: Citi



Evolving reporting and engagement to meet investors’ needs

We spoke with Gawain Patterson, SVP of Corporate Citizenship at Citi, to understand more about Citi’s approach to reaching investors. Below is an abridged version of our interview.

Which key stakeholders are requesting more integration of sustainability and financial disclosures? Investors first and foremost are driving this integration. Investors that have recognized sustainability issues as having long-term impact want those financial impacts disclosed in a format that helps them make better decisions.

How is Citi responding to meet these requests from investors? Citi hasn’t specifically changed its reporting to facilitate these requests, but we are communicating directly with investors. As an example, earlier this year, we held an investor engagement meeting after the publication of Citi’s TCFD report to get feedback on what was included in the report, how they feel about the disclosures and what else they want to see. We also held a number of one-on-one engagements on 12 ESG topics, including sustainability, talent, diversity, compensation and climate risk.

These issues aren’t going away. Interest isn’t either. Being better positioned for the long-term is an advantage.



Gawain Patterson, SVP of Corporate Citizenship at Citi



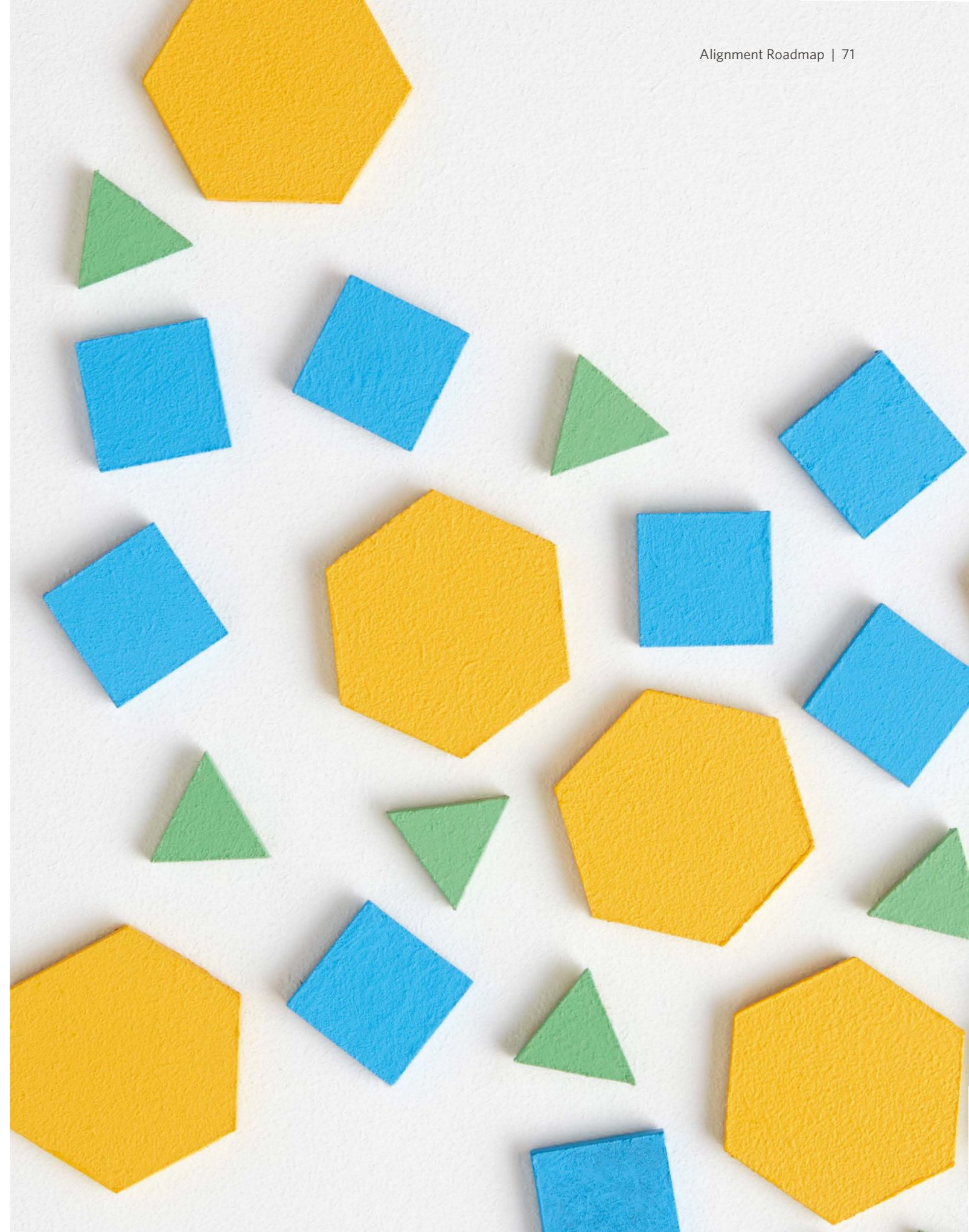
How else is Citi communicating the relevance of sustainability to the business? Every company is struggling with doing this effectively even though we know it's important. It's particularly challenging in service-based industries like ours.

We think about communicating through three main levers:

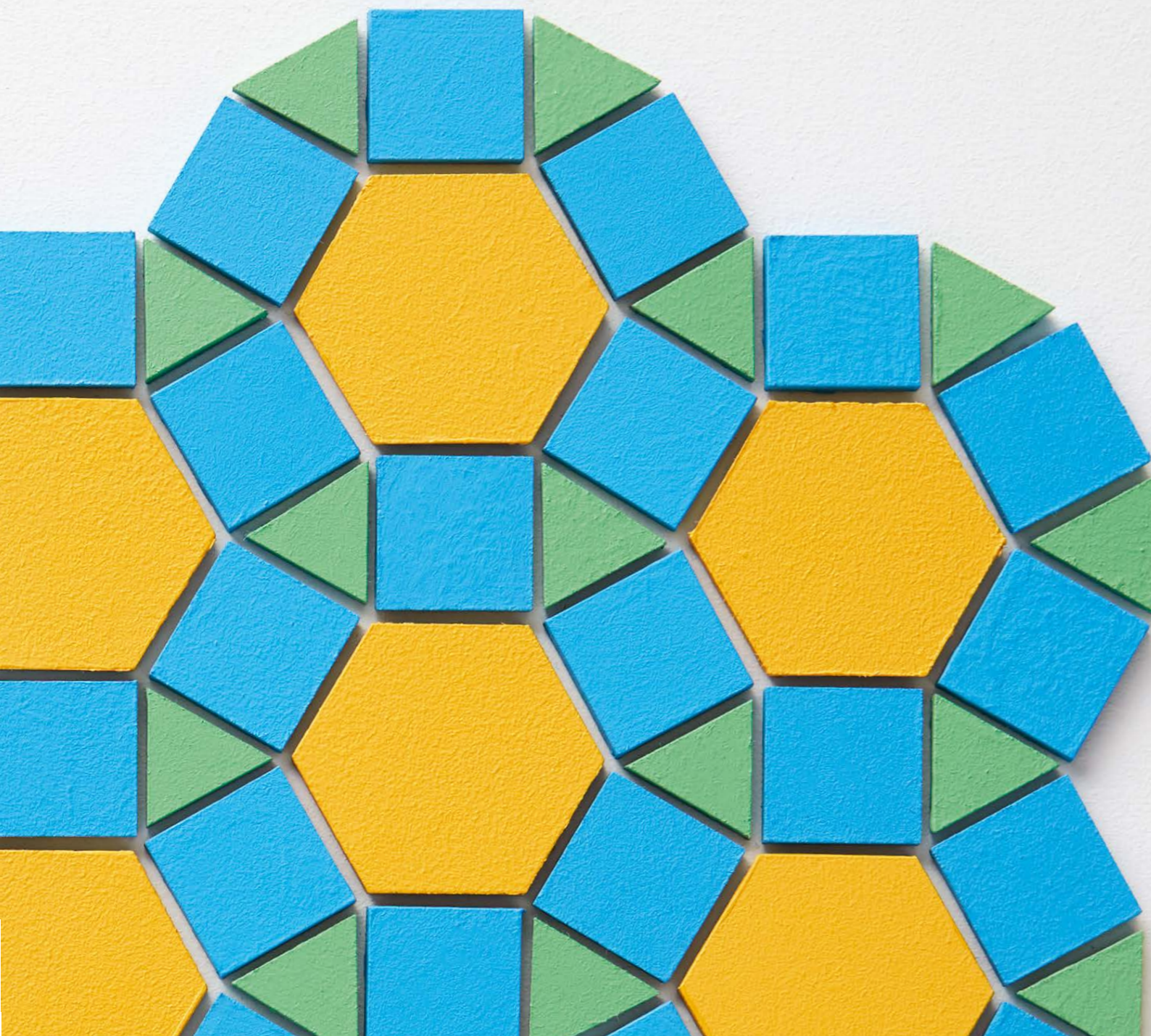
- **Reporting:** We make a concerted effort to not rest on examples of things done well but also the challenges and what we're learning from and what's ahead with a full section to see how issues will change over time.
- **Goal setting:** With Citi's \$100 Billion Environmental Finance Goal, we are able to provide tangible evidence and communicate across business units. Business-centered goals are core to work as a bank.
- **Our corporate voice:** We choose to sign on to certain principles or make certain commitments and statements to reinforce that we believe in these issues and that they matter to our long-term success. For example, we signed onto the Poseidon principles, a sector specific framework for more effective disclosure on climate risk.

What do you perceive to be the advantages of communicating about sustainability in business and/or financial terms? These issues aren't going away. Interest isn't either. Every company has a customer base that is younger and this generation cares about these issues. Not being at the forefront of disclosure and alignment with business activity is a risk. Being better positioned for the long-term is an advantage.

The recommendations we outline in this chapter comprise current best practice, but the field is evolving quickly. In the next chapter, we explore the key trends that are likely to shape corporate transparency in the next several years and the implications for practitioners navigating this space.



6 Future Trends and Conclusion



SustainAbility is heartened to have watched, and done our part to help shape, the mainstreaming of sustainability into business generally and into the financial sector in particular.

The greater recognition of environmental, social and governance issues as fundamental for long-term business value creation is a positive step and has helped build the current demand for greater alignment between sustainability and financial transparency. However, stakeholders still need greater visibility into corporate strategy and performance. As we look out to the next three to five years, we see a range of trends that have implications for the shape of corporate transparency.

Drivers of alignment of financial and sustainability reporting will continue to gain momentum and raise the leadership bar.

We expect government and stock exchange regulation to rise, following the trajectory it has been on for the last several years (see Figure 4 in the appendix). As Anders Larsen, Sustainability Advisor at Ørsted highlighted: “We’re going to see more regulation about how listed companies report. Denmark has a law where companies with more than 500 employees must report. More legislation may come from the EU on corporate meeting of the SDGs.” Corli le Roux, independent sustainability consultant and member of the Integrated Reporting Committee of South Africa Working Group and the GRI Global Sustainability Standards Board, explained: “We also expect increasing regulation of the investment community in terms of how they engage and how they communicate. It’s growing and I think it will create further incentive on corporates as well.”

For now, we can get away with not talking about how sustainability issues affect the company and its financials, but I don’t believe that will still be the case later on.

“ ”

Gawain Patterson, SVP of Corporate Citizenship at Citi

Mainstream investors will continue to integrate ESG into their decision-making, some due to increasing regulation of their businesses and some voluntarily.⁵³ The result will be greater scrutiny of companies’ reporting by investors and others. “For now, we can get away with not talking about how sustainability issues affect the company and its financials, but I don’t believe that will still be the case later on,” Gawain Patterson, SVP of Corporate Citizenship at Citi, shared.



Framework complexity will continue to pose challenges but increasing overlap will help reporters navigate the landscape.

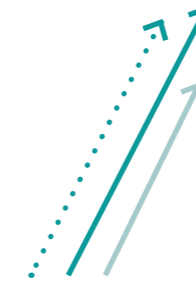
Though the field is messy now in part because there are so many frameworks, we are seeing some harmonization. As one of the newest frameworks, TCFD is being incorporated into others, and the Corporate Reporting Dialogue is pushing for greater alignment between all frameworks. More focus on sectors would help: given investors' desire for comparability, it makes sense to push for consistent data at sector level. Gawain Patterson, SVP Corporate Citizenship at Citi, pointed out the "opportunity for more nuanced, sector-specific disclosures that really hone in on a narrow set of indicators or topics. We'll see if those continue to be developed." We encourage frameworks, standards and ratings agencies to streamline metrics to enable corporate practitioners to focus efforts on fewer metrics and reduce the burden of transparency efforts.

Climate and diversity & inclusion will be early issues to mature but others will follow.

Climate has been at the forefront of corporate and investor focus due to the scale and the risks it presents to our economy – and to the wider society and planet. It will continue on its trajectory of integration into business decisions, with stakeholders expecting climate impacts and plans to be disclosed; this will encompass non-financial and financial implications. Regulations at the regional and global levels related to climate change disclosure have increased substantially in the last 10 years and will likely continue this upwards trend. We are encouraged to see the uptake of TCFD as one of many mechanisms to address corporate transparency and action on this issue.

90%

Climate change-related disclosures have increased 90% between 2000 and 2019



See appendix (Figure 4) for full results

Though climate has garnered most attention, other issues are gaining ground. Diversity & inclusion, from the boardroom to all levels of corporations, will be in the spotlight due to the growing evidence of its impacts on business performance, how greater diversity & inclusion improves decision making and drives innovation. Other issues that are likely to gain momentum are health & safety (which is broadening to a notion of overall worker wellbeing), human rights, employee engagement and water.

It's challenging when everyone has different endpoints and definitions of what "good" is... There should be greater clarity around what is good: to define it and then hold people accountable.

“ ”

Corporate interviewee

Greater emphasis on context and impact will raise expectations for corporate transparency.

The IPCC's *Global Warming of 1.5 °C* report establishes the benchmark – a universal bar against which to measure companies' climate impacts – however, most other sustainability issue thresholds have not been set.⁵⁴ One corporate interviewee pointed out: "It's challenging when everyone has different endpoints and definitions of what 'good' is. Stakeholders then don't understand what needs to be done or who is doing a good job. There should be greater clarity around what is good: to define it and then hold people accountable." A greater focus on impact demands the lens of context to understand the significance of that impact.

Potential benchmarks are emerging. Future-Fit Business Benchmark (see page 20) offers social and environmental "break-even" goals that describe what "business must eventually reach to ensure it protects people and the planet," is a step in the right direction, but it not yet near mainstream.⁵⁵ Demonstrating more traction to date, the SDGs provide an agreed-upon context of sustainable development that companies can use to assess business models against. Though it will take time, greater consensus of what "good" looks like will come, partly through better data and multi-stakeholder collaborations. More information on impact, externalities and context will be challenging for practitioners to deliver but necessary for stakeholders to understand how the business model delivers value in the broadest meaning of the word.



Assurance of data and even qualitative information in sustainability reporting will become the norm.

As sustainability information becomes further aligned and embedded within financial transparency, it will be expected to present it with the same rigor as financial transparency. As a result, wider third-party verification will become table stakes for credibility. Beth Wyke, North American Business Lead for Corporate Assurance at ERM CVS, predicts that not only will use of assurance increase, it will expand in its depth – from limited assurance, which uses analytical work and limited site sampling, to reasonable assurance that requires extensive detailed sampling. Third-party verification is helpful for internal credibility as well, which will further drive companies to assurance. “Rigor needs to be matched through verification... You need a level of assurance to drive the right behaviors and standards internally, and build your communications externally,” shared Nikki Barber, Group Head of Public Relations at Olam.

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“ ”

Nikki Barber, Group Head of Public Relations at Olam

Technology will play a critical role in data collection and analysis.

Technologies including artificial intelligence (AI) platforms will revolutionize the way sustainability reporting is reviewed and compiled. This could help streamline the processes companies use to collect certain kinds of data. With the rise of big data and the Internet of Things, companies may be able to, for example, feed their energy data directly and in real-time into energy management systems. Systems like blockchain will also make it possible for companies to track sustainability data related to their supply chain, potentially expanding the scope of performance metrics that can be collected and reported. Al Naqvi of the American Institute of Artificial Intelligence notes that AI could be used to provide “accurate and multi-dimensional performance measures that not only measure the performance of the program against management or regulatory standards but also against global standards (e.g. pollution levels) by dynamically monitoring and tracking emerging global changes.”⁵⁶

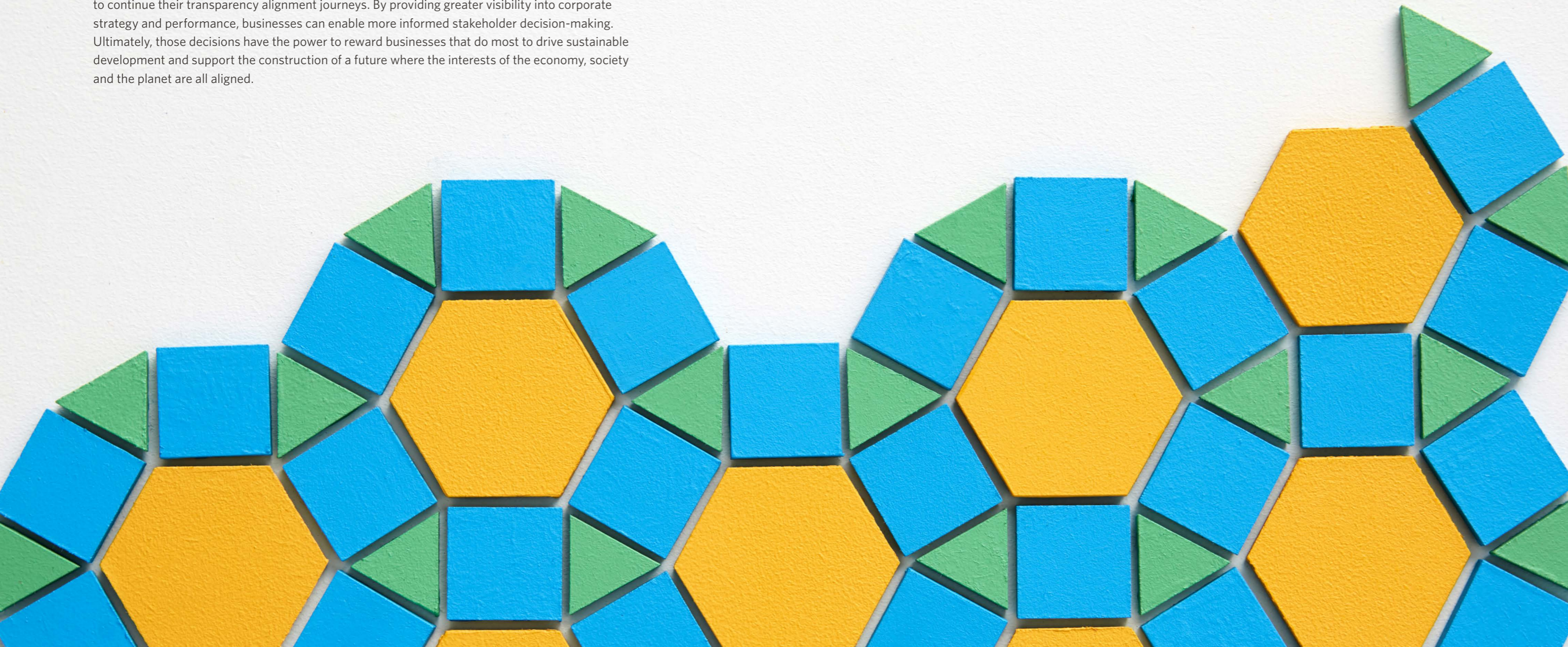
Framework entities and ratings and ranking agencies are investigating options for data analysis to be more automated, and this trend will increase as these technologies become more accessible, affordable and viable. One example of this is the Integrated Report Generator Tool “that will use natural language processing and artificial intelligence technologies to produce an integrated report for any listed company in the world” that would then become publicly available.⁵⁷

Conclusion

We are at an exciting inflection point in corporate transparency efforts. Many of us in the sustainability field have been calling for greater alignment between sustainability and financial transparency for years.

The rise in stakeholder interest, especially investors, in such alignment has provided a strong spur for companies to more clearly communicate business purpose and how it creates long-term value across all their communication channels.

SustainAbility is encouraged by the progress made by leaders and encourages all companies to continue their transparency alignment journeys. By providing greater visibility into corporate strategy and performance, businesses can enable more informed stakeholder decision-making. Ultimately, those decisions have the power to reward businesses that do most to drive sustainable development and support the construction of a future where the interests of the economy, society and the planet are all aligned.



Acknowledgements

This report was developed with support from the members of the SustainAbility Transparency Network (STN). SustainAbility has convened this group of global companies for over two decades to explore how transparency, stakeholder engagement and integration accelerate progress towards a more sustainable future.

A key benefit of the network is access to our annual research output, developed to be of greatest relevance to their roles as sustainability practitioners. Members contributed to the research by selecting the topic and by sharing ideas through interviews, focus groups and ongoing discussions with team members at SustainAbility.

We would like to thank our SustainAbility Transparency Network members for their time and insights and for raising important questions about the challenge of aligning sustainability and financial transparency. We could not have created this report without your input, and support as members of the Network.

We would also like to thank the many individuals who helped create this report. SustainAbility's 2019 STN intern, Marly Isler, conducted valuable desk research, supported interviews and contributed to the analysis. Other SustainAbility Transparency Network team members - Erika Petroy, Denise Delaney, Nick Jackson - offered valuable input into the research approach and writing. SustainAbility's Executive Director Mark Lee provided much needed guidance and thought leadership throughout the research and writing process. We would also like to note our appreciation of Mike Krzus for his review and thoughtful feedback. Thanks must also go to Wolf&Player for its expert design and layout of the final publication.

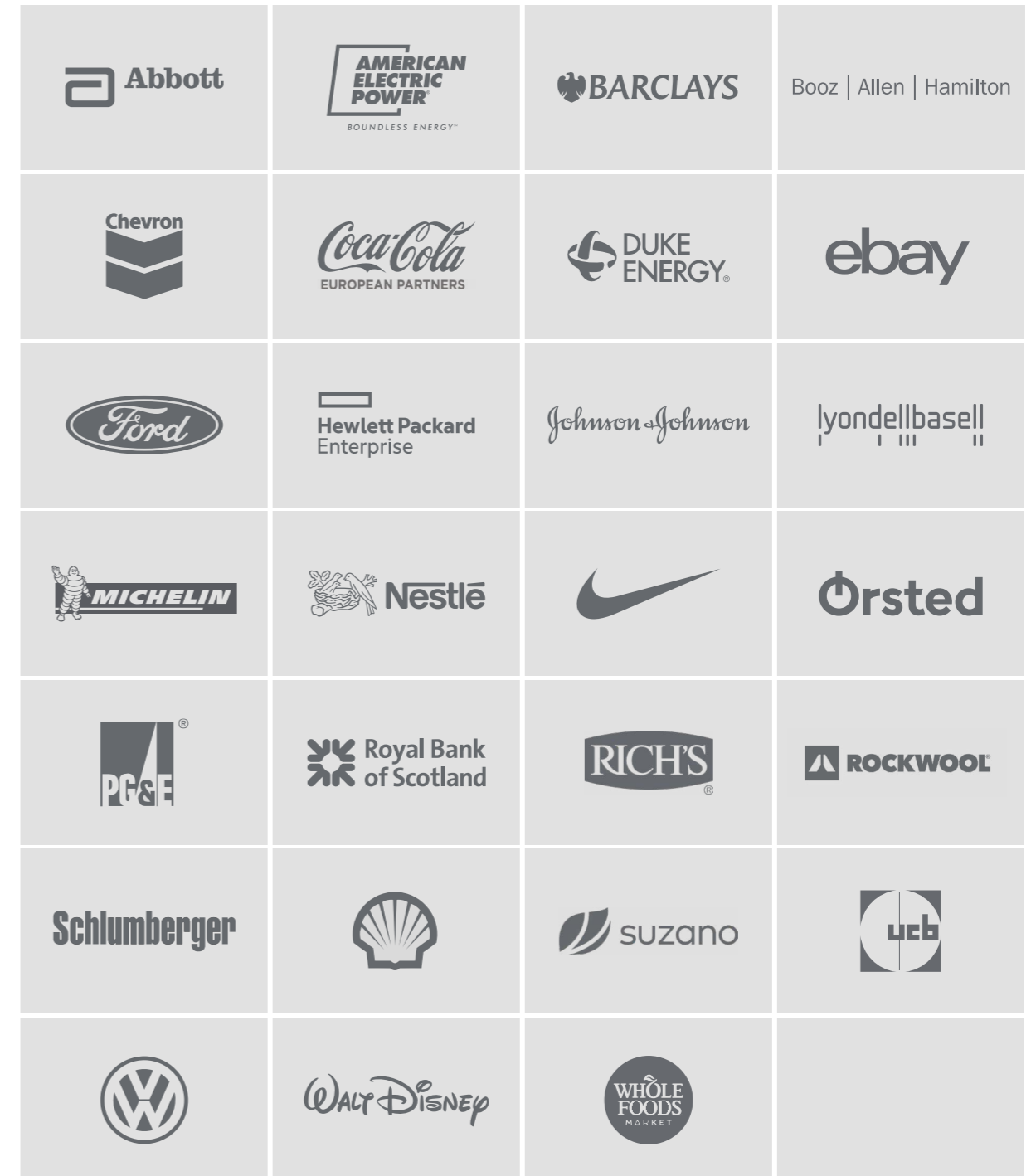
Many other organizations helped inform our thinking on this topic. We would like to thank all the interviewees. We appreciate you sharing your time, insights and experience with us as we conducted research for this report.

Interviewees:

- | | | | |
|------------------------------|-----------------------------|-----------------------|-----------------------------|
| American Electric Power* | ERM Assurance | Nike* | Travelers Companies |
| Bloomberg | Fashion Revolution | Novo Nordisk | Valuing Nature |
| BNP Paribas | GlobeScan | Olam | Volkswagen* |
| Coca-Cola European Partners* | Hewlett Packard Enterprise* | Ørsted* | World Benchmarking Alliance |
| Ceres | Impact Management Project | Said Business | WWF |
| Citi | Johnson & Johnson* | School, University of | |
| Corli le Roux | LyondellBasell* | Oxford | |
| Eco-Business | Micron | SASB, Georgia Tech | |
| Edison Electric Institute | Nestlé* | Suzano* | |

* Denotes member of the SustainAbility Transparency Network

SustainAbility Transparency Network Members



Appendix

Results

Figure 1
Framework and rating mentions over time

Source: Datamaran

Graph shows the mentions of frameworks and ratings in sustainability and annual reporting over time. It counts one mention per report. The scope is global.

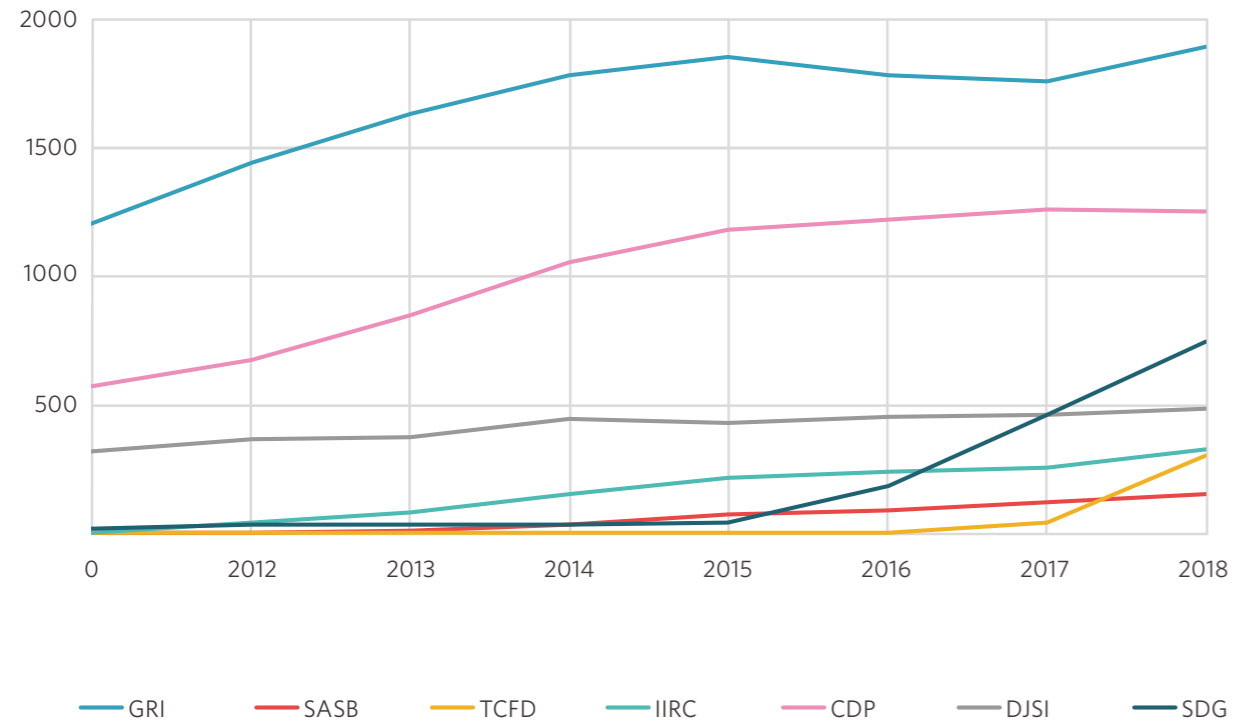


Figure 2
Non-financial accounting regulations on the rise

Source: Datamaran

Non-financial accounting definition: "References to the systematic recording, reporting and analysis of business transactions beyond financial issues, e.g. externalities inclusion, true costing, Global Reporting Initiative."

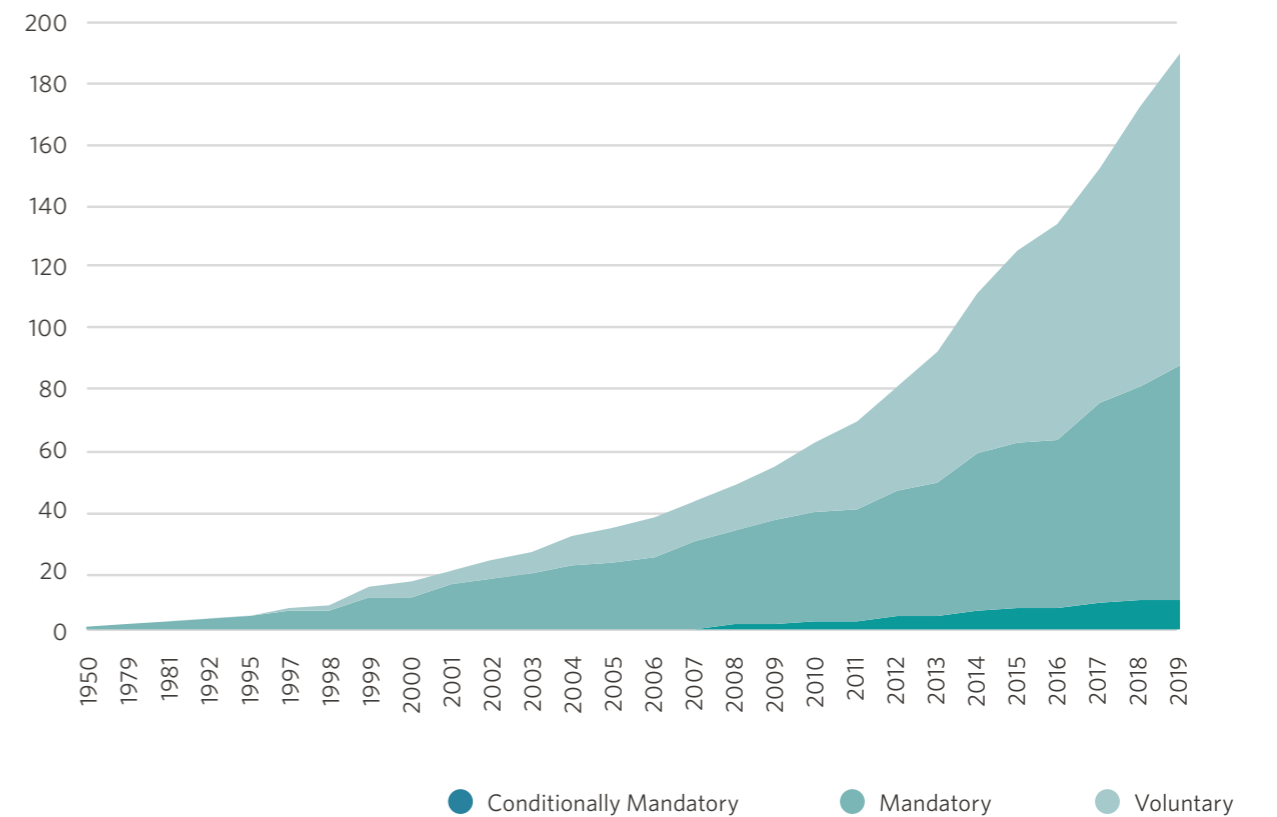


Figure 3
Use of financial terms in non-financial reporting is increasing

Source: Datamaran

Standard business and finance-related terms are becoming more prevalent in non-financial reporting. The chart below tracks one mention of the common business terms in non-financial reporting over time.

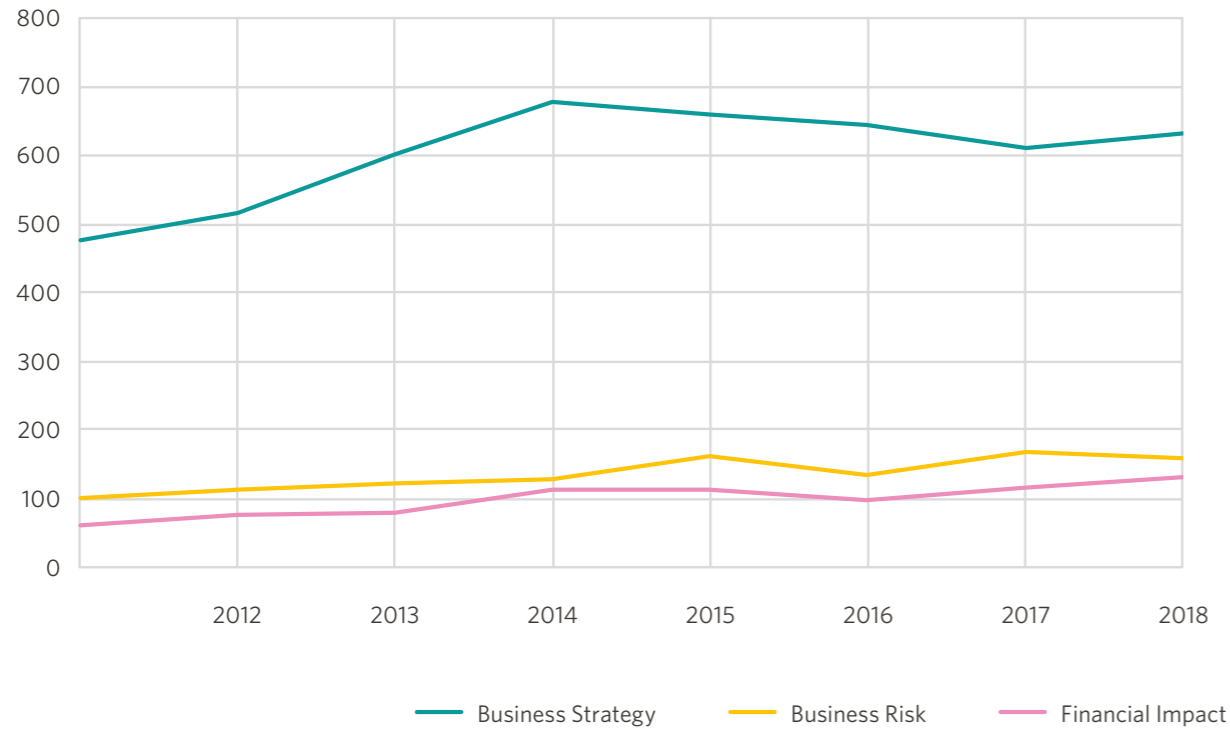
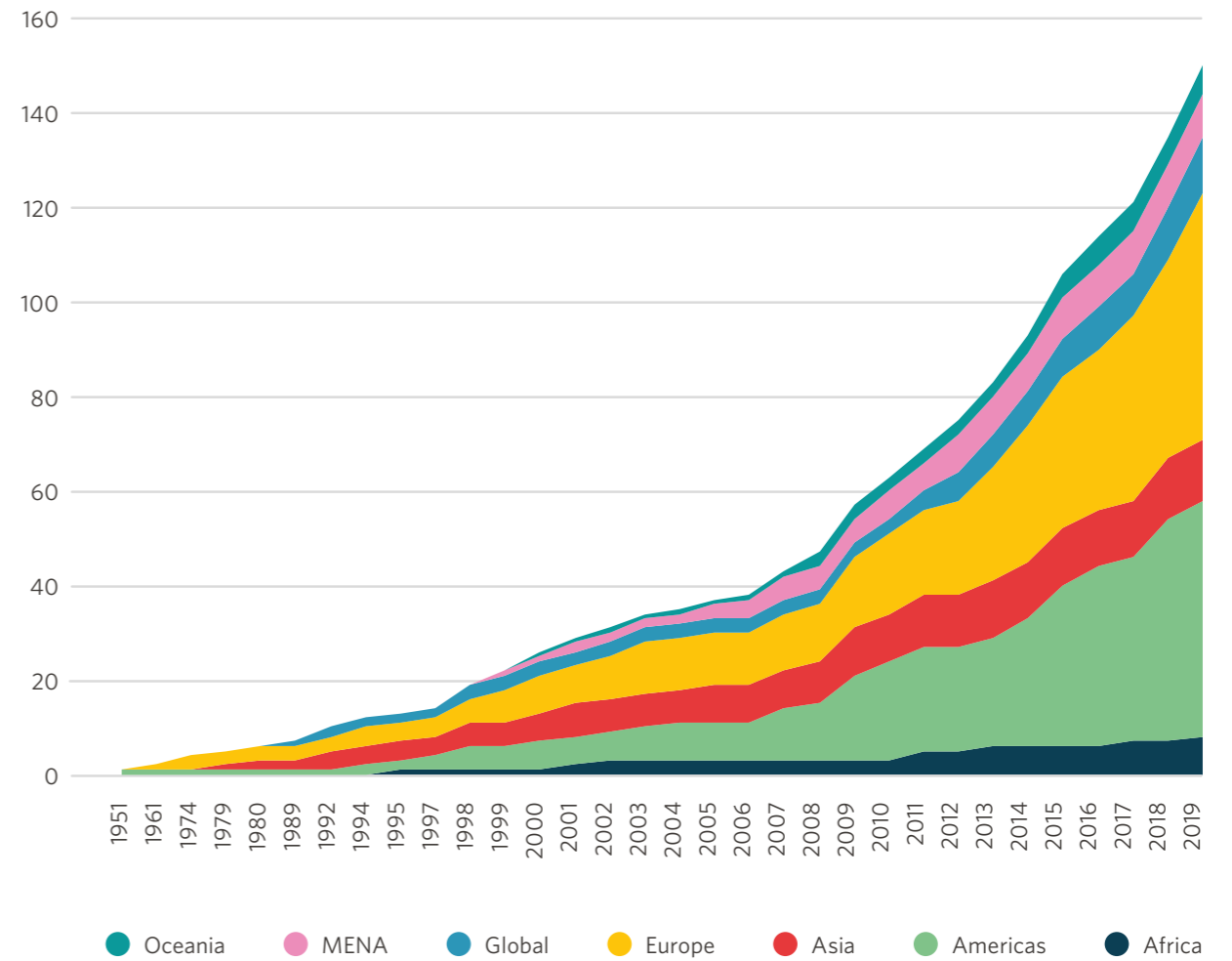


Figure 4
Climate-related disclosures on the rise

Source: Datamaran

Climate change and GHG regulations are increasing over time by region. Climate Change definition: References to human induced changes in the distribution of weather patterns. E.g. climate events, sea level changes, glacier retreat.

GHG definition: References to gases trapping heat in the atmosphere causing a rise in global temperature (greenhouse effect). E.g. CO2, carbon measurement systems, carbon capture systems.



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Publication details

Title

The Art of Alignment: Sustainability & Financial Transparency

Publication Date

December 2019

Publishers

SustainAbility Ltd.

Design

Wolf&Player

Photography

MRWash Photo

SustainAbility is a think tank and strategic advisory firm that for over 25 years has catalyzed and supported business leadership on sustainability. Through our agenda- setting research and advocacy, we chart new territory and help business leaders and their stakeholders understand what's next. Through our advisory services, we help clients anticipate trends, understand and respond to key risks and opportunities, and foster authentic, effective engagement and collaboration with stakeholders.

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