

A Practitioner's View of Sustainability Reporting: Challenges and Solutions

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Introduction

Sustainability reporting practitioners possess excellent insights into the challenges faced when writing sustainability reports and other sustainability disclosures. They navigate the complex mix of reporting standards, meet the needs of a diverse range of report users, tell the company's sustainability story, and use the power of reporting to help improve company performance. Along the way, they learn many lessons in how to do this effectively.

BSR's Future of Reporting Collaborative Initiative is a group of companies that share reporting best practices with each other and use these insights to inform the future of sustainability reporting. The work of the group is based on the premise that the insights of reporting practitioners can enhance the quality of sustainability reporting in the future, especially by improving the usefulness of sustainability reporting for decision-makers and increasing the link between sustainability reporting and performance.

Sustainability reporting has been disrupted in two important ways over the past decade, and these changes are only likely to accelerate further over the coming decade.

- » An abundance of disruptive technologies and new communications platforms has massively increased expectations for what, how, and when companies report.
- » The strengthening of expertise on a wide range of sustainability topics—from climate change and human rights to privacy and labor standards—has significantly increased expectations for the level of detail and sophistication provided by companies in their reports.

These disruptions are especially challenging for sustainability reporting because they run counter to the prevailing view that companies also need to focus on the sustainability issues that matter the most and reduce the length of sustainability reports.

In 2016, BSR published our [Triangles, Numbers, and Narratives](#) report to help the reporting field navigate evolving reporting standards, trends, and expectations. The report proposed a triangular framework to provide a structure for how all the various reporting frameworks fit together, with succinct narrative at the top and detailed issue-specific disclosure at the bottom. This briefing document supplements our Triangles, Numbers, and Narrative report with insights gained from meetings of BSR's Future of Reporting collaborative initiative during 2017.

The opinions expressed here are those of BSR. While informed by the Future of Reporting group's work, this briefing does not necessarily represent the opinion of the group's member companies.

Challenges and Solutions

MULTIPLE REPORTING FRAMEWORKS

The Challenge: Standards and frameworks play an essential and positive role by substantially increasing the quality and decision-usefulness of reports. However, while each reporting framework has its own purpose and rationale, multiple reporting frameworks can appear confusing and conflicting. This proliferation can complicate the reporting field, especially given their varying or conflicting metrics, definitions, and priorities. Practitioners struggle to reconcile this fragmentation with an aspiration to increase the comparability and efficiency of reporting.

The Solution: Each reporting standard serves a distinct purpose, and efforts such as the Corporate Reporting Dialogue have done an effective job of establishing clarity on these differences and the rationale for multiple frameworks. For this reason, we do not believe that a single unified standard is a desirable or practical solution. Instead, we believe that the top priorities over the next five years are two-fold: first, to understand in practical terms how the different standards can be used together in combination, and secondly, to undertake a substantial harmonization of disclosures, metrics, and indicators. Collaboration between reporting practitioners and standards organizations in a process of metrics harmonization and will help ensure that reporting standards evolve in ways that both simplify the reporting process and support the creation of decision-useful reports.

VOLUME OF RATINGS AND RANKINGS

The Challenge: Companies receive many requests for information from individual ratings and rankings organizations. This poses four main difficulties for sustainability reporting practitioners:

1. Practitioners receive and respond to requests for information that may not be material to investors or the company's impact on sustainability.
2. Practitioners fear that material information may be selectively disclosed to some investors and not others.
3. The volume of time spent responding to requests limits practitioner's capacity to implement and advance their company's sustainability strategy.

4. Practitioners are challenged to assess the credibility, significance, and value of disclosing to various ratings and rankings organizations.

The Solution: The long-term goal of the sustainability reporting field should be a model whereby company sustainability disclosures provide all the information necessary for raters and rankers to undertake their research, making separate questionnaires unnecessary. Further communications should be informed by these disclosures and follow the same procedures as discussions with investors about financial performance and business strategy. In the meantime, sustainability reporting practitioners can help move the field in this direction by comparing information requests against their existing sustainability disclosures and evolving their report content accordingly. Practitioners can also decide which information requests and organizations merit response, and which should be redirected to the company's existing sustainability disclosures.

MULTIPLE TARGET AUDIENCES

The Challenge: While financial reports (such as Form 10-Ks) have investors as their sole audience, sustainability reports cater to multiple target audiences with varying expectations for what a company should report. Practitioners are increasingly aware of a need to tailor sustainability reports to their target audiences, but remain challenged to develop reports that provide their diverse set of stakeholders with the "right" disclosures to inform the "right" decisions.

The Solution: We can relinquish the notion that the sustainability report is a universal document that will satisfy all stakeholders all the time. Instead, companies can segment audiences by broad categories (e.g. investors, employees, civil society) or by issue priorities (e.g. privacy, human rights, climate) to create reports that serve different audiences. We are already seeing that trend on topics such as supply chain, human rights, privacy, and freedom of expression, which are all subject to a growing number of issue-specific reports issued by companies.

In addition, companies can more clearly distinguish between reporting, communications, and stakeholder engagement. While formal reports serve an important purpose as an annual "moment in time" review of strategy and performance, companies can develop communication and engagement plans that meet additional information needs or company objectives outside of the reporting cycle. Developing an "editorial calendar" for engagement will allow practitioners to place the sustainability report within a broader stakeholder engagement and communication strategy.

INCREASING DEPTH OF EXPERTISE

The Challenge: Reporting practitioners are tasked with the difficult role of producing sustainability reports that disclose company information across various issues and geographies for stakeholders of varying issue expertise. The strengthening of expertise on a wide range of sustainability topics—everything from climate change to human rights, and privacy to labor standards—has significantly increased expectations for the level of detail and sophistication provided by companies in their communications. Reporting practitioners are challenged to balance this demand for depth with a competing interest in simplifying their reports.

The Solution: Companies can segment their disclosures and audiences to provide issue-specific detailed analysis in a separate document from the annual sustainability report, often using reporting standards tailored to the issue. Existing examples include the UNGPs Reporting Framework on Human Rights, the CDP climate change disclosures, and the Open Technology Institute on privacy. Companies can compile these different issue

specific reports together into one “transparency hub”—though at the top level, it remains important to communicate the connectivity between issues and reports.

DIFFERING DEFINITIONS OF MATERIALITY

The Challenge: According to the U.S. Supreme Court, information is deemed material if there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.” However, using the term “materiality” in the context of sustainability reporting and identification of issues relevant to stakeholders beyond investors can cause confusion within companies. Many object to using the term “materiality” in the context of sustainability reporting.

The Solution: The substance of the materiality principle in sustainability reporting matters more than the term that is used. Companies can use other terms—such as relevance or prioritization—in the context of sustainability reporting targeted at non-investor audiences.

SUSTAINABILITY REPORTING STRATEGY

The Challenge: Reporting standards, ratings and rankings, and in-bound stakeholder requests all serve to motivate changes in a company’s reporting and business practices. However, the multitude of demands can result in reactive and tactical, rather than strategic, approaches to sustainability reporting.

The Solution: Companies can develop multi-year reporting strategies that enable a more proactive approach to new stakeholder demands, reporting frameworks, and revised standards and encompass the various items contained in this paper. These multi-year strategies can be accompanied by a summary of the business rationale for reporting and internal education on the value of given frameworks, standards, and ratings/ranking organizations. Key content for a multi-year strategy can include: aligning target audiences with content; defining which content should reside inside formal reports and which should be located elsewhere; deciding how emerging reporting frameworks (such as the Task Force on Climate Related Financial Disclosure) will be applied; and/or selecting topics on which to increase disclosure over time.

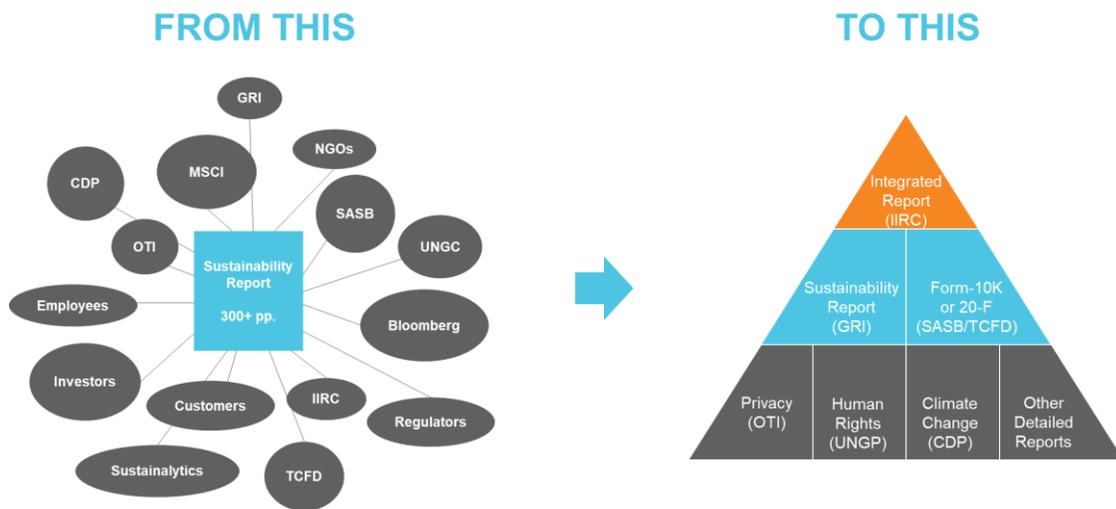
Conclusion

The sustainability reporting field has made huge leaps over the past decade, including substantial improvements to reporting frameworks and standards, new entrants into the sustainability reporting ecosystem, massively increased transparency on sustainability issues, and new technologies for communication and engagement.

We believe the next generation of sustainability reporting will arise from the application of the lessons learned and solutions proposed by experienced reporting practitioners and summarized in this briefing.

The Future of Reporting

FROM THIS	TO THIS
Multiple conflicting reporting frameworks using similar but different metrics	Multiple reporting frameworks using harmonized metrics
Large volume of questionnaires from raters and rankers	Raters and rankers using publicly reporting information as their main information source
All sustainability information packed into a single large sustainability report	A succinct sustainability report with additional disclosures targeted at specific audiences
Multiple uses of the term “materiality”	Use the term “relevance” in the context of sustainability reporting not targeted at investors
Never-ending reporting cycles	Multi-year reporting strategies



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