

Enable

Catalyze systemic progress by building mutually beneficial relationships and collaborating with stakeholders and partners across the entire value chain.



ENGAGEMENT AND COLLABORATION

Mutually beneficial relationships exist with stakeholders and systemic challenges are addressed through collaboration with others.



REPORTING AND DISCLOSURE

Company disclosures provide decision-useful sustainability information for shareholders and other stakeholders.

Engagement and Collaboration

Stakeholder engagement needs an overhaul. The practice of stakeholder engagement emerged to help companies build greater trust with societal groups that might negatively affect the delivery and success of their business strategies in a material way.



STOP

Viewing stakeholder engagement primarily as a means to improve company reputation

Restricting external stakeholder engagement to large organizations and “usual suspects”

Treating stakeholder engagement as a one-time activity

INNOVATE

Take a systems-thinking approach to capture more diverse and emergent voices and understand emerging issues, conversations, and networks

Develop stakeholder relationships that support company strategy

Use stakeholder relationships as a source of innovation

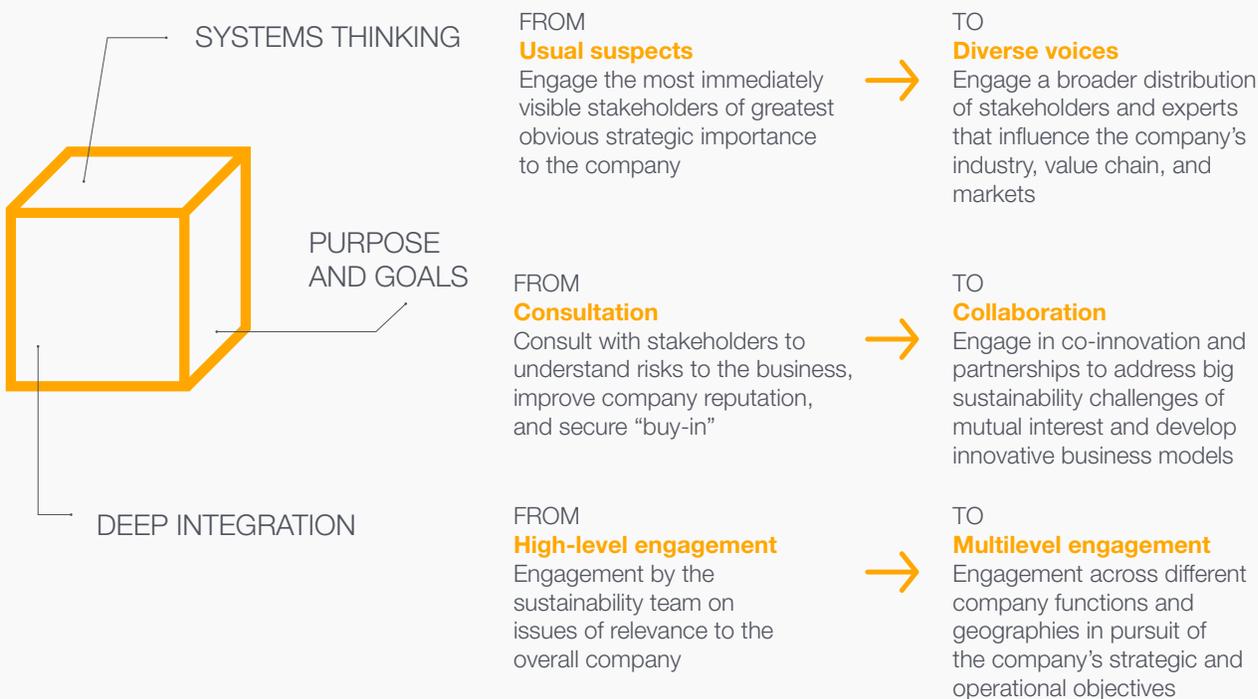
All too often stakeholder engagement remains a limited reputational risk exercise that misses opportunities to support resilient business strategy.

We believe it is time for an approach where stakeholder engagement practices are fully equipped to support all aspects of company strategy and operations and enable meaningful interaction with a rapidly changing external environment. We believe that innovation in stakeholder engagement offers the potential to integrate new ideas into business strategy, enable the business opportunities of the future, and support the development of more inclusive societies.

Implementing this new approach will see stakeholder engagement become a critical component of corporate value and the creation of resilient business strategies, rather than a tool to manage reputational risk and avoid crises. This will lead to fundamentally new thinking about how to structure organizations, drive innovation, and measure value.

We believe that effective stakeholder engagement will require innovation in three main areas: using systems-based approaches that capture more diverse voices; altering the purpose of engagement from consultation to collaboration; and reforming internal company engagement mechanisms to ensure that stakeholder perspectives support business strategy.

Three Dimensions of Innovation in Stakeholder Engagement



Systems Thinking

Companies that wish to anticipate changes in the business environment and ensure that they are wellpositioned to succeed can take a systems approach to stakeholder engagement. Deploying systems thinking requires looking at all actors, including commercial actors (such as suppliers, business partners, and customers) and noncommercial actors (such as governments, communities, and users), and considering their relationships with each other.

This means moving beyond the dominant model of conducting focused and time-bound consultations with the companies' most direct and visible stakeholders and acknowledging that in today's disrupted environment, civil society organizations alone do not provide full insight into stakeholder needs and expectations.

Systems thinking involves purposefully analyzing the broader environment in which the company operates, with an understanding that the company is just one actor in a wider social system that is linked to, and dependent on, external actors. This thinking can enable companies to look beyond short-term solutions and toward root causes, adapt to a more complex and hyper-connected environment, and collaborate for

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large-scale change. Given substantive progress in the availability of big data and artificial intelligence tools, understanding and mapping a wider system of relationships is now achievable, enabling companies to map emerging conversations and networks and act on their findings.

A systems-thinking approach means gathering diverse and sometimes conflicting perspectives from a wider range of stakeholders who influence the sector and company through their actions, opinions, and decisions. As one interviewee said, “I’m a big believer in the age of unlikely alliances and talking to people we don’t usually talk to. There is a herd mentality within organizations, and it’s really important to be exposed to people who disagree with you.” Another interviewee noted, “We live in a world of peer-to-peer activity, of emergent voices, and of pop-up coalitions. To understand how the world around us will impact our business in the future, it is essential that we move beyond the usual suspects we already know and discover new perspectives.”

At a practical level, companies can use systems thinking by conducting network analysis to understand a broader and more diverse range of groups and identify key connections, influencers,

partners, and adversaries. This can enable much deeper insight into emerging strategic, political, and economic risks and opportunities and enable the company to more easily engage with a broader range of issues and organizations. Rather than thinking about the immediate impacts of a company, project, or operation, it enables a forward-looking consideration of how different forces and interests might intersect and evolve over time. It can also help companies move out of a cycle of responding to concerns from activists and instead proactively shape their agenda with engagement on the issues of most material importance. By viewing engagement as both broader and deeper than messaging and communication, companies are in a far better position to shape the public narrative and share their concerns and challenges.

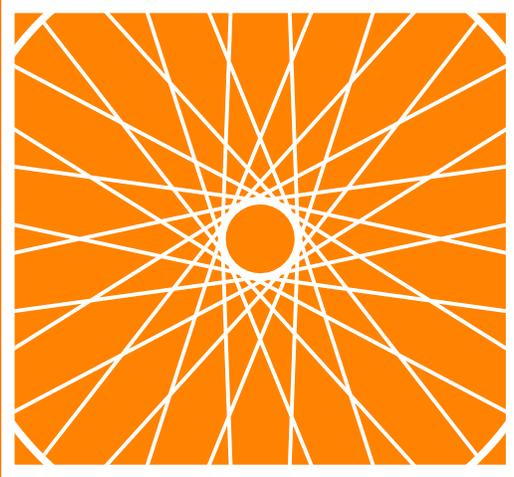
To take one example, mining companies are assembling independent coalitions of government and civil society actors to make decisions on social investments. This can be an effective way to involve all relevant actors with a view toward understanding the relationships between them, and not only with the company, resulting in less community conflict and more impact.

Purpose and Goals of Stakeholder Engagement

Over recent years the sophistication of stakeholder engagement by companies has grown. Robust frameworks are increasingly deployed to identify and prioritize groups and individuals, examine their relevance, expertise, and influence, and assess the degree to which they take a combative or collaborative approach to working with business.⁹

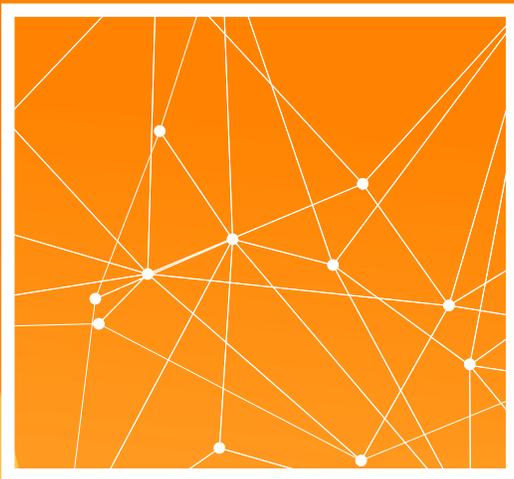
However, it is striking how often stakeholder engagement is undertaken by companies because they have a sense that they should, rather than with a clear goal in mind—or to manage reputation, rather than to create value. Too often companies still rely on approaches that have been, to a degree, disintermediated by new technologies and societal norms. Stakeholder

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Spoke-and-Wheel

This approach, which puts the company at the center as the “spoke,” can be characterized by primarily focused and time-bound consultations with the companies’ most direct and visible stakeholders, who are seen and engaged through the lens of their relationship to the company, as opposed to in relation to the broader ecosystem.



Systems Thinking

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engagement has not gone digital to the same degree the rest of business has.

We believe that companies would benefit from infusing their stakeholder engagement activities with much clearer direction. This might include:

Collaboration for systemic change: We have witnessed an increase in the number and scale of initiatives designed to address systemic societal challenges as diverse as sustainable palm oil, freedom of expression, and climate change. These collaborations build long-lasting relationships with trusted partners and often result in the most durable approaches to global challenges. We expect their impact and prevalence to grow. As one interviewee bluntly told us, “It’s the system, stupid.”

While collaboration is the only option for companies that wish to address challenges they cannot solve alone, collaboration is difficult, time consuming, and resource intensive. Many collaborations fail because organizations either are unable to commit the time of senior decision-makers or because the issue is not compelling enough to keep all stakeholders at the table. While the goals of collaborations will vary, success factors, in our experience, include a clearly defined purpose, working with the right stakeholders in the right roles, and governance and accountability.

Product and service development: When companies integrate the needs of traditionally disadvantaged or excluded groups in society into the process for designing products and services, they can also generate business benefits, such as market access, innovation, and workforce engagement. Similarly, efforts by governments, civil society organizations, and companies to advance the SDGs may provide massive new revenue growth opportunities for business. Companies would be well-served by including key stakeholders and beneficiaries when exploring how new product, service, and technology innovations can help achieve the SDGs. This kind of thinking also can transform stakeholder engagement from a reputational risk exercise to a tool for business value.

As one interviewee explained, “We have radical inclusivity in mind as we develop our company’s strategy and use radical inclusivity to be ahead of our time. We can build products and business models that truly service the poorest of the poor and work successfully in low- and middle-income countries.” However, there is no reason why such inclusive approaches should be limited to consumer-facing companies in emerging markets. Inclusive product and service development processes can be just as valuable in business-to-business settings in developed markets as well. One interviewee in a business-to-business company said, “We need to harness stakeholder engagement for value creation, and make a strategic link between stakeholder engagement and market-based needs. We provide solutions, so we need to ask, what is it going to take to solve their problem?”

Identify emerging issues: We believe a core role of the sustainability function is to anticipate emerging issues (sometimes called “weak signals”) and to consider the long-term future and business model of the company. Identifying stakeholders who are developing expertise and impact in new and emerging fields is essential and can help the company drive innovation and reach new markets. Moreover, understanding the relationships that stakeholders have with each other can provide the ability to anticipate emerging risks so that the company is not caught out and driven into crisis-response mode. This requires that companies engage beyond the usual suspects and deploy approaches based on futures thinking. By deliberately seeking diverse perspectives and emerging ideas, companies can ensure they don’t fall prey to organizational groupthink, conformity, and caution. These ideas can challenge company leadership and enable innovation. As new technologies emerge to map conversations, networks, and ideas, gathering these insights is becoming more achievable, but it still requires effort and commitment from the organization.

We believe that stakeholder engagement should not be considered the sole preserve of the sustainability function.

Deep Integration

We believe that stakeholder engagement should not be considered the sole preserve of the sustainability function. Through consideration of the sustainability priorities and needs of different functions, companies can enable innovative thinking across the company. This involves a more deliberate approach to stakeholder engagement deeper inside the business, and ensuring that a wider range of company leaders and functions are directly involved.

As one interviewee explained, “We have to be looking at signals in the external world on a long-term basis. But to achieve this, we need to build mechanisms inside our company to internalize external signals.” Another interviewee noted, “Planning for external signals has to be something that people live on an ongoing basis, and this can be accomplished by empowering people to take ideas from the outside and bring them to management.”

For example, a company that thinks holistically about stakeholder engagement will identify the aspects of the company’s work that most affect the external environment, and then assign responsibilities to teams across the company to ensure that partnership and collaboration with external organizations is sought and internalized into business activities. This can be particularly important in market entry or at the start of new projects.

There is also a need for an internal engagement plan for many sustainability initiatives. As discussed above, sustainability teams can act as internal collaboration builders and drive change across the organization. This requires identifying the most important departments and individuals that oversee a company’s most material sustainability issues and ensuring that they have incorporated sustainability considerations. Sustainability teams can act as drivers of innovation in these teams by raising awareness of long-term considerations and emerging risks and opportunities.

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Reporting and Disclosure

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.



Breadth and Format: An abundance of disruptive technologies and new communications platforms has massively increased expectations for what, how, and when companies communicate.

Depth: 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 communications.

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.

We believe that sustainability reporting¹⁰ should not happen for its own sake, but have a clear and compelling purpose. BSR’s vision for sustainability reporting is the achievement of two important outcomes: informed decision-making by stakeholders (including shareholders) and improved sustainability performance at companies. However, this vision can only be maintained in today’s transformed communications context if the predominant model for sustainability reporting undergoes a significant overhaul.

Fortunately, the solution to this overhaul is within reach. We believe that companies can fulfill the purpose of sustainability reporting by deploying a model based on two simple ideas: a triangular reporting framework that targets different types of information at different report users, and a much closer connection between “numbers” and “narrative.”¹¹

STOP

Using single long-form sustainability report format

Confusing “reporting” with “communications”

Trying to be all things to all people

INNOVATE

Target different reports at different audiences

Emphasize value creation

Experiment with how to apply different reporting standards simultaneously

Connect “numbers” and “narrative” much more closely

Reporting Purpose	Reporting Solution
Enable informed decision-making	Apply the “BSR Reporting Triangle”
Improve sustainability performance at companies	Combine “Key Performance Indicators” with “Key Performance Narratives”

10 By “sustainability reporting” we mean the disclosure of sustainability governance, management, or performance information, whether in the form of sustainability reports or other formats, such as websites, issue-specific reports, or integrated into financial reports.

11 This model was first published in “Triangles, Numbers, and Narratives: A Proposal for the Future of Sustainability Reporting,” BSR, 2016, www.bsr.org/reports/BSR_Future_of_Reporting_2016.pdf.

Enable Informed Decision-Making

There is a range of audiences for sustainability information. Investors want information that is material for investment decisions, but other important stakeholders, such as civil society organizations, employees, or policy makers, may have different but equally valid priorities and information needs.

There is also a range of different perspectives on the level of detail required from companies. For some audiences—those that want an overall snapshot and understand key performance drivers—brevity is essential. But for other audiences—those that are expert in a specific field where specialist information is needed—the details are what make the report worthwhile.

The BSR “reporting triangle” is an attempt to reconcile these different needs. The higher up the triangle, the less targeted the audience and the less detailed the information; the lower down the triangle, the more targeted the audience and the

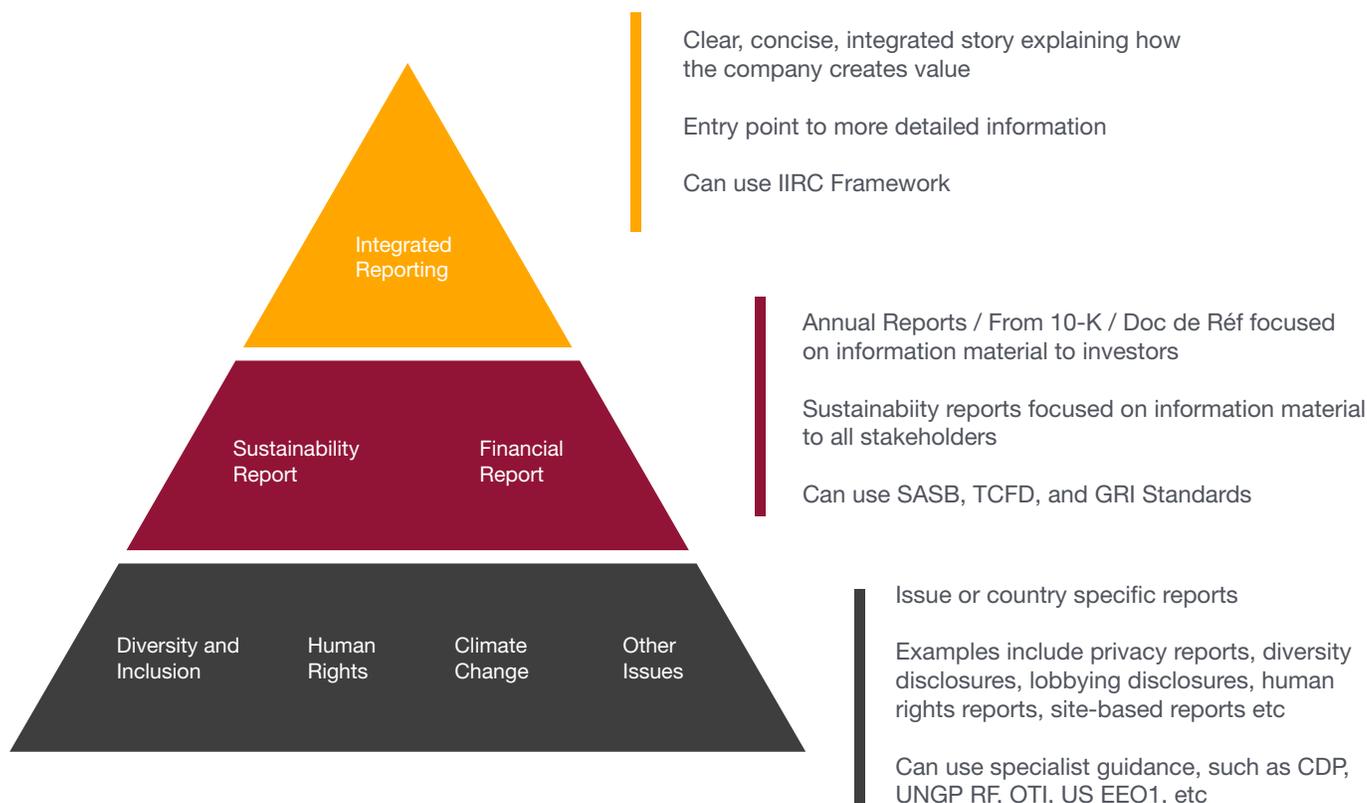
more detailed the information.

The top of the triangle should contain a clear, concise, and integrated story that describes the company’s resilient business strategy and explains how the company creates long-term value for both shareholders and society at large. Content at the top of the triangle should provide an entry point to more detailed information available elsewhere.

The middle of the triangle should contain more detailed information that is targeted at the needs of investors and other stakeholders, such as civil society organizations and employees. For investors, documents such as the Form 10-K (in the United States) and the Doc de Réf (in France) are the key channels for disclosing financial performance and the information necessary to make informed investment decisions. This should include sustainability issues used by investors for decision-making.

For other stakeholders (including investors with objectives beyond financial return), the sustainability report is a key channel for

The BSR Reporting Triangle



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disclosing sustainability performance. This should include sustainability issues used by a range of stakeholders for decision-making.

The bottom of the triangle should contain issue-specific or geography-specific reports that go into the immense detail required by issue experts, but would be impractical to include higher up in the triangle. Regular topics that are already reported this way include law enforcement relationship reports published by internet and telecommunications companies, supply chain reports published by consumer brands, human rights reports published by food, agriculture, and extractives companies, and political lobbying disclosures made by many U.S. companies.

There is evidence that companies are naturally beginning to move into this triangular direction. One interviewee spoke for many when he said, “Our audiences are totally separate, we think about them separately, and we report to them separately.” That view was confirmed by another interviewee, who noted, “Shareholders and stakeholders each need their own reports. For the foreseeable future, you’ll have an annual report and a sustainability report.” Microsoft’s CSR reports hub¹² is an excellent example of

implementing the bottom of the triangle with many detailed reports on different topics.

A common complaint in the sustainability reporting field relates to the proliferation of reporting frameworks and standards for each of these reports. One interviewee said, “It is like the wild west out there in terms of what is reported we would really like to see the reporting standards organizations get together and streamline.” However, while the existence of multiple reporting frameworks can appear confusing and conflicting, each has its own purpose and rationale, and the triangle is designed to illustrate how they relate to one another.



International Integrated Reporting Council (IIRC):

Provides a framework for companies to explain how they are creating value and resides at the top of the triangle.

Sustainability Accounting Standards Board (SASB):

Provides standards to help companies disclose information to investors in mandatory filings, and resides in the middle of the triangle. Similarly, the FSB Task Force on Climate-related Financial Disclosures (TCFD) provides a helpful framework for investor-relevant climate disclosures.

Global Reporting Initiative (GRI): Provides standards to help companies communicate their sustainability impacts to a range of stakeholders and resides in the middle of the triangle.

At the bottom of the triangle sits a range of reporting frameworks designed to help companies publish detailed reports on specific topics, such as human rights, privacy, climate change, diversity, and water.¹³

BSR is encouraged by increasing signs that the various reporting framework and standards-setting organizations are emphasizing their complementarity. As Tim Mohin of the GRI and Jean Rogers of SASB described in a joint statement earlier this year, “Rather than being in competition, GRI and SASB are designed to fulfill different purposes for different audiences. For companies, it’s about choosing the right tool for the job.”¹⁴ We agree, and look forward to companies using both the GRI and SASB standards in combination.

This triangular model, and the concept that the various reporting framework and standards setting organizations complement one another, comes with one important caveat. Many sustainability practitioners have shared with BSR the need for much greater harmonization between the various reporting frameworks. For example, an indicator on water withdrawal or renewable energy use should have consistent definitions across all frameworks. We are some distance from this ideal today, and improvement will require various reporting framework and standards-setting bodies undertaking further work to harmonize guidance, definitions, and compilation methodologies.

Improve Sustainability Performance

The second element of our model is a much closer relationship between numbers and narrative in reporting, based on the appreciation that numbers alone can never provide sufficient insight to inform decision-making, but require an accompanying narrative. We often hear about the importance of identifying a small number of key performance indicators (KPIs) to distinguish

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the signal from the noise; our proposition is that these KPIs are only effective at providing the all-important signal if they are accompanied by key performance narratives (KPNs).

This point—that numbers require an accompanying narrative—is a statement of the obvious. However, in our view this statement of the obvious also represents one of the greatest weaknesses in sustainability reporting today, and provides a key to improving the relationship between sustainability reporting and improved sustainability performance. As one interviewee powerfully concluded, “When reviewing sustainability performance with the CEO and senior executives on a quarterly basis, the moment of transformation was when we started to use KPIs to forecast the future, not scrutinize the past. This led to big changes, such as redesigning processes and goals in anticipation of new product launches.”

Too often in today’s sustainability reports, quantitative performance data lacks an accompanying explanation describing why the number is going up or down, whether that is a good thing or a bad thing, and what can be expected in the future. Rather, it is important that narrative complements the number by providing additional insight.

Future direction matters: Numbers in a sustainability report moving up or down or being higher or lower isn’t necessarily good or bad.

¹³ Examples include the UN Guiding Principles Reporting Framework (human rights), CDP (climate change and water), Open Technology Institute (privacy), and EEO1 (diversity).
¹⁴ <https://www.sasb.org/blog-sasb-gri-pen-joint-op-ed-sustainability-reporting-synchronicity/>

Narrative is needed to describe what is really happening in the number, the likely direction in the future, and a consideration of the various factors influencing indicator direction.

Context matters: Company performance information needs to be placed in its broader strategic, operational, and sustainability context to be properly understood by the reader. For example, the interpretation of water use data will be very different for a company operating in water-stressed regions.

Business models vary: No two companies are the same, so quantitative KPIs are never a like-for-like comparison. A narrative would provide a consideration of different business models, organizational boundaries, or sustainability context factors that impact the interpretation and comparability of the KPI. For example, the interpretation of GHG emissions data will be very different for a company undertaking its own manufacturing compared to one that has outsourced.

We believe that the practical implication of this is simple and brilliant in equal measure. It is simple because all companies need to do is provide additional narrative (KPNs) directly alongside the numbers (KPIs) they are already reporting. It is brilliant because it is precisely this link that will enable a much more effective integration of sustainability into company decision-making and performance review.

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How Can Companies Present Key Performance Narratives?

Category	Indicator	2014	2015	2016	Chart	Narrative
Employees	Total employees				▶	▶
	Gender diversity – female employees				▶	▶
	Leadership roles				▶	▶
	Technical roles				▶	▶
	Non-Technical roles				▶	▶
Environment	Total GHG Emissions				▶	▶
	Scope 1				▶	▶
	Scope 2				▶	▶
	Scope 3				▶	▶
	Total energy use				▶	▶
	Renewable sources				▶	▶
	Total water use				▶	▶
	High risk areas				▶	▶
	Extremely high risk areas				▶	▶
	Total waste				▶	▶
Another Category	Hazardous waste				▶	▶
	Landfill diversion				▶	▶
	Another indicator				▶	▶
	Another indicator				▶	▶

Key Performance Narrative

- » Various business model, organizational boundary, or sustainability context factors that impact the interpretation and comparability of the KPI.
- » The strategic, operational, and performance context of the company.
- » Explanation of the indicator direction to date, and likely direction in the future, including a consideration of the various factors influencing indicator direction.



Reporting with a Purpose

Many express skepticism about the value of reporting, arguing that time spent on reporting is time not spent on strategy or performance. As one interviewee complained, “Sustainability teams need to be story-makers, not storytellers, yet too often reporting reduces bandwidth for half the year and prevents us from doing our job.”

Worse still, the emphasis on reporting can result in sustainability being cast as a communications issue, not as a strategic priority. It becomes all too easy for the sustainability team to prioritize responding to external requests at the expense of proactively informing the strategic direction of the company.

Others are much more positive, making the argument that the discipline of publishing information in the public domain creates a powerful incentive for performance improvement and drives focus. This is especially true in the context of communications with investors. As one interviewee noted, “Integrating sustainability information into the Form 10-K has forced us to grapple with the question of where sustainability is in terms of business strategy.”

We believe there are elements of truth in both cases, but that the path forward is remarkably simple.

We believe in a world where companies create resilient business strategies and publish sustainability information that enhances decision-making by shareholders and other stakeholders. We do not believe that both outcomes should be pursued by the same team. Just as the company strategy function doesn’t write the Form 10-K, so the company sustainability function shouldn’t write the sustainability report.

We believe that companies should seek synergy between resilient business strategy and reporting.

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Strategy comes first, and the reporting should communicate progress toward implementing strategy, but reporting also provides the basis for much higher-quality dialogue with stakeholders and further refinement of the strategy. Reporting is an essential source of internal and external performance accountability.

Ultimately, we believe in re-establishing a focus on the two main reasons for sustainability reporting: providing sustainability information upon which stakeholders (including shareholders) can make informed decisions, and improving sustainability performance at companies.

This point was best summed up by a civil society interviewee reflecting on how NGOs have used reporting to incentivize action at companies: “In doing this, we don’t want companies to think there is a checklist of exactly what is needed to ‘get stakeholders off their back.’ We don’t want them to report because they feel they have to. We want companies to take a holistic view of sustainability and design it in from the start. We want disclosure to inform our work, but we don’t want this to become a paper-pushing exercise to the detriment of actually doing things.”