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Reporting on the Sustainable Development Goals: A Survey of Reporting Indicators

Abstract

This research paper provides an original survey of indicators used by enterprises in the area of environmental, social and governance (ESG) reporting. The goal of the paper is to provide empirical inputs for the identification of a set of core indicators for companies, which would form a potential baseline for ESG reporting, while not precluding more extensive disclosures in the private sector. In order to accomplish this, the paper surveys the practices of the global top 100 listed companies, as well as a number of ESG rating agencies, in the context of the Sustainable Development Goals.

This empirical analysis has served as one of several inputs into UNCTAD's work in the area of core indicators for company reporting on the contributions towards the attainment of the Sustainable Development Goals. Therefore, this paper should be read in conjunction with background notes TD/B/C.II/ISAR/78 and TD/B/C.II/ISAR/81, prepared for discussions of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).

Key words: Environmental, Social, and Governance (ESG) data, Sustainable Development Goals (SDGs), universal indicators, investors, sustainability, integrated reporting, corporate reporting, and ESG rating agencies

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Introduction

A myriad initiatives, guidelines and good practices on Environmental, Social, and Governance (ESG)[1] reporting exist, against which corporates can benchmark their own reporting methods. Some of these initiatives are global and cover all or most of the aspects of ESG. In particular, UNCTAD has provided cutting-edge research into ESG reporting for decades via its programme on enterprise accounting and reporting, which services the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). Further examples include initiatives by the United Nations Global Compact (UNGC), the Organization for Economic Co-operation and Development (OECD), the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB).[2] Other global initiatives are confined to particular issues, such as the Greenhouse Gas (GHG) Protocol and CDP (the former Carbon Disclosure Project).

UNCTAD, the Climate Disclosure Standards Board (CDSB) and the International Integrated Reporting Council (IIRC) are among a number of organizations spearheading initiatives to integrate the logic and structure of the International Financial Reporting Standards (IFRS) into the various international ESG reporting frameworks. However, to date, corporates' use of these overarching initiatives has been sporadic. A KPMG survey (KPMG, 2015), for instance, found that only 11 per cent of corporates used and referred to IIRC (10 per cent in 2013) in their ESG reporting.[3] None of the global initiatives are legislative, but rather indicative of the direction in which local law and global practice may be moving (FEE, 2015).

Other initiatives are regional (e.g. at the European Union level[4]) or national (e.g. King IV in South Africa or the Sustainability Accounting Standards Board in the United States of America[5]). Unlike global initiatives on the subject, these regional or national initiatives are often, for good reason, legally binding. They are also often based on "comply or explain" requirements, which are less helpful to facilitate comparative reporting than frameworks such as IFRS, which use specific mandatory indicators and notes. Moreover, regional and national initiatives are, by nature, less useful for multinational corporations and their investors and capital providers.

Local and regional initiatives often build on, or are influenced by, existing global frameworks such as UNGC (UNEP, 2015). Like global frameworks, they often focus on general principles for reporting, while leaving the choice of specific indicators up to the individual firm and potentially to its stakeholders.[6] At the same time, certain global frameworks, including GRI and SASB, do provide specific indicators in the area of sustainability information. This context leads to thousands of non-comparable ESG reports, which do not only differ in scope, quality and metrics, but also between companies and often even from the corporate's own financial data.

1 ESG, being the term used by investors and other capital providers, will be used in this paper as the word for non-financial data.

2 This is not a definite list of available frameworks and tools, but merely the ones most commonly referred to.

3 Interesting and inspiring examples of corporates using the IIRC framework can, for instance, be found in the 2014 report for Itaú Unibanco Holding of Brazil or the 2015 report for BASF of Germany.

4 See http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095. Unless otherwise indicated, all websites were last accessed 14 September 2017.

5 See UNEP et al. (2013) for an overview of local and regional rules and guidelines.

6 See more in the section on Materiality and stakeholders.

The lack of standardization means ESG reporting cannot be relied on to determine whether corporates are increasing their ESG efforts at a pace and level of depth adequate to ensure the achievement of goals within the defined timeframes (IMPACT, 2014). What is more, this lack of standardization is often also a problem for corporates themselves. Integrating ESG metrics with their own financial metrics is a challenge, since the boundaries are rarely aligned.[7] This is not only problematic for the individual company's own performance evaluation but also for its peers, investors and other capital providers, as they have difficulties applying the reporting metrics to analyse a firm's alignment with and progress on implementing the SDG targets (ACCA and CDSB, 2016).

As indicated in the SDG Compass (GRI et al., 2016, p. 4), "the SDGs present an opportunity for business-led solutions and technologies to be developed and implemented to address the world's biggest sustainable development challenges". But if neither the corporate nor its capital providers can accurately and easily interpret information from the firm's ESG reporting, is ESG reporting really supporting the SDG agenda? Current reporting guidelines, initiatives and best practice often provide disclosure suggestions, rather than guidance on how to interpret the report content (Herriott, 2016). This is where the SDG agenda can offer a valuable new framework, a reference for the interpretation of the content of ESG reporting.

Cognizant of the potential of ESG reporting, UNCTAD launched in 2016 a project to select a limited number of core indicators for company reporting on the SDGs. Such core indicators are intended to provide a comparable baseline for reporting based on existing practice and the SDG monitoring framework, which would allow cross-firm, cross-industry and cross-geography monitoring of company progress towards attaining the SDGs.[8] The indicators would also focus the efforts of standard-setters in building mechanisms and methods to ensure that data - at least on such a limited set of indicators - would be fully comparable, thereby enhancing the usefulness of ESG reporting.

This research paper provides relevant inputs into UNCTAD's work by exploring current reporting practices, from an empirical perspective.

This requires a couple of sub-analyses. Thus, this paper will:

- Describe the reporting practices of the global top 100 listed companies, including:
    - frameworks used
    - data boundaries
    - ESG accounting principles
    - data reviews
    - the indicators corporates report on;

7 Throughout this paper, "boundaries" refers to the definition of the extent of the reporting entity, considering corporate structures that may include subsidiaries, affiliates, joint ventures, franchises and fixed asset investments, among others. The analysis performed as the basis for this report on the world's 100 largest listed companies' ESG reporting shows that only five among them have full alignment with the financial boundaries for reporting. The rest use operational boundaries, homemade/convenient boundaries, or do not define their boundaries. See more in Results section on boundaries.

8 Additional information on this project can found in background notes TD/B/C.II/ISAR/78 and TD/B/C.II/ISAR/81, prepared for ISAR sessions in 2016 and 2017. Such

- Describe the use of ESG indicators by ESG rating agencies. These are indicative of the information required by investors and capital providers, who are the customers of ESG rating agencies; and
- Conclude by considering overarching data principles needed in order to collect comparable and useful data.

1. Material and methods

In order to be able to identify a set of limited core SDG indicators, it is necessary to identify indicators that the typical corporate can feasibly report on, regardless of sector or geography. Furthermore, indicators need to be picked that are material for the corporates' primary stakeholders, namely their investors and capital providers.[9] And finally, to ensure that the identified indicators can be tangibly interpreted—whereby one can tell: "What does good look like?"— the identified indicators are compared with the 17 SDGs. Therefore, this research paper assesses the following potential sources of indicators:

- ESG reporting from the global top 100 listed companies;
- ESG rating agencies' requests of indicators from corporates; and
- The 17 SDGs.

The area of overlap between these three sources is assumed to comprise the bare bone components of:

- What corporates can and will report on;
- What investors and other capital providers deem to be material; and
- What is important for the world.

The result is a set of suggested inputs on core reporting indicators, to be considered by UNCTAD and ISAR.

1.1 The global top 100 listed companies' reporting on ESG

The list of the 100 largest listed companies is sourced from *Forbes Global 2000* (2015 ranking), which is based on a ranking by revenue, net profits, total assets and market value. The list of corporates can be found in Appendix A. Forbes is the preferred source, as it provides financial rankings based on empirical criteria. The ranking is balanced, as it is based on four indicators of equal weighing (the Financial Times' FT 500, for instance, ranks solely by market capitalization).

The companies' own most recent publicly available ESG reporting, found on their websites, is included in the analysis. This information is contained in CSR reports, integrated reports, online reporting, financial reports, proxy statements and other SEC filings, among others, and data points are extracted. The analysis for all

[9] The choice of primary stakeholders is a much debated matter – see more in the chapter "Materiality and stakeholders" to understand this paper's choice of primary stakeholders.

companies was performed between March and May 2016, and most reports cover 2015. In some instances, ESG reports for 2014 were used, where reports for 2015 were not available.[10]

The first stage of analysis determined each company's:

- ESG reporting media;
- The frameworks used;
- Data boundaries;
- Reporting of data accounting principles; and
- Data reviews.

Subsequently, the indicators or metrics each corporate reports on are categorized (i.e. environmental, social, and governance). Each new metric not reported on in earlier reports, is added to the database's metadata. The analysis does not judge the quality, validity, completeness or usefulness of the corporates' reporting.

Over and above the ESG indicators, the financial indicators that the corporates choose to highlight as key performance indicators are also included. This is done to identify which financial indicators the corporates find most important, placing the ESG indicators in the context of their financial performance.

Once ESG material of all 100 firms has been analyzed, the statistical analysis is performed. The statistics are analyzed generically and subsequently also by region[11] and sector,[12] in order to determine whether any regional particularities emerge that could affect the universality of the SDG Indicators.

1.2 ESG rating agencies' use of indicators

ESG rating agencies sell their ratings to investors and other capital providers, which means the indicators used by these agencies can be assumed to match the data sought by investors. This is confirmed by a recent survey by the CFA Institute of 1,325 portfolio managers, who indicated that they use non-financial data (73 per cent) in their analyses and that they obtain some of this information directly from public sources (75 per cent of the 73 per cent), but also from third parties, such as ESG agencies (66 per cent of the 73 per cent) (CFA Institute, 2015).

The database of the Global Initiative for Sustainability Ratings (GISR), established by the Ceres and Tellus Institute, was used in order to determine which ESG rating agencies to include and evaluate for this analysis. GISR indicates that "more than 100 sustainability raters administer questionnaires to thousands of companies worldwide, comprising a mix of investor and consumer-facing instruments ranging from issue-specific (e.g. climate change) to multi-issue (integrated environmental, social and corporate governance factors) ratings, rankings and indices".[13] Of these, only the global ESG rating agencies that have investors

[10] Note that one is from 2013.

11 Defined in accordance with the UN geographical regions: http://unstats.un.org/unsd/methods/m49/m49regin.htm.

12 As defined in the three sector theory (Clark, 1940). Conglomerates are subsequently added as the fourth sector. Oil companies with retail operations, as indicated in their annual reports, are also included in the category Conglomerates.

13 http://ratesustainability.org/about/why-gisr.

as their primary users have been included in this analysis, and only those that cover all three elements of ESG. To increase the sample of ESG rating agencies for the analysis, five additional ESG rating agencies from ARISTA[14] – a primarily European research standard for responsible investment from which the rating agencies can obtain certification – were added. In total, 41 ESG rating agencies were evaluated (See Appendix A).

Many of the ESG rating agencies are not particularly transparent about what and how they measure when doing their ratings[15] – "many raters … strive to maintain 'black boxes' for commercial purposes" (SustainAbility, 2011, p. 3). Thus, of 41 rating agencies, only six provide detailed information about the indicators they track for their ratings on their websites – and only one was partially available down to indicator level. Most ESG rating agencies only provided some overall guiding principles about the way ratings are performed. Some indicated only the overall themes they track, but most often not to the level of indicators. For some it was also clear that they did not collect all the data themselves, but used other rating agencies' databases, either in full or as a supplement to their own data. But most often, the indicator selection, weighing and screening methodologies were not – or only partially – provided.

The methodologies and indicator lists of the seven ESG rating agencies, for which data are publically or partially available, were compared with the database of ESG indicators used by the global top 100 companies. An indicator tracked by ESG rating agencies that is not also reported on by the global top 100 largest listed firms, cannot be considered to be a core indicator. Based on this analysis, no new indicators were added to the database's metadata as it was performed after the corporates' ESG reporting had been extracted.

1.3 Deriving the core SDG indicators

For both the analysis of the companies' ESG reports and for the ESG rating agencies, the assumption is that if half of the population uses the indicator, it is considered material and universal for either data provider or user. The two indicator lists are then paired and if an indicator is part of both lists, it is considered to be material for both the data provider and the user. The list of material indicators is then paired with the 17 SDGs – and if there is an overlap, the indicator in question is considered to be relevant for the world and thus a relevant candidate to be part of UNCTAD's core indicators for company reporting on the SDGs.

1.4 Overarching data principles

Finally, the overarching data principles are defined. This is based on a review of the data-quality needs of primary data users, investors and capital providers, as analyzed by the ACCA, EuroSif, IIRC and others. The definitions adopted by overarching initiatives, seeking to make the ESG data integrable with financial data, are also taken into account. Sometimes, the initiatives' definitions are contradictory. In those cases, the user needs will prevail over the initiatives' guidance.

14 ARISTA 3.0 is a voluntary quality standard comprising guidelines and rules, commitments, and verifiable evidence of the transparency, quality, accountability and verifiability of the processes involved in responsible investing research.

15 For this reason SustainAbility in 2010–2013 undertook a fairly large analysis of the rating agencies' methods.

1.5 Method, results and implications for future research and practice

In the following, various topics that might be critical for this paper's choice of method, results, and the implications for future research and practice are evaluated.

1.5.1 Africa and Latin America and the Caribbean

Africa does not host any of the top 100 listed companies surveyed in this research paper's original dataset. In the interest of representativeness, the top five African companies (all based in South Africa, variously occupying ranks between 317 and 523 on Forbes 2000 list) were considered as part of this study. This inclusion did not change the indicators in the overall result. They were, therefore, not included in the final analysis.

While companies from Latin America and the Caribbean are listed under the geographic category Americas, only two companies headquartered outside of North America are, in fact, part of the top 100 companies surveyed by Forbes (both are located in Brazil).

It should be noted that most of the top 100 corporates have affiliates in Africa or in Latin America and the Caribbean that also report on indicators adopted by their parent companies. It can therefore be assumed that the common indicators identified are also representative and useful for the two regions.

For the reader interested in African reporting, it can be pointed out that the five top African corporates report on ESG issues both in standalone ESG reports and as integrated reports, which probably stems from the King III regulation. The ESG reports are on average 168 pages in length, which is much higher than the average for the world – at 102 pages. The reports contain 51 indicators on average, which is on par with the global average.

Taking into account data boundaries, the numbers for African corporates are similar to those of the rest of the world's, with none using financial boundaries, one using operational boundaries, two using homemade/convenient boundaries,[16] and two not informing about their boundaries. African corporates are less likely to provide their accounting principles than corporates in the rest of the world -- one does, one does so partly, but three do not – in this respect resembling their Asian counterparts. Their use of frameworks matches the use of the rest of the world -- two refer to UNGC, two to CDP, none to ISO 26000, one to other ISO standards, and three to GRI.