Sustainability Leaders Panel

Goodbusiness echo

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Wave Two: The new reporting paradigm and how companies are responding

"While we are gaining a precise rear-view mirror, very little effort is being put into the case for transformation or evolution to more regenerative business models and new economic structures that could sustain them."

This comment, from one of the respondents to our second survey sent to our Sustainability Leaders Panel, is echoed in the data. In the previous survey, we noted the immense challenges that companies were facing as new regulations in Europe and elsewhere raise the bar on sustainability compliance and reporting. In this survey, we explore the way in which companies are approaching reporting and disclosure, and the value they are deriving from it, as well as the challenges it presents.

The first sustainability statements from companies that are required to align their sustainability reporting with the European Corporate Sustainability Reporting Directive (CSRD) will be published early in 2025. We, and the rest of the sustainability world, will be reading these with interest to identify which companies have addressed what we believe to be the spirit of the regulation – encouraging companies to use disclosure as a way of raising performance across all dimensions of sustainability and to identify and respond to the risks and opportunities it presents – and which are treating it as an onerous and underwhelming chore that generates a lot of information but not a lot of illumination.

We hope there will be more of the former, and fewer of the latter. However, we also recognise that the first couple of years will inevitably require sustainability teams to roll their sleeves up and get stuck in to the detail, as well as fighting some battles internally around what is needed, what is desirable and what is not necessary to deliver effective and compliant reporting.

66% of panellists told us that CSRD will apply to them, either imminently or in the future. However, we expect that other jurisdictions outside the EU will adopt similar legislation in due course: China, for example, has indicated that it intends to create ISSB-aligned sustainability reporting systems by 2030 with some disclosure standards coming into effect as early as 2027). And businesses not within scope but whose investors and customers are dealing with businesses that are reporting in accordance with CSRD may well decide to use some or all that CSRD requires, to ensure that they remain aligned to peers. A rising regulatory tide may well lift all boats, in this case.

The challenge, as is clear from this survey, is to ensure that sustainability reporting can deliver benefit to the business. Some of these benefits are already being observed by some panellists – engaging boards more effectively in sustainability, encouraging the business to think more carefully about sustainability risks it presents, and taking sustainability out of a silo and into the heart of the business. Others – in particular, identifying business opportunities and changing business models to align with a changing world – may be further from being realised. In future surveys, we plan to look at this in more detail and explore how sustainability leaders can best create organisation-wide change.

> *"In general, the increased regulation is a positive trend, giving more weight to sustainability and the importance of taking action. It has helped us capture the attention of senior leaders. However, it poses challenges and risks becoming "box ticky" if it is not used to catalyse action. It can be a drain on resources rather than an incentive to act or change." (Sustainability Leaders' Panel panellist)*

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We'd like to extend our thanks to our friends, partners and clients who contributed to this survey. We've identified insights we hope you will find interesting and thought provoking. We plan to explore the consequences of these findings in future surveys, and to continue the discussion with you.

Giles and Tarquin, October 2024

In September 2024, Good Business and Echo Research invited sustainability leaders working client-side in organisations around the world to respond to the second survey presented to the Sustainability Leaders Panel. Our aim in convening the Sustainability Leaders panel is to provide regular insights into the sustainability landscape in the UK and elsewhere, exploring different themes and emerging trends. What issues do sustainability teams spend their time addressing? How do they work with other parts of the business? What are the characteristics of an effective team?

This second survey builds on the insights from the first wave and explores the way in which new sustainability reporting regulations are shaping the way in which businesses respond to the sustainability challenges they face.

If you have any questions, would like to add questions to future surveys or would like a call to discuss the findings in more detail, please email Giles Gibbons (giles@good.business) or Tarquin Henderson (tarquin.henderson@echoresearch.com).

WHAT WE LEARNED

1. **It's good to talk:**
When asked what benefits they have seen from increased regulation and disclosure of sustainability impacts, respondents were most likely to identify the fact that it has captured the attention of senior leaders, with 73% saying it provided a good opportunity to engage senior leaders with sustainability, and 75% saying it had made senior leaders more engaged than in the past. An ancillary engagement benefit seems to be conversations with other people within the business, with 43% saying their colleagues were more familiar with the business's sustainability impacts because of enhanced reporting. Respondents from companies employing more than 10,000 employees were more likely than their peers from smaller businesses to say that sustainability reporting was helping them raise the profile of sustainability with their senior colleagues.

These findings are reinforced by the 82% of respondents who agreed that sustainability reporting and disclosure has been a useful tool for raising awareness of sustainability in the business. Sustainability reporting may take time and effort (more on that later) but for sustainability teams trying to argue the case for change, there's nothing like raising the regulatory bar to get people's attention.

However, as one panellist noted, "*fear of getting it wrong, and litigation – and the resulting green-hushing – is a real challenge, and threat to the quality, depth and breadth of disclosure in my organisation".* This rings true. Increased visibility of sustainability is a double-edged sword, as many of our clients have observed in conversations with us. Some are finding that closer working relationships with senior leadership and other functions is in fact constraining what they can report upon, and how they present information, reflecting concerns around risk and legal liability.

Is the higher profile of sustainability, driven by increased requirements around reporting and disclosure, translating into real and sustained change, or is it holding back progress?

2. **Change is coming, but slowly:** The results of these conversations are not yet fully translating into meaningful action in all organisations, although around half reported positive progress. 42% said that increased reporting and disclosure was leading to more ambitious and integrated sustainability strategies and 52% said that it was helping the business identify sustainability-related risks and opportunities. Only 40% said that sustainability reporting was recognised as a source of competitive advantage, and the same number said that it was helping the business to assess its business model and approach to value creation.

Change takes time, and there is no doubt that the focus on getting reporting right is – at least temporarily – diverting attention from other sustainability priorities, whether through fear of getting it wrong or as a way of stalling on meaningful progress. As one panellist noted, *"I fear that CSRD will require companies to spend so much attention and resources on compliance that the whole point – which was transformation – will be lost in translation".* And another observed *"When will the level of data we hold be enough, so we can move onto the action phase of climate mitigation plans. It feels as if we are spending too much time polishing the data, as a smokescreen for inaction".*

We hope that this will change in time. An encouraging sign is that 67% of our panellists said that sustainability reporting and disclosure was encouraging their board to spend more time considering the risks and opportunities associated with sustainability. The introduction of financial materiality into the double materiality assessment will inevitably make consideration of sustainability risks and opportunities a more common topic for board discussion, and it is from the way that businesses respond to the risks and opportunities that they identify that meaningful change will come.

Compliance with new reporting regimes takes time and effort, and is understandably the current focus on most organisations. Yet the intention of CSRD and other such legislation is to drive changes in performance, rather than just generate more work for companies. Is the focus on double materiality and enhanced disclosure going to be enough to prompt the ambitious and transformational change that is needed?

3/ Whose job is it anyway? In the first survey, we examined which departments sustainability professionals were spending time working closely with. They indicated that risk, compliance, procurement and communications were the functions they worked with most frequently and most closely, which indicated that the embedding of sustainability management across businesses was starting to take hold.

In the latest survey, we asked respondents how the reporting process was managed within their organisation. It is no longer the preserve of a single function within the business. Just 10% said they were wholly responsible, while 65% said that they and their team lead the sustainability reporting process with input from other functions. 25% said that it was the responsibility of another team with input from sustainability, with responsibility in these organisations sitting in a range of functions with the Finance team being the most frequently cited lead function.

Where responsibility is shared by the sustainability team with another function, this is most likely to be with Finance, Communications and the Senior Leadership Team or CEO office. Functions that are likely to be involved, though not responsible, include Risk and Compliance, Investor Relations, and Legal and Regulatory Affairs. Surprisingly, 43% of respondents said that their Sales and Marketing Colleagues had some degree of involvement in sustainability reporting, suggesting that this could be seen as a commercially valuable piece of communications to businesses in the future.

Digging deeper into roles and responsibilities, a picture emerges of sustainability teams that are increasingly focused on what could be described as the upstream work of putting together a sustainability report – more than 50% of sustainability leaders said their team was wholly responsible for structuring the reporting suite (e.g. making decisions about a standalone report versus an integrated one) and collecting case studies and qualitative data. They are least likely to be wholly responsible for liaison with internal and external auditors (36% and 28% respectively saying they were wholly responsible for this), for review and approval of content (31%) and implementation of and compliance with sustainability reporting regulation (33%).

The role of the in-house sustainability professional, and the skills needed to do it effectively, are changing rapidly as sustainability professionals need to be compliance experts, communications specialists, strategists, data experts and change managers. As one respondent noted, *"I'm not certain that current sustainability professionals (myself included) have the necessary capabilities to drive this transformation. We risk becoming a single point of failure for reporting, driving impact and facilitating transformation".* Adaptability, a deep understanding of organisational roles and structures and strong communication and people management skills will be the hallmark of successful sustainability leaders in the future, as they work ever more closely with different functions to deliver reporting and other outcomes.

What are the skills needed for sustainability professionals to thrive in the new landscape and how can they be trained and supported effectively by the business as their role changes?

4/ Get your board on board: 91% of respondents said that their management board or senior leadership team assumed some responsibility for the sustainability reporting and disclosure process. Boards tend to be at least somewhat hands on with the reporting process, even if they are not necessarily particularly engaged or ambitious in what they are asking for.

However, it is the level of ambition, rather than the board's level of involvement, that seems to make the biggest difference. Of the 62% of respondents saying that their board was either very or fairly ambitious in its approach to sustainability reporting, 57% said sustainability reporting was well resourced in their organisation, compared to 11% of those who said their boards were neutral or unambitious, suggesting that putting in the time to galvanise the board around reporting could pay dividends. Across the panellists, we saw that this ambition leads to sustainability reporting and disclosure unlocking benefits, from a focus on risks and opportunities to reflecting on business models and integrating sustainability into strategy.

The tone at the top really matters. We work with many talented, passionate, well-informed clients who are making enormous progress in implementing effective approaches to reporting, working with colleagues to source data and creating engaging and interesting reports. Where they struggle, if their boards are not engaged and supportive, is in using all that insight and information to create change, as well as simply to disseminate information. These organisations are the ones that in our experience tend to describe reporting as like pushing water uphill, whereas in organisations where boards are bought in to the sustainability agenda and interested in the outcomes as well as the process, there is a much greater tendency for sustainability reporting to inform strategy and investment.

How can we shift boards from a compliance mentality to an understanding of the opportunities that sustainability can present, so that sustainability becomes hardwired into the business and is driving business change?

5/ Investment is increasing but more is needed: Most panellists indicated that their companies were investing in a range of different systems and resources to deliver effective sustainability reporting. 73% told us that the number of people working on sustainability reporting had increased over the past 12 months, 88% said compliance with reporting regulations was taking up more of their organisation's time and effort (and in those organisations with more than 10,000 employees, all respondents indicated that this was the case).

This increased investment in sustainability reporting is unsurprising, given that 88% of respondents identified the amount of time required to effectively deliver sustainability reporting was one of the main challenges they faced. Challenges around data gaps and poor quality data (cited by 72% and 60% respectively) is supported by the finding that 69% had seen increased investment in data collection systems to support reporting, while the 56% saying they were spending more on external support from consultants is backed up by the fact that 55% of respondents do not have sufficient internal resources to effectively deliver their sustainability reporting commitments.

Despite increasing levels of investment across the board, less than half of respondents felt that their organisation was investing enough in sustainability reporting and disclosure to make it efficient and effective, with just 46% saying this was the case. This is even though respondents were able to point to clear and meaningful benefits coming from increased regulatory requirements and enhanced sustainability disclosures, with 53% agreeing that it had improved their organisation's management of sustainability impacts and an equal number saying that it had helped the business identify sustainability related risks and opportunities.

How much is enough for companies that want to respond appropriately and effectively to the increasing demands that reporting regulation place on them? What does a minimum viable product for compliant reporting look like?

6/ Who is reading these sustainability reports anyway…? Current investors are the external audience cited by most respondents as a key audience for sustainability reporting and disclosure (73% of respondents), suggesting that the investment community remains interested and engaged in sustainability disclosure despite the headwinds that the ESG investing sector faces. As sustainability reporting becomes ever more regulated, this audience is only going to become more important and better served as comparable information across different companies will allow investors to make decisions based on sustainability performance in ways that have not been possible in the past.

78% say their board is a key audience for sustainability reporting and 70% identify employees as being critical, although only 52% of companies believe that people interested in joining their organisation are a target audience. They should consider that according to a survey by GRI, about 40% of job hunters do in fact read a potential employer's sustainability report, meaning that it is highly likely that this audience will be critically engaging with what companies put out into the world.

Investors require and look for very different attributes in sustainability reporting than employees. Looking forward, how will companies be best able to meet the needs of different audiences through their sustainability reporting suite?

7/ The standalone sustainability report still has legs: 97% of panel respondents told us they report publicly on their sustainability impacts. 77% of them publish an annual standalone sustainability report, and 70% include sustainability reporting in annual reports. 40% of respondents currently publish sustainability information within their annual financial statements, a separate sustainability report and include sustainability information online. Where companies only publish sustainability information in one format, this is most likely to be in the form of a standalone sustainability report, with 20% of respondents indicating that this is how they are currently working.

This suggests that while regulation is requiring many companies to more closely align financial and non-financial reporting, the separate sustainability report isn't going anywhere just yet, with most of our panellists continuing to package sustainability information in different formats to reflect different stakeholder needs.

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We are often asked whether companies should continue to publish separate sustainability reports alongside the disclosures that are increasingly included in financial statements. It's worth noting that the European Corporate Sustainability Reporting Directive (CSRD) does not require companies to include their mandatory non-financial disclosures in their financial statements, as long as there are clear signposts to the information within that document, but we expect that increasingly, this information will be included within financial statements as it becomes more closely regulated and finance teams within organisations become more closely involved with non-financial disclosures (more on this later).

Our view is that standalone sustainability reports still have a role to play. They typically allow a more expansive and qualitative approach to reporting and can provide a vehicle for communicating with those audiences, such as customers or employees, who may not want the more structured and rigorous information that is typically incorporated into integrated reports.

Will the separate sustainability report become a more narrative-driven document, based on case studies and qualitative analysis, designed to engage customers and employees, while other audiences can get what they need from the sustainability disclosures integrated into the financial statements?

8/ Reporting 2.0: double materiality, assurance and multimedia content: When we look at what respondents currently include in their sustainability disclosures, we see that most reports include the building blocks of sustainability reporting – case studies (82%), data tables (93%), and progress towards targets (82%). 68% include a materiality analysis but only 35% currently include a double materiality analysis, examining the impacts, risks and opportunities presented by sustainability issues. 42% of our respondents said they plan to include this in the future, and a further 17% said they think it likely they will include it in future reports.

Most companies already include some degree of assurance of their sustainability disclosures, with 65% of respondents saying they either will or are likely to move towards full assurance of their sustainability data in the future. And while just 25% of respondents currently include video or audio content in their reporting, 60% intend to do so in the future.

How can companies best engage diverse audiences in the stories they want to tell around sustainability while also delivering the elements of reporting that compliance with legislation demands (and which are particularly time consuming)? Where does the real value lie and how can that value best be harnessed?

About our panel

The panel is made up of 150 sustainability leaders working across Europe, the Middle East and Africa. Panellists are drawn from a range of sectors, primarily financial services (24%) and consumer goods (24%), with good representation from the tech, hospitality and transport sectors. Most work for larger companies, with around 76% working for companies operating in more than one country. 48% of respondents work for companies with more than 10,000 employees.