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BLOG | WEBINAR KEY TAKEAWAYS

Creating an Award-Winning Sustainability Report: Key Takeaways

Even as interest in sustainability reporting grows along with anticipation for slated new SEC disclosure proposals on climate and Human Capital Management, the reports themselves continue to suffer something of an identity crisis. Often, sustainability reports are prized by investors and other stakeholders, and yet no clear consensus has been reached on precisely what these reports should contain, or how they should present material information. During DFIN's June 2021 webinar, "Navigating the Corporate ESG Journey: Strategies and Lessons Learned," Andrew Ciafardini, Chief Sustainability Officer and Head of Global Public Policy for FIS, outlined several strategies and steps for creating an award-winning ESG report. FIS, which published its first sustainability report in 2020, was chosen by IR Magazine as 2021 winner in the category of best ESG reporting.

Frank Kelley, Director of ESG & Compliance Services for DFIN, and Louis Coppola, Co-Founder and Executive Vice President at the Governance & Accountability Institute, also shared insights about how aspiring companies could embark on an ESG journey capped off by a successful report.

Kelley acknowledges that "ESG is a gray, fuzzy term," and "ESG topics can have different importance for different industries, especially on the social side." ESG, he says, is "really a way to help stakeholders identify risks that are not profiled by conventional financials or the company story." He continues: "[It's] the new paradigm for stakeholders to profile those risks that could have a very dire effect on a company's bottom line and its reputation."

To listen to a recording of the hourlong webinar, go to **https://www.dfinsolutions.com/knowledge-hub/webinars/navigating-corporate-esg-journey**

Here are some key takeaways:

- **Go straight to the top.** Kelley emphasizes that a strong ESG strategy begins with the board partnering with management to ensure ESG is central to a company's annual strategic planning. This planning should be embedded within the organization and permeate throughout the appropriate lines of business.

  FIS bears out this lesson. Here, both the CEO and CFO recognize the importance of ESG conversations, and the company's board changed its charter to make ESG oversight a board responsibility, says Ciafardini. He believes that active board engagement is what investors—not to mention, ESG raters and rankers—want to see.

  "The board's oversight," he explains, "has given me … the ability to drive change. Of course, our CEO is 110 percent on board and has made this a corporate priority, but it's that board action that helps me internally move things forward."

- **Identify Subject Matter Experts, or SMEs, and cross-functional teams.** One critical early step is identifying those subject matter experts who can help determine which ESG topics are material and would best be disclosed within an ESG report, says Kelley. Another important step is naming employees to head cross-functional working groups that can think through various options for telling a company's story in a sustainability report.

  Coppola underscores that internal, cross-functional teams operate best when they are educated about the various ESG frameworks and standards, as well as about what stakeholders value and regard as risks and opportunities.

- **Dive in, even if you lag behind peers.** "Don't let perfection get in the way of progress," says Kelley. "If you have no reporting, a great bang for your buck is a proxy or a website, highlighting thematic ESG topics. There isn't a company yet that can't—at least from a qualitative perspective—tell [its ESG] story." For instance, he points out that a good first step for ESG communications is adding material policies, as well as codes of conduct and diversity statements, to the corporate site.

  Ciafardini recalls that FIS was "doing great things around ESG and sustainability… but we weren't telling the story in a way that was meaningful, and we certainly weren't disclosing around the frameworks." All that changed when the company decided to publish its first sustainability report.

- **Start with an internal materiality assessment.** While external consultants can provide peer reviews and other valuable input, FIS's Ciafardini is convinced that both the board and management should play an active role in identifying which ESG issues are deemed material. "The materiality assessment became our north star," helping the company decide where to expend time and resources, he says.

  For many companies, COVID-19 has "changed the context in the materiality assessment," he says. He notes that FIS began placing more emphasis on the "S" in ESG and added a section in its sustainability report specifically addressing the company's pandemic response vis-à-vis colleagues, communities, and clients.

- **Anticipate a world where standards are mandated.** Coppola points out that "well-designed standards… lead to more accuracy, balance, clarity, reliability, and timeliness of the data." He continues: "The key to realizing these benefits is that companies must fully implement the application of the standards as prescribed by the standards creators," rather than picking and choosing among elements to place themselves in a positive light. The problem, Coppola explains, is not the standards developers themselves but that adherence to standards is neither mandated nor regulated. He likens the situation to the 1920's and '30's after the stock market crash, when regulators began to require quarterly or annual financial guidance and to set forth very specific rules on what must be presented in these reports. Similarly, he advises companies to consider what decision-useful data they can provide in anticipation of a time when ESG disclosures *are* mandated.

- **Embrace a hybrid-standards approach.** The current state of ESG is "an alphabet soup" that encompasses frameworks (GRI, SASB, TCFD, UN SDG); rating agencies (ISS, MSCI, Sustainalytics); data aggregators (Bloomberg, Morningstar); and specialized data providers (CDP, RBA, Trucost), notes Kelley. While the array of acronyms can be bewildering, the various providers "really all rhyme with one another," he says. Because of underlying similarities, he recommends not being "beholden" to any single framework, ranker, or data aggregator.

- **Identify gaps.** "ESG reporting is really only as good as the data you collect," says Kelley. He advises identifying material topics and then making the reporting as deep and wide as possible.

  Coppola notes that as a company conducts interviews and gathers relevant ESG data, it's important to be aware of gaps in the information—and to consider how these gaps might someday be filled. What's more, he recommends, "planting seeds for the future to fill gaps that take more time [to fill] and that ultimately you want to be done the right way."

  While publishing the sustainability report itself might seem like crossing the finishing line, "publication of the report is not an endpoint," emphasizes Coppola. He explains that as soon as one sustainability report is finished, work should begin on the next.

  Ciafardini points out that sustainability reports are not the only vehicle for ESG disclosure. And in fact, whenever FIS makes a meaningful change in terms of ESG practices, he wants his company to get "due credit" with the rankers, rather than waiting for the next year's sustainability report. For this reason, he says, "We've taken a very active approach to engagement with the raters. Instead of just saying, 'Hey, look, we've published this.' We call them up and engage with them."

- **Take a modular approach.** While FIS produces a sustainability report that can be read front to back, Ciafardini also works to make separate sections stand on their own; this way, stakeholders solely interested in governance or a company's environmental story can readily find the information they're seeking. He notes that this modular approach means that certain nuggets of information are repeated, but he finds the repetition beneficial because it makes the document useful to a wider range of audiences.

- **Consider multiple stakeholder perspectives.** When Ciafardini meets with investors, he notes recurring questions and then creates a list of the top material issues out there.

  "There are so many competing frameworks, voices, and thoughts on how a company should do this," he says. "But go back to your north star—that materiality matrix—and don't just listen to the loudest voice in a stakeholder group. Ask yourself: 'What is that common denominator you're hearing across all of those voices in that stakeholder group?'"

- **Always aim higher.** Companies at the early stages of their ESG journey might pursue many different avenues, but even the ESG superstars should strive to improve. As an example, Ciafardini is bringing more personal stories into the next sustainability report that FIS produces. Going forward, he says he's focusing on "the people and the faces of ESG and not just the metrics."

  Ciafardini's advice for the ESG frontrunners is to keep close tabs on what peers are doing, even exploring integrated reporting, which is becoming very important in Europe and South Africa.
  The goal, he concludes, is never "to rest on your laurels" but to keep finding ways to tell your story more powerfully in each successive year.