Impact Reporting: Climate change reporting intensifies in the COVID era

Welcome to
the Fourth PR Square Survey
of ESG Reporting in Europe

Executive Summary

ESG reporting is undergoing a process of simultaneous growth and change. Although corporate sustainability disclosure is set for growth over the next years, companies must take sustainability to the core of their business strategy, if they are to survive and prosper. Now is the time for action to refine ESG reporting beyond GHG data as transparency is fast becoming the new paradigm for conducting business.

Once again, we observe an increase in ESG data reporting, but at the same time companies are not increasing the disclosure of measurable ESG targets. Like last year, target setting remains a point for improvement. GHG emission data and target setting firmly remain the preferred means to communicate on sustainability performance. Fortunately, the majority of researched companies managed to lower GHG emissions over the past couple of years.

The Covid pandemic left its scars on social reporting with a sharp decrease in reporting of the number of supply chain audits. Understandably, due to travel restrictions audits were not performed as scheduled.

Linking corporate sustainability strategies with the UN Sustainable Development Goals and reporting thereof remains a success story on its own.

Survey Spotlights

This year, the survey spotlights emerging developments within ESG reporting by corporations.

1. **More companies are reporting ESG data, but no changes in target setting is observed**

   95% of companies report at least on one ESG data point, up from 93% last year.

2. **GHG emission data, again remains the number of numbers**

   90% of the companies report absolute GHG emissions and 77% report GHG targets, making GHG data, again, the number of numbers.

3. **Majority of companies report lower GHG emissions**

   70% of companies reported lower GHG emissions over a 3-year period; however, 17% of companies still do not provide historical data to analyse GHG performance.

4. **Covid pandemic throws back reporting on supply chain audits**

   Reporting on the number of supply chain audits has decreased dramatically to 23% from 41% of organisations doing so last year.

5. **SDG trend is still strong**

   85% of companies make a connection between the company’s ESG strategy and the SDGs, a 6% yearly increase, following last year’s impressive 16% increase.

Survey Framework

This survey, conducted for the fourth time, is an assessment of the current sustainability reporting status of 325 European companies included in 9 stock market indices.

The ongoing growth of ESG investing, the EU non-financial reporting directive and EU sustainable finance initiatives are driving the dynamics of CSR/ESG communication, not only in Europe but on a global level.

This year's insights confirm last year's shifts in ESG communication. Unsurprisingly, the Covid pandemic influenced reporting on social aspects and there is still plenty of room for improvement regarding ESG target setting.

In general, there are two aspects of sustainability in business: reporting and strategy. To underline the connection between reporting and strategy, we have expanded the scope of our survey. Priority and target setting are both relevant for strategy development. In this edition we looked closer into GHG emission reporting for performance disclosure reasons.

For the third time, we have investigated whether and how companies communicate ESG targets and ESG data. Again, on a strategic level, we looked to the UN Sustainability Development Goals (SDG) that companies mention in their reports.

This survey followed a four-step approach to determining how far reporting has progressed:

1. SDG alignment
2. ESG Target setting
3. Corporate footprint perspective
4. GHG emissions disclosure

The 325 companies surveyed span a wide range of business sectors, such as Food and Beverages, Energy, Consumer Products, Chemicals, Healthcare and Telecommunications.

We have reviewed CSR/ESG communication at 325 European companies that are part of the following European Indices:

- FTSE (UK)
- CAC (France)
- DAX (Germany)
- MIB (Italy)
- BEX (Spain)
- AEX (Netherlands)
- BEL (Belgium)
- PSI (Portugal)
- SMI (Switzerland)

Corporate websites and reports were reviewed and analysed.

Study Objectives

The survey provides a detailed perspective at trends in CSR reporting and insights for business leaders, company boards, and CSR and sustainability professionals. It is meant to offer guidance on good business practice to corporate professionals who prepare their own organization's CSR reporting. It is also designed as a guide to investors, asset managers and ratings agencies who now factor environmental, social and governance (ESG) information into their assessments of corporate performance and risk.

The survey is based on several months of research, with our professionals analysing 325 company financial reports, corporate responsibility reports, and websites. The number of companies and markets involved in the survey makes it one of the most comprehensive pieces of research on CSR/ESG reporting available in Europe.

Our goals were as follows:

- Put together a smart database of best CSR/ESG reporting practices based on reports published by major public companies;
- Identify the underlying shifts in communicating corporate social responsibility information to stakeholders;
- recommendations and tools to improve such communication.

We are convinced that corporate sustainability information should include more than a mere list of metrics and issues to be disclosed. It must present a clear picture of the company's goals and strategies in this area and demonstrate that the company meets the expectations of and the requirements set by its stakeholders. It is the active dialogue between the company and its stakeholders that must be at the heart of any CSR/ESG effort.

Yet another important objective is to ensure that information reported by different companies allows for proper apples-to-apples comparison. It must be up to the stakeholders to determine whether, and to what extent operations of any particular company meet their expectations and comply with best globally accepted practices.

This study is conducted annually.

The SDGs in CSR Communication

The 17 UN's Sustainable Development Goals, set out to solve the greatest economic, environmental and social challenges of our world by 2030, have been widely adopted by business. Last year's survey highlighted that there is a stronger trend in evidence towards aligning corporate responsibility strategy with the UN Sustainable Development Goals (SDGs).

SDGs have resonated strongly with businesses since their launch. This year, again, we see an increase of companies referring to the SDGs in corporate communication: 85% compared to 79% last year.

This is a clear trend that has emerged in a short space of time which strongly suggests that the SDGs will have a growing profile in CSR reporting in future.

While the SDGs were designed as goals for governments, the UN's 2030 Agenda for Sustainable Development specifically calls on businesses "to apply their creativity and innovation to solving sustainable development challenges. Companies are increasingly linking corporate sustainability strategies to the SDGs.

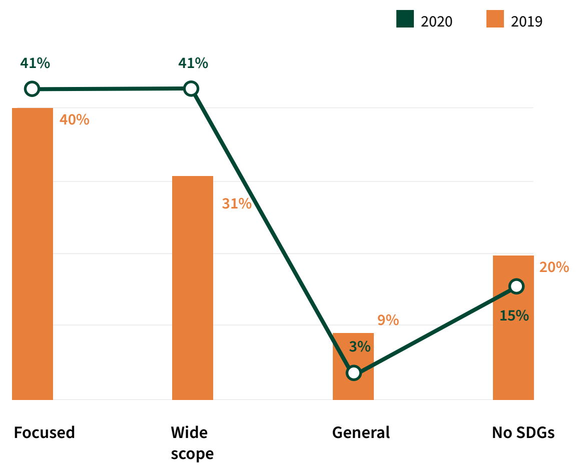
Communications can identify specific SDGs the organisation considers most relevant to its business and stakeholders, which it can have the most impact on. Not all the SDGs and their underlying targets are of equal relevance to every company, sector or geography. Companies are advised to focus their actions on those goals they have the greatest actual and potential impact on, either positive or negative.

The 17 SDGs are broad and topline. If a company aims to be perceived as SDGs-focused, it needs to show that it understands the 17 goals. Corporate communications can disclose which of them the business aims to contribute to. Focusing on specific SDG targets helps a company to define and communicate its SDG-related business priorities clearly and show implementation of effective actions.

Therefore, for the second time, we analysed how communication of corporate sustainability strategies is assigned to the SDGs.

Besides checking if an organisation refers to the SDGs, we researched which SDGs are mentioned and we counted how many are specifically being applied. We then classified the use of SDGs:

- Focused: up to 7 SDGs linked to corporate SDG strategy
- Wide scope: between 8-16 SDGs linked to corporate SDG strategy
- General: reference to all 17 SDGs
- No referral to SDGs



82% of the organisations show priority setting with regards to SDG alignment and, surprisingly, are specifying their SDG approach with enhanced detail in a focused and wide scope way.

On a broader scale (up from 71% last year), companies are increasingly setting and communicating clearer priorities and implementation actions connected to the SDGs.

Only 15% do not refer to SDGs at all, down from 20% last year. Those organisations reporting on SDGs increasingly choose not to refer to all SDGs in a general manner, down from 9% to 3%.

Target Setting

In our last survey we examined whether companies reported on measurable, objective and accountable targets. Due to the increasing relevance of transparent sustainability strategies based on, for example, the EU CSR non-financial reporting directive and the EU Action Plan on Financing Sustainable Growth, communicating ESG targets is deemed to become a business necessity.

For comparability reasons, we conducted identical research to the types undertaken in the past two years. Target setting in the following areas was analysed:

- Energy
- Greenhouse gas (GHG) emissions
- Circular economy and resources
- Society and compliance
- Occupational health
- Employee development programmes.

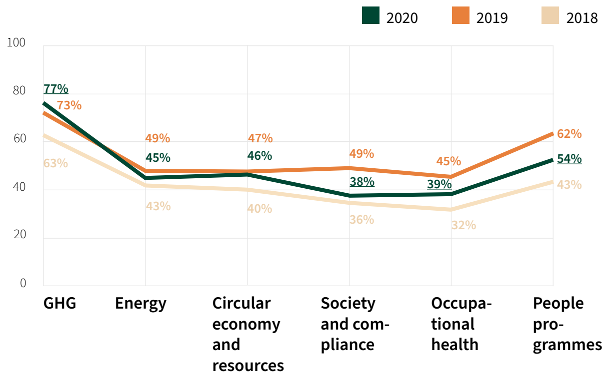
Year on year, the percentage of companies reporting on at least one ESG target remained the same at 84%:

84 % → 2020

84 % → 2019

73 % → 2018

The areas on which targets were reported have shifted again:



Overall, we observe an increase of target setting on GHG emissions. Climate change remains the prevailing ESG topic on the corporate agenda. 77% of the companies report GHG targets, whereas target setting decreased on all other topics. There remains vast room for improving overall sustainability target setting.

Reporting targets related to people programmes still comes second but decreased by 8%. The observation is that this year – on average - social targets compared to last year were not in the ESG focus due to less stakeholder engagement and fewer dialogues in the wake of the Covid pandemic.

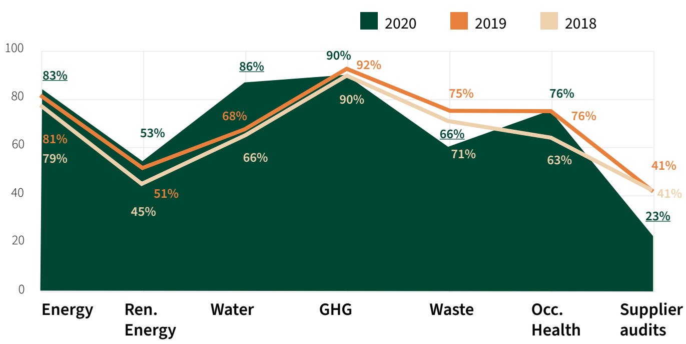
Footprint Data Perspective

– Communication of ESG performance data has increased again, but it can still be improved

For the third time we have analysed the extent of company reporting – in terms of absolute numbers on seven CSR performance data points. In this year's survey, we looked into the extent of company reporting – in terms of absolute numbers – on the following topics:

- Energy;
- Greenhouse gas emissions;
- Renewable Energy;
- Waste generation;
- Water use;
- Occupational health;
- Supplier audits.

Overall, reporting of absolute performance data has improved year-on-year, with an average, observed across all topics, slightly growing from 93% to 95% – for an annual increase of 2%. However, this does not mean per se that no data is reported by the other 5%. Various companies still choose to report relative data, e.g. per revenue or number of employees.



Again, reporting on greenhouse gas emissions and energy remains the focus of attention. The number of companies reporting energy related data increased. Climate change is still the most relevant communication issue

90% of the companies report absolute GHG emissions, a slight decrease by 2%.

for various reasons.
We looked into the GHG reporting of the 27 newly listed companies. 26% of new listings do not report absolute GHG data. This seems a plausible reason for the decrease.

The largest increase is observed with water data (+14%) and at the same time waste data decreased by 9%. Apparently, Circular Economy awareness has shifted from waste to water.

Reporting occupational health data remains at a high level at 76%.

GHG Emission Reporting

This year, for the first time, we were curious to investigate impact measurement. As climate is the prevailing topic, we chose to research if GHG emissions are being disclosed for three consecutive years and to see if impact trends can be observed.

- 83% of the companies provide 3-year historic GHG emission data
- 17% do not provide substantial historic data or any data at all

In total, 70% of companies lowered their GHG emissions over the past 3 years.

GHG emissions target setting in the context of climate change performance appears to be fruitful.

On the other hand, 13% of the companies were honest enough to report higher GHG emissions over that time

European Index Comparison

Large differences at the Index-level regarding specific CSR communication are observed, again. The main highlights are:

The SDGs in CSR Communication

One in five FTSE (London) constituents are not aligning sustainability strategy to the SDGs, down from one in three last year.

SDG reporting remains highest in the AEX (Amsterdam) with 95% of constituents doing so.

Target Setting

Almost half of the MIB (Milan) constituents do not communicate measurable ESG targets, whereas in the IBEX (Madrid) 94% of constituents do.

Footprint Perspective

Over the past 3 years ESG data reporting has risen to a high level with 86% of BEL (Brussels) constituents communicating absolute CSR data, as well as 95% of the SMI (Zurich) constituents.

GHG emissions 3-year performance

89% of SMI (Zurich) and 80% of CAC (Paris) constituents lowered their GHG emissions, a massive performance across all industries.

21% of DAX (Frankfurt) constituents and 22% of IBEX (Madrid) companies, however, reported higher GHG emissions over 3 years.

About this survey

A SDiD team led by Mr. Erik van Buuren produced this study.

A specific methodology was developed for the ESG analysis of organisational reporting.

Erik van Buuren is a leading practitioner and chief analyst in ESG investment management and product & process development for the Circular Economy. He has organized innovation projects with asset managers, companies, NGOs, and international agencies since 1994.

He is founder of SDiD, a dedicated platform for transparent and comparable ESG data.

He holds a Master's degree in Materials Science and Engineering and has specialised expertise in applying ESG integration and stewardship frameworks within the financial sector.

Erik was advisor to the Dutch Government's Cradle-to-Cradle initiatives and co-initiator of the Circular Economy Hotspot in the Netherlands, focusing on the positive impacts of circularity.

Besides, he was a key-note speaker during the official documenta14 programme in Athens and a jury member of the German Design Prize 2012-14 appointed by the German Minister of Economics. For the EU Commission, he was a member of the technical steering group for environmental management in the automotive and metal processing industry from 2014-16.

In the early 1990s, as a researcher with EPEA Internationale Umweltforschung, he co-developed formative product studies in Asia, Europe and the USA based on "Intelligent Product System" methods that set the groundwork for Cradle to Cradle® products. In the late 1990s, as an analyst in London, he operationalised initial ESG research for the foundation of the Dow Jones Sustainability Index®.

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