# THE CURRENT STATE OF SUSTAINABILITY COMMUNICATIONS

**A NIRI webinar explored the latest trends in sustainability reporting and disclosure. Find out why it's essential for your company and IR team to be aware and active in this area.**

BY PAM STYLES

Sustainability communications has become an imperative for IROs to understand, because mainstream investors have rapidly begun adopting corporate environmental/social responsibility/governance (ESG) strategies and performance expectations in investment decision-making.

At least 20 percent of U.S. investment capital – $1 out of every $5 of assets under management (AUM) totaling more than $8 trillion – is now interested and seeking information about sustainability performance, according to a latest 2016 semi-annual report by the U.S. Sustainability Investment Forum (US SIF).

More than 130 members recently participated in a NIRI webinar titled, "Sustainability Reporting and Disclosure: How Is This Important for IR?" to learn more about these growing trends. Panelists included Hank Boerner, chairman and chief strategist of the Governance & Accountability Institute; Lou Coppola, executive vice president and co-founder of the Governance & Accountability Institute; Mike Krzus, an integrated reporting specialist and advisor to BrownFlynn/Sustainserv; and Mike Tyrrell, founder of SRI-Connect and a sustainability investment analyst.

"While transitioning to a more mainstream asset owner and management priority today, the evolution of corporate sustainability reporting and development of more market information portals has also aided individual and coordinated actions of numerous shareholder initiatives and investor coalitions," Boerner observed. "Banding together, they form effective coalitions to address climate risk, responsible lending, political spending, and many other issues. These issues shape the very public agenda for the corporate proxy season."

### Sustainability Reporting and Disclosure

The Global Reporting Initiative (GRI) – introduced in 1997 – is the most commonly used reporting framework in the world with more than 5,000 companies using it to report on ESG. Coppola noted that the most recent generation of GRI guidance, the GRI Standards, was released late last year. GRI is being written into many global regulations, stock exchange listing requirements, and guidance.

Panelists also highlighted several other reporting frameworks, including the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). IIRC takes into account six different forms of capital, including not only financial but manufactured, intellectual, human, relationship, and natural capital. Coppola explained, "Leading organizations are using this and other frameworks to form more holistic strategies to maximize value generation for the company and shareholders."

SASB uses the U.S. Supreme Court's definition of materiality and an evidence-based process to identify sustainability topics that are proven to create value or mitigate risk. The organization creates standards on an industry or sector basis and its goal is to have companies report these disclosures in their 10K/annual reports.

By the end of 2015, 81 percent of S&P 500 companies were producing sustainability reports. S&P 500 companies can have resources not accessible to smaller companies, so IROs should understand there are ways to right-size sustainability programs and strategic communications. Besides stand-alone sustainability reports, other ways to publicly present focused sustainability disclosure and discussion include using integrated reporting and/or the spectrum of IR communications platforms.

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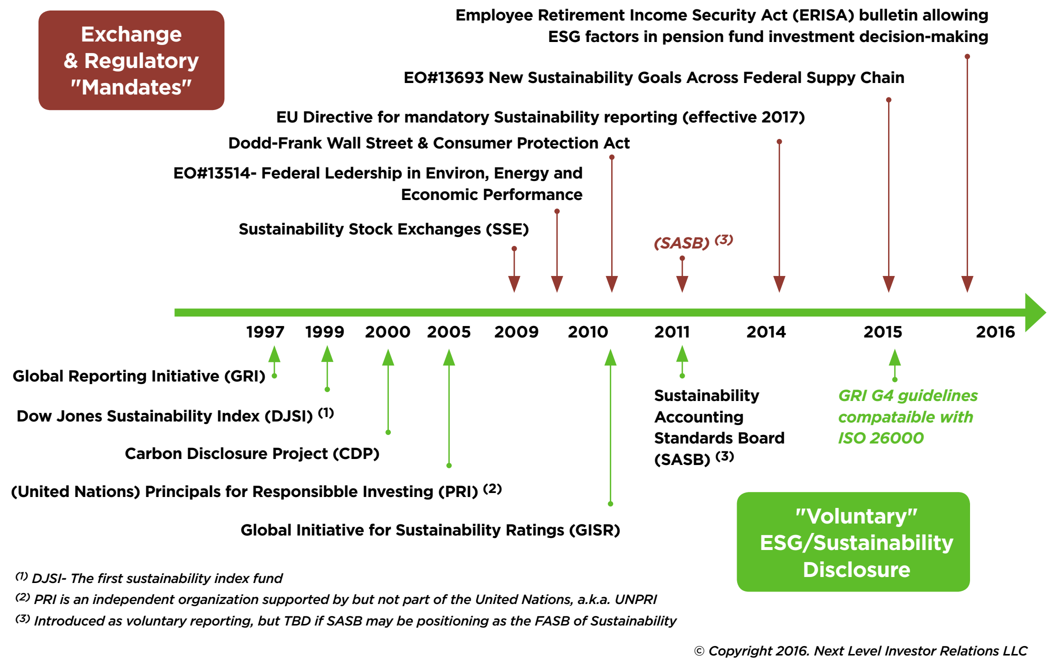
The IRRI survey of investors, analysts, and listed companies about ESG issues is available at **http://bit.ly/2q3W6sC**

## U.S. Public Policy Trends & ESG Disclosure Convergence

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The Ipreo report, "How ESG Drives Investment Decisions: Perspective from Buy Side," published in January 2017, can be downloaded for free at **http://bit.ly/2q3Tbjw.**

Integrated reporting is geared toward analysts, asset managers, and investors (as opposed to broader stakeholder groups or other interested parties) to present ESG data as part of the company's long-term strategy discussion. Dispelling a common misbelief, panelists noted that integrated reporting is not a substitute for a sustainability report.

Krzus defined it this way: "Integrated reporting is an approach that can be used to focus on components of a company's sustainability efforts most germane to capital market stakeholders in investment decision-making. It is a business process that results in providing information about an organization's long-term strategy and execution objectives and can be used to address the challenge of 'short-termism.'"

### An Investor Relations Imperative

Just in the last few years, the field has suddenly matured with mainstream investors adopting ESG approaches in investment decision-making, such as Goldman Sachs, State Street, Bank of America, UBS, BlackRock, Morgan Stanley, HSBC, and many others.

It is widely recognized that the United Kingdom and European institutional investors embraced ESG/sustainability in investment analysis first, but investors in the United States are rapidly catching up.

Ipreo recently published results of a study on the evolving landscape of ESG integration titled, "How ESG Drives Investment Decisions: Perspective from the Buy Side." The study team found that investment professionals largely rely on company reporting for ESG/Sustainability research and recommend that IROs take a larger role in increasing sustainability communications.

Tyrrell shared results of a recent Independent Research in Responsible Investment (IRRI) survey that included 1,000 investors and analysts plus more than 300 listed companies. The survey results show that "companies are increasingly delegating responsibility for SRI communications to their investor relations teams – often supported by CSR teams."

Several additional IRRI survey findings include:

- Asset managers care about sustainability because asset owner clients are putting pressure on them and because these factors have investment impact.
- Over 90 percent of new investment guidelines issued by institutional investors surveyed require sustainability and corporate governance factors to

be integrated into investment decision-making.

- 73 percent of asset managers believe direct contact with companies on sustainability issues is an important part of their research process.
- Annual sustainability-focused webinars and roadshows are valued by both companies and investors as efficient and high-quality ways of communicating.

## Big Data for Sustainable Investing

Whether you know it or not, there is likely considerable data out there on your company's ESG performance that institutional investors and analysts are relying on. One of the fastest growing resources is the ESG dashboard on Bloomberg terminals – with thousands of public company data sets and volumes of information about issuers' sustainability efforts. A Bloomberg terminal sits on practically every analyst and asset manager's desk – some 325,000 worldwide. This dashboard is built around the GRI and other frameworks.

There are many other sustainability data and research providers, including but not limited to ThomsonReuters (which owns Asset4), IW Financial, Oekom Research, SustainAlytics, RobecoSAM Group, and MSCI.

## Final Word

There is a frequent view in the IR community related to sustainability, something like, "nobody is asking IR about sustainability, so nobody cares." This response couldn't be further from the truth or reality today. Sustainability reporting and disclosure is important for investor relations in the strategic communications story. IR

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**READ MORE**

*Trends Converging!*, published in January 2017, authored by Hank Boerner, provides an in-depth look at ESG/sustainability trends for corporate managers. It can be downloaded for free at **www.ga-institute.com** under the "Research" tab.