Reporting matters

Digital deep dive analysis

WBCSD 2019 Addendum Report

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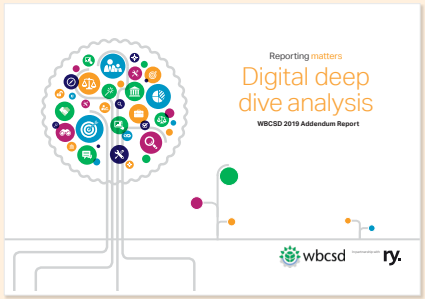
Digital deep dive analysis

The current convergence of public pressure, government regulation and investor scrutiny has led to an explosion of information requests and reporting approaches to satisfy stakeholder needs. While this has made sustainability reporting an imperative for business, it has created a significant burden for reporters.

Good reporting enables companies to show how they have integrated sustainability into their business and to communicate the value of their work. This year, *Reporting matters* presents the evolution in reporting that WBCSD and its members want to see in response to the increasing complexity of the reporting landscape.

In the main report, we provide insights that aim to help companies navigate the new context through the lens of materiality, judgement and visual language. The three addendum reports explore distinct aspects of reporting:

- The role of risk and governance in internal decision-making and external disclosure;
- How sustainability strategy and target-setting is evolving as we approach 2020; and
- The future of digital reporting and emerging technologies.



The digital reporting context

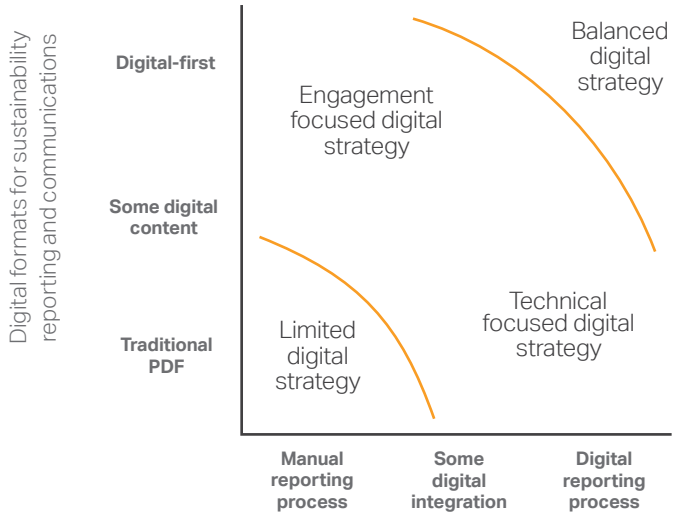
Sustainability reporting and technology are converging. This convergence impacts companies in two distinct ways. First, it impacts the process of producing, aggregating and analyzing sustainability data internally. Secondly, it impacts how companies are communicating their sustainability approach to external audiences.

This deep dive presents a digital maturity model to help companies understand their positioning in the digital reporting landscape then focuses on how technology impacts sustainability reporting internally and externally. The first section discusses how Artificial Intelligence (AI), blockchain and eXensible Business Reporting Language (XBRL) can transform sustainability reporting processes for reporting teams and specialist audiences. The second section discusses how WBCSD member companies use digital formats as a tool to communicate their sustainability reporting to specialist and generalist audiences.

Digital maturity model

WBCSD's digital maturity model enables companies to evaluate their digital strategy for sustainability reporting. The use of digital technology in sustainability reporting is growing to reflect the need for companies to tailor traditional communications to engage a wider audience and better collect and manage data. These strategies are for both internal and external audiences.

Figure 1: the digital reporting maturity model.



The model is designed to illustrate how technology can be used in reporting rather than to categorize sustainability reports into static groupings. For instance, legal filings with limited interactivity and customization can be backed up by a robust internal controls framework based on advanced digital approaches or other more interactive elements in the reporting suite that make content more engaging. A microsite-based approach, on the other hand, could still feature mostly static webpage text and be reliant on manual data collection processes. It is important for companies to find the best balance between stakeholder expectations, reliability of data and costs.

A horizontal "integration of digital technology into the internal reporting processes" axis depicts progress in using technologies to collect, compile and publish ESG data. Integrating digital technology into internal reporting processes ranges from manual to fully digitized. Companies move along the horizontal axis as they adopt more advanced technologies for data collection and consolidation and embed them into their management systems and control mechanisms for sustainability issues. Over time, widespread integration of reporting technologies enables companies to collect and analyze more reliable and unstructured data, shift from retrospective to real-time information, and combine financial and ESG data as part of a holistic approach to value creation.

A vertical "digital formats for sustainability reporting and communications" axis describes the extent to which digital approaches are being used to engage different stakeholders. At the lower end of the vertical axis, sustainability reporting tends to be limited to traditional reporting formats such as a downloadable PDF. This type of approach is characterized by one-way communication, standardized presentation and technical-led content. As companies travel along the vertical axis, reporting moves towards a wider range of online formats to provide broader accessibility, customization and near real-time communication. Functional, text-based reports become more interactive and adapted to different audience groups through new reporting formats. The transition to online reporting enables companies to obtain data on stakeholder-relevant topics and understand what kind of content drives traffic to help shape their reporting.

Digital deep dive

How technology influences the reporting process

Technological developments are leading to more reliable data collection, improved analysis of complex and unregulated information and standardized means of disclosure. AI, blockchain and XBRL in particular have gained traction in sustainability reporting and they are beginning to shape the reporting environment.

Artificial Intelligence (AI)

AI describes machines and computer systems that "can sense their environment, think, learn, and act, in response to what they sense, and their programmed objectives".[1] AI has proliferated globally for professional and personal uses. Types of AI range from automated to autonomous depending on the purpose of the system.

In the context of sustainability reporting, AI applications include machine-automated analysis and forecasting. Companies can apply AI to process environmental, social and governance (ESG)-related big data in an automated way – identifying accurate patterns and providing more realistic forecasts. This frees up employee time to analyze ESG data rather than manage data collection. AI can also recognize stakeholder-relevant topics and efficiently produce data for complex non-financial KPIs.[2] Companies are then better able to report on what is relevant, rather than what is considered easy. Investors are also using AI to scrutinize unstructured and scattered ESG data on the web to identify sustainable investment opportunities and risks.[3] While AI offers diverse benefits for sustainability reporting, companies need to manage the evolving technology and consider the risks – such as how biases might impact how data is processed and analyzed.

Blockchain

Blockchain is a type of Distributed Ledger Technology (DLT) that records online transactions of value in a "block" format. Each transaction forms a block of information which is validated by a peer-to-peer network. Validated blocks are stored in the list of transaction records and changes to the blockchain are visible to the network. Blockchain provides anonymity to its users and operates in a decentralized manner, creating a distributed and immutable ledger where transactions can take place securely, without intermediaries such as banks.[4]

Blockchain is best known for its use in cryptocurrencies but the potential of blockchain is much bigger. Its features can also improve sustainability reporting – most notably in terms of value chain transparency. Companies can disclose near-real time ESG information about value chain transactions globally, instead of annually disclosing static figures. Because ESG information is provided and validated by multiple parties, the distributed ledger can increase trust and credibility between report producers and users.

Blockchain generates traceable ESG information for sustainability reporting through permanent audit trails. A case in point is Bumble Bee Foods, whose customers can soon purchase tuna stamped with blockchain-derived QR codes which disclose where and when the fish was caught, as per the immutable transaction created by fishing industry suppliers on the blockchain.[5] Accenture's feasibility study of Thai farmed shrimp traceability suggests that blockchain can ensure compliance with health and safety standards and import regulations through a documented chain of custody.[6] Further, blockchain could act as means to verify claims of certification by way of audit trail checks and digital signature identification.[7]

eXtensible Business Reporting Language (XBRL)

XBRL is a reporting tool developed to improve the exchange of information among systems. It uses agreed, predefined tags to categorize data that can be read by any XBRL compatible software. Tags allow report preparers to insert additional contextual details related to a figure – for example, linking it to relevant laws or standards indicators. The standardized tags ensure comparability of business information worldwide and reduce information asymmetry between report preparers and users.

XBRL is widely required in the financial arena where the accessibility, analysis and comparability of financial information is key to investors, regulators and others. It is compulsory for regulatory filings in jurisdictions like the United Kingdom and Japan. From 2020, listed European companies will be obliged to label their financial reports with XBRL tags. This development is due to an amendment to the EU Transparency Directive which requires listed companies to prepare annual reports in machine- and human-readable format. European Single Electronic Format (ESEF) was created as a result.[8,9] The U.S. Securities and Exchange Commission is pursuing a similar development from 2021, after which companies will need to iXBRL tag all facts and notes to consolidated financial statements.[10]

XBRL's use in sustainability reporting remains limited, although its adoption would enhance accessibility, analysis and comparability, as in the financial domain. XBRL can boost the credibility of sustainability reports through predefined tags like those of the Global Reporting Initiative (GRI) Taxonomy.[11] These tags allow ESG information to be traced back to standard indicators, laws and more, enhancing the transparency and comparability of sustainability reporting. Tagging can also improve the harmonization of metrics and KPIs because report preparers and users can consume ESG information in a role- or interest-based way, comparing how certain issues are reported on.[12,13] XBRL allows moving from "one size fits all" sustainability reporting to dialogue-based, interactive disclosure through which stakeholders can create a tailored version of the publication.[14]

XBRL data repositories also offer real-time transparency of ESG information, allowing stakeholders to evaluate sustainability performance year-round rather than retrospectively. It can enhance a holistic approach to integrated reporting by interweaving ESG and financial data.[15] This might include, for example, providing financial statement details within a tag for greenhouse gas emissions. Overall, XBRL presents numerous applications for sustainability reporting in general and – more specifically – could help companies move toward integrated reporting at a faster pace, considering the global XBRL developments for regulatory filings.

Recap

AI, blockchain and XBRL technologies offer a range of opportunities for companies to improve sustainability reporting, efforts and decision-making through more reliable, transparent and verifiable data. Their widespread application has the potential to achieve considerable strides in the international agenda for sustainability and change the narrative around non-financial reporting.

Sustainability reporting formats in the digital age

With evolving technology and changing audience needs, new and innovative digital approaches to sustainability reporting are emerging. This year, we examined WBCSD member companies' use of digital formats in their reporting to gain a holistic picture of the state of digital sustainability reporting.

Sustainability audiences are growing and changing

There's growing diversity in the needs of sustainability reporting audiences. On the one hand, broader and more mainstream interest in sustainability is rising, with 81% of global consumers feeling strongly that companies should help improve the environment.[16] These 'generalist' audiences tend to take a passing interest in sustainability reporting, looking to gain a sense of how the company is performing or being interested in the highlights. At the other end of the spectrum, scrutiny from investors, analysts and NGOs is increasing. These technical and "specialist" audiences are putting pressure on companies to improve transparency through more detailed disclosure on key topics than ever before. This is leading to an increased need to tailor sustainability content across different formats, as a one-size-fits-all approach to reporting results in lost opportunities to engage a wider range of audiences.

Building a holistic approach

Digital formats present an opportunity to create engaging experiences that can be tailored to the needs of different audience groups. For the generalists, providing complementary online content such as film, animation and data visualization can enhance storytelling. For example, interactive and dynamic highlights pages can be a great way to elevate the best stories and top-line messages from a sustainability report. Digital formats can also keep audiences engaged throughout the year by sharing updates and achievements more frequently, and as they happen.

Digital reporting formats aren't just relevant to generalist audiences. For specialists and those interested in greater detail, online reporting can offer an opportunity for deep dives on specific issues or topics in an easily accessible way. The hierarchy structure of a website provides a natural advantage by allowing users to navigate to areas of interest easily and allows space for more detailed technical disclosures that could potentially overwhelm a PDF report.

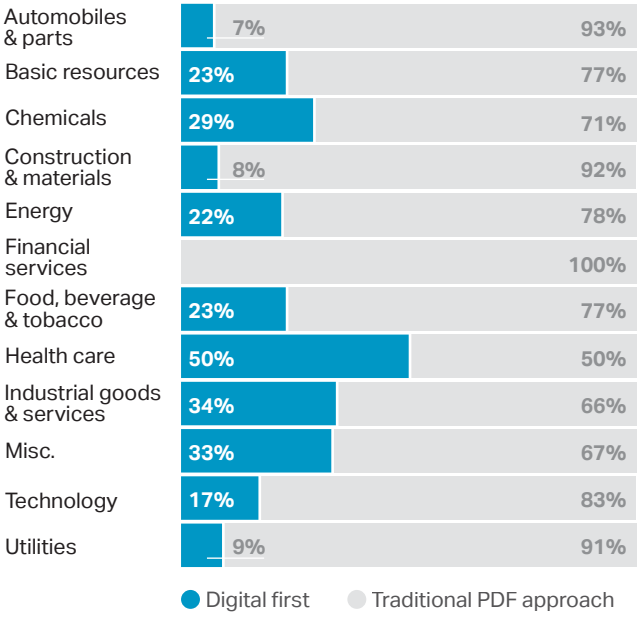
A key benefit of digital reporting is the ability to tailor the user experience to different audience groups. To do this successfully, it is crucial to understand audiences and make the information they are interested in accessible and intuitive to navigate. Users can then effectively customize the experience, dipping in and out of different levels of detail across topics of interest.

Growing adoption of digital-first approaches

Our research into digital reporting across 159 WBCSD member companies found that over three-quarters (77%) of companies are still taking a traditional approach to reporting (downloadable PDF). However, nearly a quarter (23%) have adopted digital-first, which is a trend we expect to accelerate over the next few years.

Our analysis found variation in the rate of adoption of digital-first approaches across supersectors, with *Health care* having the highest rate of companies taking a digital-first approach compared to *Financial services* where all companies are still taking an traditional approach.

Figure 2: distribution of digital-first scores

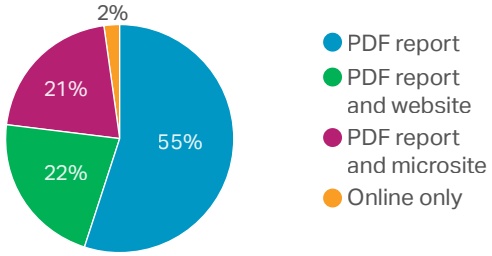


PDF remains a popular format

In terms of the most common reporting formats, slightly over half of companies publish a PDF-only report (55%). Another 43% accompany a downloadable PDF with either a microsite or sustainability content on their website. A minority of companies (2%) are taking an online-only approach.[17]

Even as companies move towards digital platforms, our analysis shows the PDF report remains a useful format for providing a central location for core sustainability disclosures. However, we're seeing a growing number of companies supplementing their reports with online information that can be tailored to the specific needs of diverse sustainability audiences.

Figure 3: distribution of reporting format scores



Sustainability content is accessible from the homepage

Companies are recognizing the importance of sustainability to audiences and making information accessible. Overall, about three-quarters (74%) of companies have a clear link to sustainability content from the homepage of their websites. This reflects the increasing recognition of sustainability as a value driver and its resulting integration into companies' external communications.

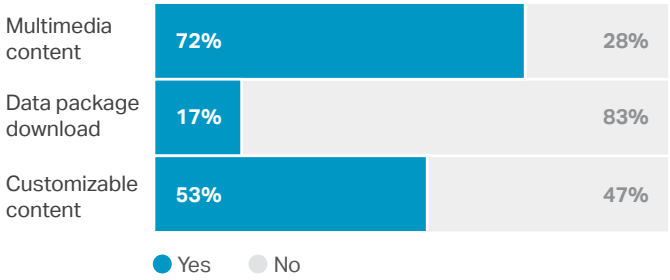
Reporting is supported by complementary online content

Two-thirds of companies have complementary sustainability content online, reflecting increased efforts to make sustainability content more engaging for generalist audiences. The most common form of additional online content is multimedia such as videos and soundbites.

We are seeing a trend towards enabling customization of sustainability content so that users can select the areas that are of interest to them. Approximately half of companies with complementary online sustainability information offered some form of customization. Often, this is the ability to download specific sections of the full sustainability report.

In response to the growing pressure for transparency around sustainability performance, we're also seeing a small number of companies making sustainability KPIs and performance data available for download or accessible through interactive chart tools.

Figure 4: distribution of interactive tools scores



Recap

While some companies are moving towards digital reporting, it's still an emerging and evolving trend. New and innovative formats bring the opportunity to effectively reach broader audiences and keep sustainability reporting content alive beyond the annual update. However, there is a long way to go to make the most of the opportunities on offer through digital reporting. To maximize the potential, steps into digital reporting must be grounded in a clear understanding of audience needs and taken as part of a holistic approach.

Digital deep dive

Solvay discusses technology and reporting

Solvay is a Belgian chemicals company founded in 1863, with its head office in Neder-Over-Heembeek, Brussels, Belgium. Its Annual Integrated Report is presented in both microsite and PDF format.
We spoke with representatives of the multifunctional team in charge of the annual report preparation: Anne-Laurence de Villepin (Communications), Valérie-Anne Barriat (Investor Relations), and Michel Washer (Sustainable Development) to learn how technology impacts underlying reporting processes and resulting external communications.

Solvay has taken a digital-first approach to its ESG disclosures. What was the rationale for this and what feedback have you received from key stakeholders?

Solvay decided to take a digital-first approach to its ESG disclosures when the Group started to publish its annual report through an integrated reporting framework.

Digital brings several key benefits and matches well to the integrated thinking approach. It helps to put contents and data into perspective, to add examples in a more user-friendly way and to develop interactive infographics. It also fosters connectivity throughout the report and adds value for users by bringing further functionalities, such as a data comparison tool and PDF downloads.

In terms of communication, we leverage the digital format to reach different audiences internally and externally through our website and social media. Audience groups include shareholders and financial analysts, employees, ESG experts, customers, students, jobseekers and others. We select content that matches their interests (key figures, testimonials, etc.) and adapt their format across diverse channels.

Digital has proven to be more powerful and efficient for reaching a broader, more diverse audience: +41% visits, +50% users and +42% new users compared with last year. This is in line with a similar upward trend seen in previous years. It also allows us to identify which parts of the report are most accessed and to focus on improvements for the next report.

We received positive feedback from key stakeholders – internally from management and employees, from our shareholders and the financial community and from experts like the GRI and IIRC.

Digital reporting offers the potential to engage multiple audiences with your sustainability strategy and reporting content. How has Solvay been able to tailor or customize its content for relevant audiences? Why is this important for report preparers? What role has digital reporting and technology played in this?

We dedicate a lot of time to the "Understanding Solvay" section of our report. This is the most visible section and highlights the main contents from an integrated thinking perspective. Viewed as our "integrated report", this content is based on the guiding principles and content elements of Integrated Reporting as established by the IIRC. However, beyond ESG and financial experts, it must also match the broadest audience's expectations i.e. employees, students, customers, etc. This means providing non-technical, concise and impactful content and using appropriate design. Our Communication teams are most specifically devoted to this section.

The Understanding Solvay content links to more detailed and technical content in other sections of the report: Governance, Risks, Business Review, Extra-Financial Statements and Financial Statements. These sections are needed to answer to multiple reporting frameworks: the Belgian governance code; European and Belgian legal reporting requirements; GRI; UN Global Compact; TCFD; SDGs reporting; and international financial reporting standards. The realization of these sections involves contributors from diverse Group departments including finance and financial communication, risk management, corporate secretary and sustainable development.

We've been able to customize our content for stakeholders because, each year, we ask them for feedback which we take it into account in the following report. We have very different stakeholders and they have strong expectations. Digital allows us to present an engaging report which answers to their needs.

Often people think of digital reporting only in terms of the output (microsites, website-based reports, etc.) Technology and digital innovation can also play a critical role in the underlying reporting process. How has evolving technology played a role in Solvay's disclosure process and what are some of the key benefits?

The technology itself did not really change the underlying reporting process, but the decision to move to an integrated report did. Before issuing an integrated report, we wanted to develop integrated dashboards internally. This required a revision of the materiality analysis, aligning scope and boundaries of financial, social and environmental performance indicators, and re-shaping reporting process timelines.

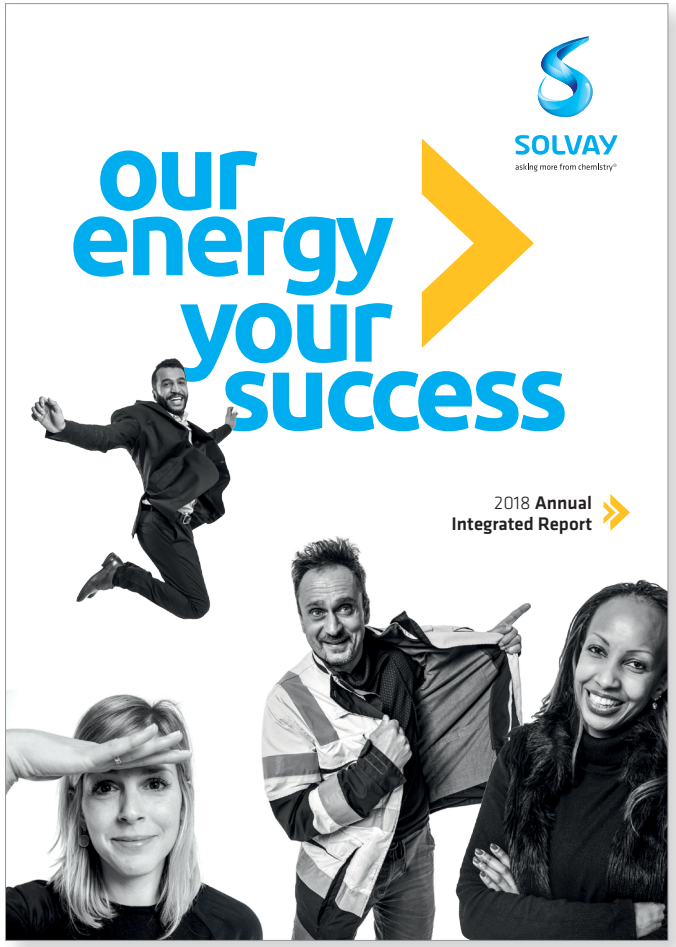
What digital reporting changed is more in the structure of the report, removing the constraint of linearity. Each section of the report is structured to be read alone without having to read previous pages, although it may include links to other pages.

External assurance became a little more complex as auditors need to manage the dynamic aspect of a digital report. Multiple frameworks and governance codes remain a constraint that we need to manage and this complicates the structure of the report.

What are some of the key trends and developments in this space that you anticipate moving forward and what are some of the implications for Solvay?

There is one evolution that is clearly required. There is a lot of information published by multiple organizations, but today it is "locked" in PDF documents or websites and not easy to extract or consolidate. This complicates our reporting process as the annual integrated report is not the only document we need to publish. Many organizations require us to complete questionnaires, such as customers and rating agencies. This requires us to fill information in multiple platforms, which is equivalent to publishing hundreds of additional report pages. Clearly, digital technologies need to address this, but the multiplicity of reporting frameworks and governance codes is not making it easy.

It will be difficult to find the perfect compromise between a standardized report, which makes it easy to access data, and a communication document which allows us to differentiate from competitors, which by definition seeks to be unique. The future is probably a concise, integrated report that focuses on explaining what makes our company different, supported by appendixes in open data format aimed at reaching different stakeholder groups with more specialized information. A "core and more" model may, perhaps, be the answer.



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About the research partners

This project is a joint collaboration between WBCSD and Radley Yeldar

About the World Business Council for Sustainable Development (WBCSD)

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

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About Radley Yeldar

We're an independent creative consultancy working to create a world that believes in business. For over 30 years, our team of 200 experts has worked with multinationals, start-ups and public bodies to solve complex challenges through a unique blend of technical expertise, compelling communications and standout creative. As an integrated communications agency with leading sustainability expertise, we combine inspiration with evidence to create belief among all audiences. We help our clients define their strategy, bring it to life and report credibly.

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Digital deep dive

End notes

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[17] A microsite is a small auxiliary website designed to function as a supplement to a primary website. It often allows for greater flexibility in design than corporate websites that can be restricted in functionality and format.

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