

IRF Reputation

## Study on ESG reporting in Switzerland

Zurich, 28 April 2020

### Better than their reputation

#### Sustainability reporting of the largest Swiss companies

**The largest listed Swiss companies are an important reference point and a role model for many small and medium-sized companies. Since the beginning of the new millennium, and even more since the Paris Agreement 2015, large Swiss companies have stepped up their sustainability initiatives. However, the growing commitment is repeatedly called into question in public discourse, especially when it comes to the multinationals.**

**This study on the SMI Expanded Companies examines how sustainability reporting has been anchored and structured in the largest Swiss companies to date. It also provides initial indications of whether the topic will gain or lose importance in connection with the current crisis.**

Supporters of the Swiss Responsible Business Initiative point out that voluntary sustainability standards are not sufficiently effective, as do climate activists. Recently, there has also been criticism of rating practices, and the accusation of greenwashing has spread to sustainability ratings.

This criticism is countered by the trend among investors of attaching significantly more weight to so-called ESG criteria (environmental, social and corporate governance) in their investment decisions and linking them to hard criteria. Prominent examples are the Norwegian State Fund Norges Bank Investment Management or the US asset manager Blackrock. In 2015, the Swiss national institutional investors founded the Association for Responsible Investments (SVVK). Since then, several landmark decisions have been taken and implemented, reinforcing the trend towards tighter guidelines. Legislators are also exerting pressure. Revised EU guidelines on sustainability reporting are expected by 2020, and in Switzerland, too, climate goals and social issues will receive a boost with the new parliament.

#### Impact of the pandemic still unclear

The effects of the Covid-19-pandemic on ESG developments are only vaguely visible so far. There is a growing number of voices from important financial market experts that the ESG topics, especially the social dimension, will gain in importance with the Covid-19-crisis. This crisis reveals major differences between companies in their dealings with their employees and customers. Those who were not in a position to take rapid measures to protect people in the direct sphere of influence were quickly pilloried. In the second phase, the public debate is now going on about how companies should behave in the area of salaries and dividend payments, especially if they have to take advantage of government support.

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However, many stakeholders doubt that companies will now focus on ESG issues. In the crisis, according to these critics, they envisage a return to an old order, in which company managers will once again base their decisions more strongly on key financial figures and the profit (or loss to be reduced) for shareholders, especially when survival is at stake. ESG engagement and reporting would therefore become less relevant as a result of the crisis.

Is ESG moving in or out of focus in large companies? This study aims to describe the current situation in ESG reporting of the largest Swiss companies in order to provide answers to these questions.

### **Global Reporting Initiative as overarching standard**

In order to be able to contribute to the discussion with a clear statement on the changes in the sustainability reporting of the largest Swiss companies over the last few years, this study examines the companies' reporting according to the Global Reporting Standards (GRI). The latest GRI guidelines have been in force since July 2018, so this is an ideal time for an interim review. The GRI standards are the most widely used sustainability standards in Switzerland and worldwide. Around 3,000 companies worldwide have already adapted them. In total, the [GRI-Register](#) lists 78 companies based in Switzerland that have already submitted at least one annual report in accordance with the latest GRI standards. Many companies also integrate into the GRI report how they implement the UN's Sustainable Development Goals (SDGs) within the guidelines of the UN Global Compact.

The study examines the sustainability reporting for the years 2018/2019. The data consists of the most recent reports of the 47 largest listed Swiss companies as of the end of March 2020 (based on the SMI Expanded Index). Most of these companies report according to the GRI standard. One company in the real estate sector reports according to the standard of EPRA, the Association of European Listed Real Estate Companies. The EPRA standards are also recognised by the Swiss stock exchange SIX as a sustainability reporting standard, but this report is excluded here in the further explanations. Furthermore, some companies report according to other, less widely used standards that are not officially recognised by SIX. These have not been further investigated.

#### **ESG – the new buzzword**

The term commonly abbreviated to ESG includes the management of environmental, social and corporate governance issues of an organisation or company and the impact of changes in these areas on the organisation itself. The term is also often used as a synonym for sustainable management, as in this study.

The central element in the classification of ESG issues is the materiality analysis, which determines the areas of importance for the company or organisation. If this analysis is carried out correctly, the risks that affect the entity in the area of ESG are also included.

ESG also includes 'corporate social responsibility', commonly abbreviated as CSR. ESG is increasingly replacing CSR as a buzzword for responsible corporate governance. Some companies are now expanding their existing CSR strategies to include the dimensions of environment and governance and use ESG as a general term.

### Strengths and weaknesses

The data provides six points of proof that Swiss companies are making progress with their sustainability reporting:

1. around 70 percent of the largest listed Swiss companies report according to the GRI guidelines (33 out of 47)
2. around a third of the companies have significantly increased their efforts in the last five years
3. a further third of the companies have been active in sustainability reporting for five or more years
4. 15 out of 33 of the companies reporting according to GRI have had their last report audited by an external body
5. 15 of the companies clearly state their commitment to the Paris Agreement in their report and align their strategy accordingly; eleven of these companies have had their report externally audited
6. 11 of the companies without a GRI report also have partial or full reports according to a specially created structure or other standards

In summary, most of the reports testify to well-documented ESG commitment by companies in both facts and figures. Those companies that invest heavily in their ESG developments integrate these issues strongly into core processes. Materiality analyses tend to become more complex, with the advantage that risks are better reflected in them. The degree of standardisation, presentation in numerical form and charts, and the setting of clear target values are increasing. Most reports from the leading third of companies show a good degree of self-reflection, and address their weaknesses as well as the big societal movements. The companies that explicitly orientate themselves on the Paris Agreement stand out even more positively.

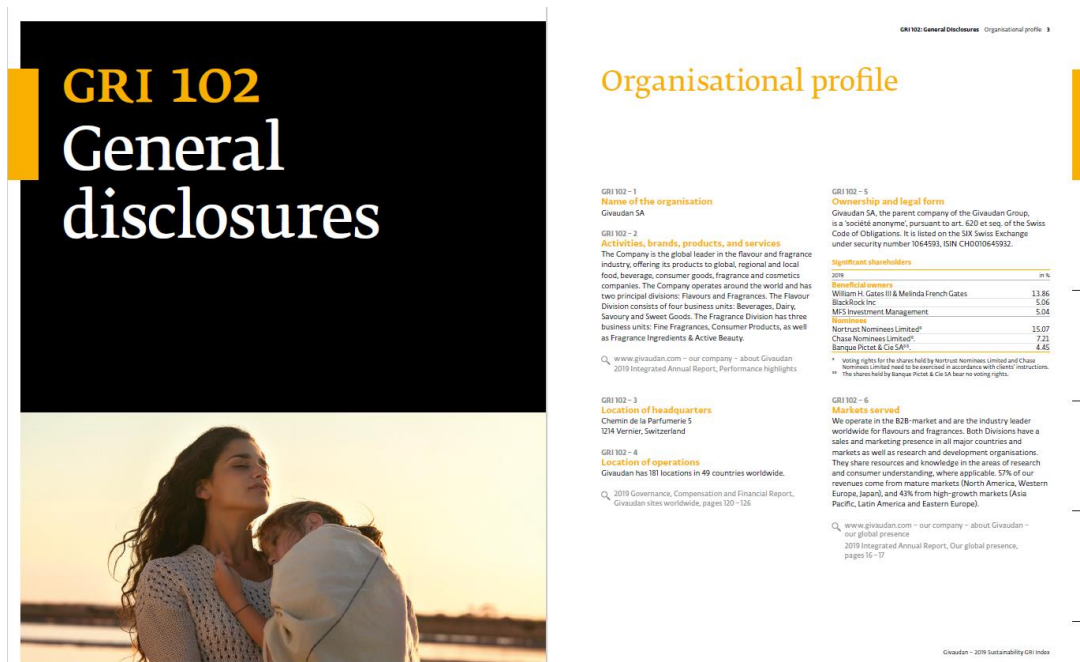


Figure 1: *Givaudan* shows how it works: standardised, with understandable charts and tables, clear objectives, official GRI entry and external verification (pages 2 and 3, *Givaudan's Sustainability Report 2019*)

Good design and strong visuals should not be used as grounds for cover-up accusations. The best reports in terms of defined goals and compliance with standards are often also the ones that are most attractively designed. Sustainability reporting has replaced classic advertising formats for many target groups in corporate communications today and is thus prepared for the various communication channels. As soon as companies report with significant figures and openly address their weaknesses, the accusation of greenwashing should no longer be admissible.

### Our people

The greatest strength of Novartis is our people, whose diversity, energy and creativity are crucial to our success.

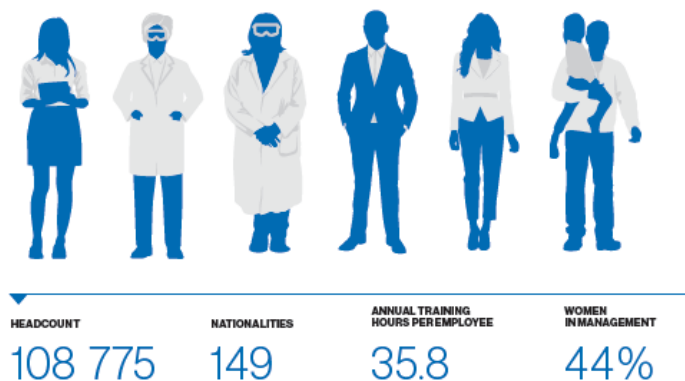


Figure 2: Equality in working life becomes a reality only when family and childcare are no longer attributed solely to women, as illustrated by **Novartis** (page 5, 2019 Sustainability Report of Novartis)

The need for action by the companies investigated can be summarised in the following five points:

1. Too often, ESG efforts touch the core activities and processes of companies only peripherally.
2. Vague formulations and goals that are not expressed in figures suggest that the actual commitment of some companies is still low.
3. In some companies, the reporting is written from the outdated perspective of the benefactor. Phrases such as 'giving back' or 'volunteering' indicate an understanding that these companies do not yet see themselves in a mandatory role.
4. The completeness of the information is still insufficient in more than half of the companies investigated; primarily in the reports that do not follow any specific standard, but also in some GRI reports. Reporting without following external standards and only according to internal guidelines favours omissions and a lack of transparency.
5. The central reporting register for GRI reports is currently not updated quickly enough. As of the end of March, only 25 of the 33 companies reviewed here were entered in the [GRI register](#) with their latest report.

The first three points can all be linked to the central element of the materiality analysis. It shows the depth to which companies deal with their environment and the extent to which they focus on ESG issues. Many companies have got off to a good start, have formed units or teams, and written their first reports. But now, in a second step, they must take courage and integrate their ESG efforts more deeply into their core processes.

### ESG will continue to gain in importance

The front-runners are leading the way: Most of them have been running ESG programs and standardized reporting for over a decade. They can be used to observe how ESG issues are successively moving into the centre of corporate action. As a result, these leaders are already benefiting from their sustainable image on sales and labour markets. It is now important for the middle third to catch up with the top. Those companies that do not yet produce a report according to international standards could take the current crisis as an opportunity to start doing so. Firstly, in order to have better arguments vis-à-vis investors or to meet public demands for government aid, and secondly, to set an example to their stakeholders.

The authors of this study expect that the trends towards greater transparency, more specific targets and figures, and a wider use of external verification in ESG reporting will continue beyond the Covid-19-crisis. The first signals from major investors indicate such a development. However, whether the crisis will eventually lead to more ambitious targets or the opposite will be the case depends also on its length and severity as well as on the terms of government stimulus packages.

2030 as the target year of the UN's global Sustainable Development Goals will give rise to the next major global review. It is desirable that standardised reporting in Switzerland be applied throughout the country by then, so that Swiss companies can pick up their laurels in the global evaluation, for they are often better than their reputation.

Walter B. Kielholz  
Chairman of the Board of Directors



Dear stakeholders,  
The year of 2019 was an important one for sustainability. The momentum around the topic has increased noticeably, especially with regard to climate change. While this has raised expectations on businesses, it is also creating new opportunities for positive action. Particularly in our regular interactions with clients and brokers, investors and regulators, we have noticed rapidly growing awareness of sustainability as a key long-term value driver.

Figure 3: Clear words followed by deeds - **Swiss Re** reduces its reinsurance offer for Co2-intensive energy providers at a rapid pace

## **Methodology**

For the analysis, the sustainability reports of the 47 largest listed Swiss companies were examined. This corresponds to the SMI Expanded Index. As of the end of March 2020, the most recent sustainability report was accessed on the companies' websites. Depending on the company, the current reports thus covers ESG activities for the years 2018 or 2019. The first step was to determine whether the reports were prepared according to the GRI standard and whether the corresponding reports were also recorded in the official GRI database. If the current report was not yet recorded in the central database, but was clearly prepared according to GRI, and the company had older entries in the database, the report was classified as compliant with the GRI standards.

The status of the GRI reports was also recorded, i.e. 'core', 'comprehensive' or 'referenced'. In the case of reports according to other guidelines, including internally produced reports, these were recorded as 'reporting to other standards'. Companies that address some sustainability issues on their website but do not offer a separate report were listed as 'non-reporting'. In addition, it was checked whether the GRI reports were externally audited.

On a qualitative level, the GRI reports were examined according to two criteria: on the one hand, text passages were sought that indicated recent changes in ESG reporting, and on the other hand, the reports were reviewed for clear statements on the Paris Agreement. The first criterion was to determine whether the respective company has increased its ESG efforts and the associated reporting in recent years. If a company has recently prepared a completely new materiality analysis, founded new ESG committees, sought external advice or adapted the GRI standards, this is usually mentioned in the prefaces and introductory texts. In the statements on the Paris Agreement, it was checked whether the respective companies themselves make clear statements about their intention to implement the Agreement.

## **About IRF**

In recent years, IRF has established itself as one of the leading Swiss consulting firms for business topics. IRF's customer base includes about 30 Swiss and international companies. The firm specialises in the areas of positioning and capital market transactions. In order to meet the growing needs in the area of ESG, IRF has developed a modular consulting offering with a focus on investor relations.

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