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Standardised Sustainability Reporting of the Largest Listed Swiss Companies

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Executive Summary

ESG, GRI, UNGC, SASB, TCFD, CDP, SBTi: The meaning of all these abbreviations and the technical requirements of the associated standards initially overwhelm many newcomers to sustainability reporting. This study provides an overview of the most important international standards for ESG or sustainability reporting and uses the examples of the SMI Expanded Index to show the use of the standards among the largest listed companies in Switzerland. Large multinational companies are considered pioneers in ESG reporting, and they are increasingly demanding reporting from their customers and suppliers. 45 of the 50 companies surveyed apply at least one international standard in their sustainability reporting. Well established are the Global Reporting Initiative (GRI), the UN Global Compact and the Climate Disclosure Project (CDP). The UN's Sustainable Development Goals (SDGs) are also widely used, and the standards of the still young Sustainability Accounting Standards Board (SASB) are spreading rapidly.

This study is designed to be a source of information and guidance for ESG decision-makers. The data collection on the choice of standards of SMI Expanded companies provides information and hopefully motivation for small and mid-caps to also embark on the path of standardized ESG reporting. The study additionally takes a look into the political context of the legal regulations on ESG reporting, which are currently also taking shape in Switzerland.

ESG Reporting Continues to Gain Importance

It was only fifteen years ago that Kofi Annan, then Secretary-General of the UN, asked the chairmen of the boards of 50 global corporations to commit to sustainability. This writes the renowned business journalist Gillian Tett in the Financial Times at the beginning of 2021, pointing out the great development that has taken place in the field since then (Tett, 2021).

Although there is often talk of a lack of standards, the fact is that over the last twenty years a number of international standards for reporting on non-financial topics have proven themselves and gained acceptance. In the exchange between the private sector, industry organizations and the UN, two central concepts developed. One is materiality - the idea that issues such as ecology, social justice and good governance have material impacts on companies and vice versa. The concept of materiality then evolved into the second concept for measuring these material impacts by a set of ESG metrics or KPIs (Tett, 2021).

The standards' databases serve as directories in which companies make their reports accessible and publicly commit to specific targets. Reporting includes verifiable and transparent statements on where the company is on the path to achieving these goals. Reporting according to standards serves many stakeholder groups, not only ESG rating agencies and investors, but also stakeholders such as partners along the supply chain and customers. Employees are interested in their company’s ESG-reporting to an increasing extent as well.

Among the best-in-class in reporting in the index studied are Clariant, Givaudan, LafargeHolcim, Nestle, Novartis, SGS and Sig Combibloc. They all apply several other standards in addition to GRI. In particular, with the Science Based Target Initiative (SBTi), they have set clear and public targets on how they will achieve the transformation to net zero emissions. SBTi is the most far-reaching commitment to the fight against climate change.

What does ESG, CSR (CR) and SRI stand for?
The commonly abbreviated term ESG stands for Environmental, Social and Corporate Governance. CSR stands for Corporate Social Responsibility, but is used together with CR (Corporate Responsibility) as a collective term, as is ESG. Under ESG, CSR/CR, companies subsume their key figures and their commitment to sustainable business in the three areas of environment, society and governance.
When it comes to sustainable investments, the term Socially Responsible Investment (SRI) comes into play, which is widespread in the financial world.

The crisis reinforces the trend

Governments' plans and businesses commitments to sustainability still do not go far enough for environmental and human rights activists. They point out that despite all efforts, emitted climate gases, human rights violations and poverty all increased worldwide in the past year of crisis. Nevertheless, it is now safe to say that the issue of "sustainable economy" is firmly anchored on global political agendas far into the conservative camps. Because of the pandemic, the social aspects of corporate governance in particular, but also of economic aid programs, have gained in importance. Today it is clear that the major stimulus programs of the EU and the USA will at least partly be linked to the imperative of sustainable development. China's new five-year plan also places an important emphasis on sustainability. The global financial world as well is increasingly aligned with ESG criteria, reaching an extent in which individual experts even diagnose a forming bubble (see for example Naumann, 2021).

As more and more financial service providers are aligning their products with ESG ratings, the power and influence of ESG rating agencies such as MSCI, Sustainalytics, S&P (RobecoSam) or ISS are growing. Companies can position themselves more precisely in the ratings and defend themselves better against unjustified classifications by publishing their own reports according to independently defined standards. It is thereby important that the reports are also uploaded to the respective online platforms.

Reporting becomes a legal requirement

With the European Green Deal, the EU has set itself the goal of reducing net greenhouse gas emissions to zero by 2050. Important parts of this master plan are the emerging EU taxonomy and the Non-Financial Reporting Directive (NFRD), both part of the set of rules for sustainability reporting. Since 10 March, the EU's Sustainable Finance Disclosure Regulation (SFDR) for financial service providers has additionally come into force. It equally applies to financial products domiciled in the EU and managed from Switzerland. First, financial service providers must show how they integrate sustainability risks at the company level and in the investment process, and what impact these risks can have on the returns of the individual products. From 2023 onwards, the extended set of regulations will require reporting according to key figures, so-called Principal Adverse Impacts on Sustainability (PAI).

In June 2021, Switzerland will vote on a new carbon emissions law that aims to halve Switzerland's greenhouse gas emissions by 2030 compared to 1990. The bill does not contain any direct regulations for companies to report or to reduce carbon emissions, but works with incentive taxes on heating oil and gas and new benchmarks for buildings and new cars, as well as an airline ticket tax. More important is the counter-proposal to the Corporate Responsibility Initiative. The bill contains new regulations very similar to the EU's directive on non-financial reporting. The consultation phase on the counter-proposal to the Corporate Responsibility Initiative will last until mid-July 2021. With the counter-proposal coming into force, listed companies and other larger companies are to be legally obliged to publish an annual report on non-financial matters. These reports shall contain information that contributes to a better understanding of the course of business, the business results, the situation of the company, and the effects of the company's activities on various stakeholders. In addition, due diligence procedures regarding child labor and conflict minerals will be required in the future.

The Most Common Standards and their Distribution in the SMI Expanded Index

We examined the sustainability reports of the SMI Expanded companies published up until the 30 April 2021. Of the 50 companies examined, only three have not published any sustainability report. The other 47 companies either devote an extensive chapter to the topic in the annual report or publish one or even several separate sustainability reports. For seven companies, the 2019 report was taken into account as their reports for 2020 had not yet been published by the end of April. In the following section, we present the most common standards and initiatives and their prevalence in the SMI Expanded.

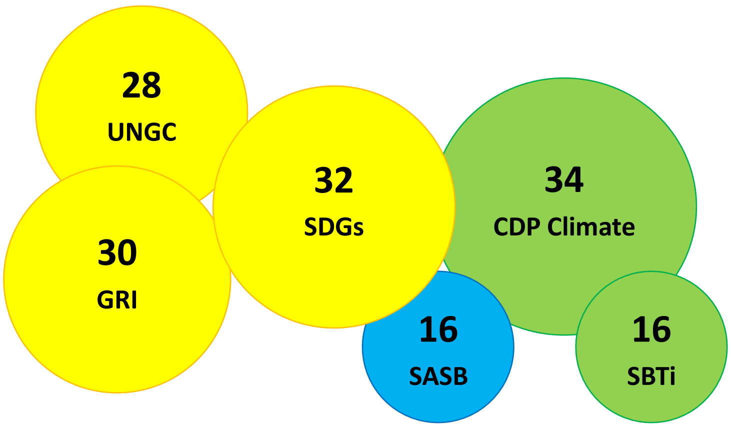

Figure 1: Number of companies in the SMI Expanded Index reporting according to the respective standard

Two of the companies have a sustainability report, but do not align them with any international standards. Credit Suisse and Novartis are at the other end of the spectrum and fully apply all six of the standards examined. Most companies apply either one (5), two (5), three (9) or four (8) of the standards examined. 14 of the companies apply five of the six standards examined. This shows that the sustainability reporting of most companies is continuously growing. Once the foundations and structures are in place and the data is available, it is easy to integrate further standards and thus serve wider circles of stakeholders.

Global Reporting Initiative (GRI)

The guidelines of the Global Reporting Initiative are the most comprehensive of the globally disseminated standards and cover all three areas of ESG. The independent international organization supports sustainable development worldwide and at the same time offers companies, governments, investors, employees and an interested public comparable decision-making and orientation aids.

GRI at the examined companies

Of the 50 companies surveyed, 27 apply the GRI Standards in either the "Core" or "Comprehensive" option, while three others apply the GRI "Referenced" option. Five other companies state that they have aligned their reporting with GRI, but do not apply the rules according to GRI guidelines, so they are not officially listed in the GRI database. One company is in the process of re-introducing the GRI standards. Thus, a total of 36 of the 50 companies make at least partial disclosures according to GRI.

Sustainability Accounting Standards Board (SASB)

The standards of the Sustainability Accounting Standards Board provide a framework in which financially relevant sustainability information can be identified, managed and communicated, depending on the industry. The standard aims at the further development of financial reporting, for example, by taking into account environmental risks and the resulting potential impact on the company.

SASB at the examined companies

16 of the companies surveyed in SMI Expanded have integrated SASB guidelines, some of them for the first time in 2020. Further companies announce the introduction for 2021. The standard can be combined well with existing GRI reporting, and some companies maintain a central directory with GRI and SASB information. All companies that report according to SASB also use GRI.

UN Global Compact (UNGC)

The UN Global Compact is a pact between the UN and companies to give weight to social and environmental aspects of the global world economy and to support the SDGs. By joining, companies commit to ten principles in the areas of human rights, labour rights, the environment and anti-corruption.

UNGC at the examined companies

28 of the companies surveyed have signed the UNGC and have thus also committed to an annual status report and a regular restatement of the commitment to the UNGC at board and/or CEO level.

Sustainable Development Goals (SDGs)

The 17 Sustainable Development Goals are the centerpiece of the United Nations 2030 Agenda. For the first time, they bring together poverty reduction and sustainable development in one agenda. Originally not intended as a standard for reporting, the UN now also publishes a guide on how companies can align their sustainability reporting with the SDGs directly or indirectly via GRI.

SDGs at the examined companies

32 of the companies surveyed refer to the SDGs, of which 26 combine the SDGs with the GRI Guidelines and three others with the UNGC principles.

How to get started

Most Swiss companies have already implemented several industry standards that cover ESG aspects. In addition, a range of Governance standards is included in Swiss reporting rules. Risk management is usually already developed as well. The introduction of an initial basic reporting is therefore often not as difficult as initially assumed. For example, if a company has data on customer interactions and conducts an annual survey among employees, two important stakeholder interaction fields are already covered.

Setting up a carbon-emissions-reporting system is a bit more time-consuming, but it is worth it because the issue will remain in focus for a longer term. Knowing how much greenhouse gas is emitted and where a reduction is indicated not only allows a company to cover several standards in the area of the environment, but also to score points in communication with numerous stakeholder groups. The same applies to the "S" area – with topics such as diversity, equal treatment and human rights. For most companies, it is easily possible to summarize their HR policies, code of conduct, purchasing and ethics guidelines, enrich them with HR figures and combine that for a corresponding section in the ESG report. With a lean reporting system, from which findings flow back into the company, a valuable internal learning process is created through ESG reporting.

CO_2-Reporting

The system in which the greenhouse gas emissions of a company or organization are usually measured is the **Greenhouse Gas Protocol (GHG)**. GHG divides the greenhouse gas emissions of a company or organization into three scopes (Scope 1,2,3) and specifies which estimates should be made where measurements cannot be made. The standards presented in the following all refer to measurements according to GHG.

Task Force on Climate-Related Financial Disclosures (TCFD)

The Task Force on Climate-Related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB) to develop consistent disclosures on climate-related financial risks that can be used by companies, banks and investors to inform stakeholders. The Financial Stability Board (FSB), is an international organization that monitors and makes recommendations on the global financial system.

This study did not examine the extent to which companies report directly according to the TCFD, as the TCFD guidelines are closer to recommendations than standards. However, they are closely related to the Carbon Disclosure Project, which prepares its assessments according to TCFD. By recording the reporting according to CDP, we indirectly measured TCFD adherence.

Carbon Disclosure Project (CDP)

The Carbon Disclosure Project CDP is an online platform that bundles, makes publicly available and evaluates data on greenhouse gas emissions and corresponding management topics. Companies that do not report, refuse to report, or submit inadmissible data are given an F rating. Ratings from A to D were considered in the study. The CDP questionnaire on climate change is based on the recommendations of the TCFD. Thus, a company can report directly on the CDP portal according to the TCFD, or first prepare a report according to the TCFD and then upload it to the CDP portal and complete the profile.

CDP at the examined companies

34 of the companies surveyed completed the CDP 2020 Climate Change Questionnaire with sufficient valid information. 24 are rated in the A/B range, nine companies were rated with C and one company was rated with D. CDP follows a relatively aggressive expansion policy and systematically asks companies to participate annually via IR requests. Since CDP offers good comparability, more and more companies are requesting the rating from their suppliers. Finally, European fund managers are also increasingly orienting themselves towards the CDP publication of companies.

Science-Based Target Initiative (SBTi)

The Science-Based Target Initiative is a partnership between CDP, UNGC, the World Resources Institute and the World Wide Fund for Nature (WWF). SBTi is leading the Business Ambition for 1.5°C campaign, in which companies commit to science-based net-zero targets under the Paris Climate Agreement. SBTi also maintains an online database where companies can register themselves.

SBTi at the examined companies

SBTi sets clear targets in the area of climate change. The goal is to achieve the net zero target according to the Paris Climate Agreement. For most companies, especially those in the CO_2-intensive sector, a commitment to SBTi is considered the most profound ESG commitment. Of the companies surveyed, 16 are listed on the SBTi database, nine have already defined their targets, and the seven others have committed and will set their targets in 2021.

Converging with the annual report

Around half of the companies (24) combine the annual and sustainability reports in a joint publication. 17 of the integrated reports are presented in an online format, which means that important content is also presented online and not only as a PDF. The PDF version continues to dominate among the reports that are published independently of the annual report. Of 20 standalone reports, 16 were published as PDFs and only four have a complete online presence. In summary, it can be said that there is a trend towards integrated online reporting, in which the sustainability report is published simultaneously and on the same platform as the annual report. In online reporting, the PDF download still plays an important role for documentation purposes, but it is no longer the first format of choice.

External audits for non-financial reporting are gaining importance. 21 of the companies surveyed have the sustainability report audited externally, either in part or in full.

ISO and industry-specific standards

Industry standards and corresponding ISO certificates flow into standardized sustainability reporting, but cannot replace it in terms of publicity and cross-industry comparability.

In addition to the standards mentioned above, companies often also cite ESG standards specific to their industry. For example, there is a standard published by the European Public Real Estate Association EPRA for real estate companies. The UN Environment Program Finance Initiative and Principles for Sustainable Insurance (UNEP FI/UNEP FI PSI) and the UN Principles for Responsible Investment (UNPRI) designate corresponding UN principles and initiatives for the finance and insurance industry. In the manufacturing industry, the Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), Restriction of Hazardous Substances (RoHS) and Waste of Electrical and Electronic Equipment (WEEE) standards are common. The Responsible Business Alliance focuses on the electrical industry. In the area of precious metals, diamonds and rare earths, there are also certificates and standards, but they often do not yet meet the higher standards of the upcoming legislations.

The International Standard Organization ISO also maintains an environmental standard, the well-known 14001 standard. In addition, the organization announced that it will soon present a new standard with the number 370 000 and the title "Governance of Organizations". The standard is intended to define uniform principles that clearly stipulate the social and ecological responsibility of managers for the first time, says the responsible project manager in an interview (Steck, 2021).

Overview of international standards in sustainability reporting

	Foundation Year	Focus	Type	Involvement Board/CEO	Online Data Base	Effort
Global Reporting Initiative (GRI)	1997	E/S/G - Measures influence of company on E, S and G speres; concept based on materiality principle	Comprehensive guidelines - individualized application; annual report	Not mandatory, but common	Link	Initially high, then moderate
➢ GRI covers all important areas and is well suited as a basis for further standards						
Sustainability Accounting Standards Board (SASB)	2011	E/S/G - Measures influence of risks on company; concept based on materiality principle	Guidelines depending on industry; annual report according to KPIs	Not mandatory, but common	Link	Initially high, then moderate
➢ SASB focuses on the financial aspects of ESG						
UN Global Compact (UNGC)	2000	E/S (G) - Holds companies accountable with regard to human rights and the environment as well as corruption	Commitment to ten guidelines	Yes, mandatory, annual statement	Link	Moderate
➢ UNGC is a good starting point for the implementation of a report according to the counter-proposal of the Corporate Responsibility Initiative						
Sustainable Development Goals (SDGs)	2016	E/S - global economy, fighting inequalities, poverty and environmental damages	17 Goals with guidelines on how companies can report on them	No	n.a.	Low
➢ We advise a combination with at least one other comprehensive standard						
Carbon Disclosure Project (CDP)	2020	E Measures the impact of the company on the environment	Questionnaire, based on principles of the Task Force on Climate-Related Financial Disclosures (TCFD)	Necessary for high ranking	Link	Moderate
➢ A good CDP rating can score points with investors and along the value chain						
Science-Based Target Initiative (SBTi)	2015	E Wants to limit global warming to 1.5°.	System for net zero greenhouse gas emissions target	Yes	Link	High
➢ For companies that can and want to meet the ambitious targets of the Paris Climate Agreement						

Data base

Company	GRI	SASB	UNGC	SDGs	CDP Climate	SBTi
ABB	Referenced		x	x	A-	Committed
Adecco	Referenced	x	x	x	B-	
Alcon*		x				
AMS			x		C	
Baloise				x		
Barry Callebaut				x	A-	Targets set
BB Biotech**						
Cembra Money Bank	Core		x	x		
Clariant	Core		x		B	Targets set
Credit Suisse Group	Core	x	x	x	A-	Committed
Dufry	Core		x	x		
Ems-Chemie**						
Flughafen Zürich**						
Galenica*					C	
Geberit	Comprehensive	x	x	x	C	
Georg Fischer*	Core		x	x	A-	
Givaudan	Core		x	x	A	Targets set
Helvetia	Core		x		A-	
Julius Bär	Core			x	B	
Kühne + Nagel*	Referenced		x	x		Committed
LafargeHolcim	Comprehensive	x	x		A	Targets set
Lindt & Sprüngli*				x	C	
Logitech		x			B	Committed
Lonza	Core	x	x	x	C	
Nestlé	Comprehensive		x	x	A-	Targets set
Novartis	Core	x	x	x	A-	Targets set
OC Oerlikon	Core			x		
Partners Group	Core	x		x	C	
PSP Swiss Property					A-	
Richemont	Core		x	x	A-	Committed
Roche	Core		x	x		
Schindler*			x		A-	
SGS	Comprehensive	x		x	A-	Targets set
SIG Combibloc	Core		x	x	B	Targets set
Sika	Core		x	x	C	
Sonova	Core		x	x	B	
Straumann	Core				B-	
Swatch Group**						
Swiss Life	Core	x	x	x	B	
Swiss Prime Site	Core	x		x		
Swiss Re		x	x	x	A	Committed
Swisscom	Core			x	C	Targets set
Tecan			x	x	D	
Temenos	Core	x	x	x		
UBS	Comprehensive	x	x	x	A	
VAT Group**						
Vifor Pharma*					C	
Zurich Insurance Group		x	x	x	A-	Committed

*Report for the period not published until end of April 2021, the report from the previous year's period was taken into account / **Does not follow any of the standards examined in the report

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About IRF

In recent years, IRF has established itself as one of the leading Swiss communications consultancies. IRF counts around 40 Swiss and international companies among its regular clients. In addition, IRF has made a name for itself in crisis communication and in accompanying 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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