Business Leadership Forum
Corporate reporting as a driver to achieving the Sustainable Development Goals

Summary Paper 1: A Benchmark and Rating Agencies' Perspective

Introduction

From the inception of the Sustainable Development Goals (SDGs), GRI has championed the participation of the private sector in measuring corporate performance on the SDGs and worked together with partners to shape corporate SDG reporting. Building on many years of work in this field, we learned that in order to meaningfully contribute to the 2030 Agenda for Sustainable Development, it is necessary to address key challenges with respect to disclosing business contribution to the SDGs.

Proactive communication on the issues that matter most – to both the organization and stakeholders – is crucial. Not only does corporate SDG reporting provide the necessary information to assess corporate sustainability performance and impact, but it also allows businesses and stakeholders to make decisions that directly contribute to the SDGs. However, more clarity on different stakeholders' information expectations is needed in order to disclose SDGs-related information in a strategic and relevant manner for maximum impact.

In March 2021, GRI launched the Business Leadership Forum on Corporate Reporting as a Driver to Achieving the SDGs - a two-year program that convenes sustainability reporting practitioners, key stakeholder groups and data users together to raise the bar for corporate SDG reporting and drive action on the SDGs.

Each session held as part of the program will result in a publication of the summary papers, which will feature key takeaways and insights gained from the discussion. This summary paper focuses on sustainability rating agencies and benchmarking organizations, and explores their perspectives and suggestions for raising the quality and relevance of corporate SDG reporting.

The following summary gives a snapshot of how these key stakeholder groups currently see corporate SDG reporting and outlines their vision for the future. It also highlights sustainability reporting aspects that businesses could improve, and the challenges they are faced with within the SDG reporting ecosystem.

The papers will be made freely available for the whole community of sustainability advocates. By doing so, GRI hopes to inspire sustainability reporting practitioners to advance their reporting practices and accelerate progress on the SDGs.

State of play: identifying and understanding benchmarks and rating agencies' information needs and expectations

Panelists representing both sustainability benchmarking organizations and rating agencies discussed the process and metrics used to evaluate a business contribution - both positive and negative - to the SDGs, and how this information is incorporated into ratings and benchmarks.

Gathering information on corporate SDG reporting

Rating agencies and benchmarking organizations review an organization's voluntarily disclosed SDG information, as well as further ESG information reported using other frameworks, which they map to the SDGs to make their own evaluations of impact. They also collect additional information through questionnaires.

The GRI Standards can be used to provide information on the most significant impacts and material ESG and SDG issues in sustainability reports. Sustainability reports that use the GRI Standards can provide the necessary information, which can then be used by rating agencies and benchmarking organizations to evaluate their sustainability performance and impacts.

Some rating agencies and benchmarking organizations might also apply external datasets, such as climate or other risk models, to further analyze business risk and impacts on people and the environment. They also assess related controversies or other 'discovered data' to evaluate the impact of a business on the SDGs.

Integrating SDGs into rating and benchmarking assessments

Rating agencies and sustainability benchmarking organizations use different approaches and methodologies to gather relevant ESG and SDG information for their respective datasets, which can lead to different data requests.

Rating agencies align on three main pillars of SDG reporting assessment: assessing products and services alignment with the SDGs, preferably tied to revenue; mapping operational ESG metrics to impacts on the SDGs; and assessing targets that businesses have set for the SDGs-related topics.

Rating agencies and benchmarking organizations also integrate business controversies (e.g., public criticisms and specific products) or other 'discovered data' into their assessments and evaluate the alignment of an organization's SDG reporting with its material topics to determine reporting maturity and integration of the SDGs into the business strategy.

The benchmarking organizations' primary goal is to drive action on the SDGs and thus, SDGs are central to their methodology. It starts by defining seven societal transformations that must occur to achieve the SDGs. A transparent multistakeholder process then translates scientific and societal expectations around these transformations into indicators for each industry to achieve, evaluates and ranks businesses with the biggest impacts on the SDGs through that lens, and indicates changes these businesses must make to drive action on the SDGs.

Key audience for corporate SDG reporting

In practice, different stakeholders use sustainability benchmarks for a variety of purposes. Rating agencies and benchmarking organizations note increasing interest in SDG reporting from investors, regulators, governments and policy makers, as well as businesses themselves.

Rating agencies' key audience is the investor community that uses ratings to inform investment decisions. They also see interest from businesses as they want to understand what is expected of them and how they can best address the SDGs.

Both rating agencies and benchmarking organizations see significant interest from regulators who work to ensure a comprehensive assessment and oversight of the SDGs-related issues, in line with applicable laws.

The benchmarking organizations also provide information for governments and policy makers, who use it to evaluate if businesses in their jurisdiction are on track to drive the system transformations necessary to achieve the SDGs.

Improving the relevance of corporate SDG reporting

Panelists from sustainability benchmarking organizations and rating agencies discussed some of the key challenges to the relevance of corporate SDG reporting, as well as how businesses can improve their efforts to report meaningful information.

Demonstrate SDG impacts in a clear and effective manner

Rating agencies and benchmarking organizations outline that more quantifiable and comparable information is necessary to effectively demonstrate and evaluate businesses' impacts on the SDGs.

They also agree that reporting measurable targets and baseline figures improves comparability, and that a standardized method is needed to map revenues back to the SDGs.

Report on the most relevant SDGs

Rating agencies agree that reporting on more SDGs is not always better, and that mapping all ESG reporting to SDGs is not enough. Instead, agencies evaluate how well businesses are able to identify their material topics and disclose how they manage their impacts.

Rating agencies suggest that businesses focus their strategy on achieving a certain SDG outcome rather than trying to address SDGs that are not relevant.

Report negative impacts and information that is difficult to obtain

Rating agencies and benchmarking organizations agree that businesses are much less likely to report on negative SDG impacts than positive ones.

Additionally, some SDGs can be mapped more easily to quantifiable topics where disclosures and metrics already exist and can thus be easily shifted to SDG reporting.

Rating agencies and benchmarking organizations fill these information gaps by assessing other reported data, externally available data, and controversies - extrapolating negative impacts themselves if necessary.

Different rating agencies methodologies result in different ratings, but harmonization in the reporting ecosystem will help

Sustainability reporting practitioners have concerns that it is difficult to address issues within the businesses when there is a lack of clarity on assessment methodologies.

Rating agencies recognize that different algorithms and organizational risk assessment methods lead to different ratings and results. They acknowledge the difficulty, but believe that scientific consensus, regulation, and mandatory disclosure will precipitate harmonization. They caution, however, that sustainability is a constantly evolving landscape that will remain complex.

Driving business action on the SDGs

Panelists representing sustainability benchmarking organizations and rating agencies discussed suggestions to drive business action on the SDGs.

ESG ratings and rankings have the potential to guide companies, assess momentum, and predict future performance

Rating agencies agree that when businesses concentrate on reporting ESG disclosures material for them, they can focus on continuous improvement towards more sustainable and transparent practices and strategies.

They also see value when externally available data - such as climate or risk scores, which companies may not have access to - are overlayed with businesses' traditional ESG information. They see this as an evolving area that can promote dialogue, giving businesses the opportunity to focus on future scenarios.

The benchmarking organizations stress that their methodology specifically aims to anticipate future performance and guide action, assessing what needs to happen and what businesses must do to get there.

They also stress that in industries where transformation is needed, it is important that the reporting is not only incremental but also transformational. Instead, the world must understand that if a business can make the shift to get where we need it to be in nine years' time, that can be hard to rate and define.

Demonstrating action on the SDGs and driving transformation at the system level

The benchmarking organizations translate the complex government agenda of the SDGs into transformations the world needs to make, then spells out what they want to see in business performance at the industry level to make it happen.

Businesses are then responsible for their own assessment of where they can make the biggest impact. The most successful businesses look first at what the SDGs ask the world to do, then assess how they can drive change from their position.

Rating agencies maintain the need for quality reporting to demonstrate action, stressing quantifiable targets linked to business-driven goals, reporting revenue derived from SDGs-related positive or negative products and services, and knowing and showing the challenges at hand.

They also encourage a focus on additionality, or reporting where you add value with a positive impact on the SDGs, beyond business as usual.

Evaluating the potential for ESG ratings to help sustainability functions make a business case and secure more resources

Rating agencies and benchmarking organizations question whether ratings and rankings help reporting practitioners make their case and secure more resources to improve sustainability in their businesses.

Reporting practitioners agree that although ESG ratings do drive work and serve as a great proxy for stakeholder broad expectations, they also add to the reporting burden.

Practitioners stress that with finite resources they must choose between data gathering and making progress on sustainability disclosures.

Conclusion and next steps

This summary paper has presented an overview of the current landscape of corporate reporting on the SDGs, providing a rating and benchmarking perspective on what is working and how it can be improved. It has also provided perspective on how corporate reporting can translate to meaningful action on the SDGs.

This discussion showed reporting practitioners how rating agencies and benchmarking organizations assess corporate SDG reporting and how this impacts them. The dialogue has highlighted areas of synergy, opportunities for action and alignment, and future challenges to improve reporting and achieve the SDGs.

Biggest challenges in SDG reporting

- Improve the quality, usability and comparability of SDG data reported.
- Find concise and comparable ways to map business revenues back to the SDGs.
- Develop and refine methods to integrate external datasets with reported data.
- Develop methodologies to address upcoming regulations, such as the EU taxonomy.
- Catalyze convergence around what businesses are asked to disclose, as well as the way data is collected and made available to precipitate convergence on what is requested and assessed by different information users.
- Translate rating and benchmark scores into more resources for business sustainability functions.

Actions and next steps

How to drive significant action on the SDGs

- Look at the SDGs and what they ask the world to do. Then look at your business and ask: *where can we drive change?*. The SDGs are an agenda for the world. And the question to you as a business is, *where can you drive that change for the biggest impact?* Be proactive and intentional on the impacts you want to achieve on the SDGs.

- Focus your own business strategy on achieving an SDG outcome. Your strength relies on using your business strategy, not trying to address issues that are not material to you.

- Focus on additionality. What are you bringing in addition to business-as-usual that has some positive impact on the SDGs? Where are you adding value where it is needed outside of the main markets?

- Support harmonization and convergence around what businesses are asked to disclose, and the way the data is then collected and made available. This will bring convergence around different rating systems and methodologies.

How to raise the quality of your SDG reporting

- Assess the sustainability context in which the business operates and be transparent about how your business contributes or aims to contribute to the SDGs. Consider the economic, environmental and societal challenges at local, regional, and global levels as well as the business sector.

- Focus on and demonstrate your most significant impacts and disclose how the SDGs-related priorities are part of the materiality assessment.

- Once you identify your business' material impacts on the SDGs, such as human rights or environmental issues, disclose how you manage them, including putting ESG and SDG information in the context of the business strategy, materiality assessment and actions, policies, commitments, processes, and actions plans.

- Communicate how the business strategy is linked to the SDGs.

- Report not only incremental but also forward-looking information and quantifiable goals and targets. Tell how you are seeking to address the SDGs in a quantifiable way. Include targets and a base year, to make it comparable and quantifiable.

- Report revenue derived from the SDGs-related products and services.

- Report on both positive and negative impacts on the SDGs. Businesses often focus only on the positive, and then rating agencies have to assume and extrapolate the negative. A balanced reporting will improve the quality and usability of data.

- Use internationally recognized frameworks and standards, such as the GRI Standards, that can help effectively communicate the business contribution to the SDGs.

- Engage in dialogue with rating agencies about your business data and assumptions made, as well as overlay of externally available data, like climate or other risk scores.

What companies are saying

> “Companies that measure, manage and report their impact on the SDGs help the world move towards a sustainable future that works for everyone.
>
> **Gerbrand Haverkamp**,
> Executive Director, World Benchmarking Alliance

> “Fujitsu utilizes external evaluations and ratings for improving its reporting and company performance. For example, we have been selected for the inclusion in the Dow Jones Sustainability World Index 21 times in total since its creation in 1999. Our motivation behind the participation is not to obtain the positive results to reaffirm the current status. However, going beyond that, we aim to continuously enhance and improve our activities using their evaluation as a benchmark. This is applied when reviewing our own activities to maintain our position as a leader in the sustainability field and in response to the ever-increasing stakeholder demands and expectations.
>
> **Mel Melis, Colm McDaid, Makiko Morita and Mizuho Kondo,**
> Sustainability Unit, Fujitsu

Business Leadership Forum members

Disclaimer

This document does not constitute legal advice – it is a summary paper based on discussions held online for the purpose of informing dialogue and enhancing quality reporting. The summary paper is largely based on discussions held on 6 May 2021 during the first Business Leadership Forum Lab on Corporate Reporting as a Driver to Achieving the Sustainable Development Goals.

The views expressed in this publication reflect those of the guest speakers as well as the event's attendees. Neither GRI nor the Business Leadership Forum members necessarily share the expressed views and interpretations.

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Acknowledgements

This summary paper was prepared by GRI. The summary paper includes contributions from the Business Leadership Forum members.

GRI greatly appreciated the input received from the guest speakers as well as the Business Leadership Forum participants.

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About GRI

Global Reporting Initiative (GRI) is the independent, international organization that helps businesses and other organizations take responsibility for their impacts, by providing the global common language to report those impacts. The GRI Standards are developed through a multi-stakeholder process and provided as a free public good.

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