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How to approach ESG reporting: Part 2

Part two of our three-part series outlines five potential steps an organization can take to report on ESG matters effectively.

Reporting on an organization's environmental, social, and governance (ESG) initiatives is more than a compliance exercise—it's about ensuring long-term resiliency and the social licence to operate. The most impactful disclosures result from integrating ESG considerations with other core business strategies and organizational values, and then relaying this information in a consistent manner.

Any ESG reporting journey starts with understanding an organization's current state relative to its ESG disclosures and transparency, and then creating a road map that includes ongoing reporting and assurance to help measure, achieve, and communicate sustainability goals and objectives.

Key steps to successful ESG reporting

1. Set the foundation

Reporting must be supported by organizational oversight, commitment, and diligence. A company's executive team and those charged with governance must commit to the initiative in order for it to succeed.

A best practice is to establish a multidisciplinary, cross-functional, organization-wide ESG team, with specialists from divisions including investor relations, finance, risk management, sustainability, legal, and compliance.

2. Take stock

In addition to understanding and evaluating current ESG reporting practices, an organization must be able to identify emerging disclosure requirements and appreciate stakeholder expectations, including those concerning material issues (i.e., essential to assessing opportunities and risks). This can prove helpful in deciding which standards and frameworks to apply and/or refine.

Performing a gap analysis can aid in assessing a company's current state in order to build a pathway to its ultimate goals.

3. Implement controls and metrics needed to reach goals

Once an organization determines its ESG-related risks and opportunities, the next step is to set priorities and select the targets that will be used to measure success. This can include enhancing data management and quality processes for collecting, arranging, and optimizing information quickly and reliably, benchmarking against peers and best-in-class performers, and identifying other improvements that may be needed to generate stakeholder reports. Defining these metrics and milestones informs the road map that guides an organization's ESG-reporting journey. It's also essential to consider the impacts on financial statements that can result from identified changes and/or enhancements.

4. Report on progress

Effective ESG reporting allows an organization to communicate directly with internal and external stakeholders on sustainability initiatives. Deciding how and what to include is crucial, as is recognizing there's a link between ESG reporting and other public disclosures (e.g., financial, regulatory).

High-level considerations a business leader might explore during this step include:

- Whether the organization is disclosing material strategic milestones met in the current year (or expected in the following year) as well as how these have contributed (or are expected to contribute) to long-term value
- Whether the company's metrics are aligned with its targets and commitments
- Whether metrics and methodologies—including balanced disclosures on value creation and erosion—are consistent and comparable from period to period
- Whether the company is benchmarking its progress and targets against those of peers to allow for sector-wide comparisons

Reporting should focus on material information aligned to an organization's purpose and strategy, should be entity-specific, and should avoid predictable content that adds no value. Disclosures should also be clearly and concisely communicated.

Reporting to investors and other stakeholders should be considered holistically to ensure consistency and coherency, with disclosures tailored to the audience of each report.

5. Obtain assurance

Because ESG reporting is becoming increasingly integral to earning stakeholders' trust, auditors have a growing role to play. Their third-party assurance can provide an independent assessment of an organization's ESG practices and progress, and can include recommendations for improvements in collecting and assessing relevant data, as well as in processes and disclosures. Reports, then, should be consistent and coherent, tailoring disclosures to intended audiences.

Here to help

The transformational process that can result in high-quality ESG reporting information is just that—a process. It demands focus, time, and specialized knowledge in order to evolve as needed. Deloitte combines deep technical experience in corporate reporting with fresh insights into ESG matters to help you and your stakeholders develop transparent and timely corporate disclosures.

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