REPORTING

Is your non-financial reporting held hostage by the auditors?

As compulsory non-financial reporting appears on the horizon for Swiss companies, it's useful to look at the experience of other countries and how the EU reporting directive has changed the dynamics around sustainability reporting. To a certain extent, the effects can be seen in the report itself. However, much of the consequences have played out within the company. What can Swiss companies therefore learn from the Italian experience?

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In order for Swiss companies to reap the true benefits of non-financial reporting, it's useful to reflect on the experience of European peers and understand the ramifications of a legal requirement to report. It should be illuminating both for companies with a structured approach and those that have a less mature reporting experience.

In Europe, the Non-Financial Reporting (NFR) Directive has been guiding sustainability reporting since 2017 and for the past five years, we've been listening to our clients in order to understand the ups or downs of the process and supporting them along the way.

The main worry that emerges from conversations with clients is that the technical and regulatory requirements of the reporting blur the true value of their sustainability efforts and policies. As a result, their messaging to both internal and external stakeholders such as employees and investors is affected.

From our experience, the positive effects of the legislation tend to be seen within the organisation rather than from the reporting itself.

In Italy, imposing external assurance proved to be a double-edged sword. The initial reports that surfaced, which should have been a useful tool for communicating sustainability, were instead reduced to standardised documents due to the rigid nature of corporate auditors. Yet, despite the unimaginative document that may have emerged, the legislation effectively brought sustainability into the board room, turning it into an essential issue for all top management and directors.

Wheat or chaff?

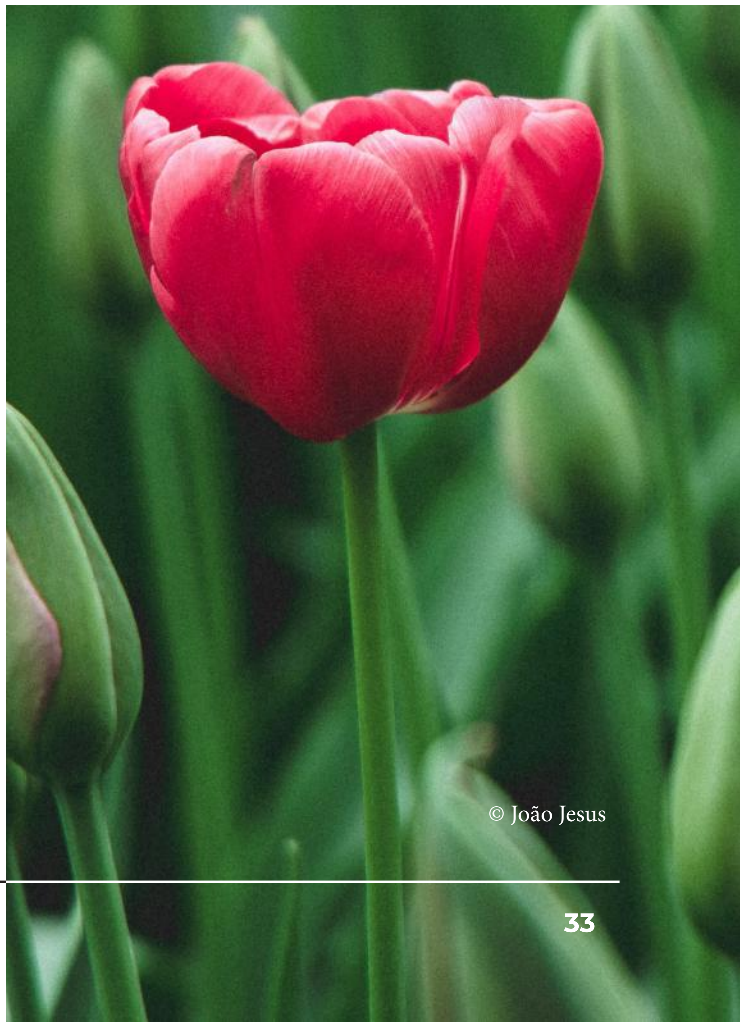
The process may seem a little daunting to begin with, which is why we have put together three main takeaways from the experience we have gained alongside our clients. These can be useful for Swiss companies in order to accelerate the positive benefits of non-financial reporting, treating it as a useful tool that can generate value for internal and external stakeholders rather than a mere obligation for compliance.

1 O captain! My captain!

The introduction of a European directive for mandatory sustainability reporting and investors' growing attention towards ESG (Environmental, Social and Governance) issues have brought NFR to the attention of CEOs, Board of Directors, and Board Committees. On the one hand this positive change of direction has brought the role of the CFO to the forefront of the process, contributing to the integration of sustainability within business plans and the consequent growth in the number of companies with a sustainability or ESG plan. On the other hand, it has altered the internal corporate structure: the CSR or Sustainability Manager is supported by the CFO in the drafting and approval phases of the document, which has negative consequences for the document which remains merely quantitative and technical.

Furthermore, in many companies, sustainability topics are incorporated under investor relations, meaning that new top-level roles such as the Chief Sustainability Officer come with strong financial backgrounds. So, to paraphrase the famous line from Dead Poets Society and poem by Walt Whitman, who will become the next sustainability Captain?

With the support of a strategic, clear direction, we have witnessed the positive results that stem from the collaboration between investor relation teams and sustainability professionals. Collaboration within companies is key to finding the right solution to develop a more effective report that stands out from the rest of the crowd.



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2 A party is a success if the guests have fun

The shift to direct stakeholder engagement has been one of the greatest achievements of NFR. Stakeholder engagement activities mustn't be limited to materiality analyses, presented in technical formats that can be bureaucratic, if not difficult to understand for those stakeholders who are not used to this sort of exercise. We've seen that for a lot of companies, this is the first time that stakeholder engagement has led to constructive debate.

A real turning point has been the clear commitment from top management, which, as a result, trickled down to reach all departments and employees. We have participated in workshops and meetings with Executive Committees in which all those present were keen and open to offer their views on key sustainability issues, requesting further assistance from our side to provide training and guidance for the strategic integration of sustainability into the business. A party of sorts where all guests are engaged and have fun.

This forthcoming approach has allowed us to guide companies in their communications strategy and provide the tools needed to engage with external stakeholders whilst raising awareness among employees through targeted engagement programs, interviews, and surveys to generate ideas as to how they can have a positive environmental impact in their day-to-day activities. Companies shouldn't see stakeholder discussions as just another exercise required to meet reporting standards. Instead, it should represent an opportunity to discuss real solutions related to the impact of the business. The discussion should not be limited to an exercise required to meet reporting standards but rather, it should present solutions to the real impact of the corporate business.

3 All the gear, no idea

As Non-Financial Reporting becomes mandatory for many companies, we see countless reports that are presented as quantitative and uncommunicative documents, produced in a standardised format and targeted at professionals. Yet, that doesn't make it the only reporting solution, in fact, a fluid reporting system can be made up of a rigorous report alongside other communicative documents which focus on material topics.

We've noticed how its place is now very diversified: as a standalone document, included in the annual report, or even as part of an integrated report. Based on our experience, we tend to suggest a brief NFR and invest in thematic and distinctive reports. It's important to remember that publishing a NFR doesn't translate into a sustainable stamp of approval, rather, a snapshot of the company at the current time.

The report will of course capture the sustainability performance of a business, however, the figures must be interpreted and communicated appropriately, grounded by a strategy that delineates the impact an organisation has and the ways in which it intends to minimise them. This way of communicating is rarely seen in non-financial reporting, and yet, it is often what separates the best from the rest when it comes to identifying as sustainable.

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An effective reporting system will add value to a company and separate the best from the rest.

Hard data, stakeholder engagement, and strategic communication are the key elements for a successful outcome when addressing non-financial reporting. What the past five years have taught us is that the report is just a starting point, a technical means to understanding where a company sits when it comes to sustainability. What makes the difference is the company's attitude and willingness to listen to stakeholders and implement sustainable change for the betterment of society. Like sports, just because you own the gear, doesn't mean you know what to do with it.

The future of sustainability reporting

New regulations for Switzerland

In August 2021, the Swiss Federal Council set out to establish mandatory reporting of climate risks and impacts through the Task Force on Climate Related Disclosure (TCFD) report.

This signals the start of a new journey towards climate change risk reporting that will involve large listed companies, banks and insurance companies with more than 500 employees.

The timeline for implementation is relatively long, with application expected from 2024 and based on 2023 performance, but best to start putting it into the diary!

More stringent legislation in Europe

In April 2021, the European Commission published its proposal to amend the Non-Financial Directive.

The main changes include:

- All listed companies, including SMEs (except micro enterprises), will have to publish a non-financial report.

- Large unlisted companies will also have to report on their sustainability performance. The threshold for this category (employees and turnover) has not yet been defined.

- Companies will be required to report in XHTML format and to digitally tag published sustainability information according to a digital taxonomy.

These extensions will see an increase in the number of European companies required to publish the report, from around 11,000 to 49,000. The timeframe is relatively long, as the proposal will have to be vetted by the European Parliament and the Council of Europe by mid-2022, with potential adoption of the standards from 2024, for the 2023 financial year.

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