Department for
Business, Energy
& Industrial Strategy

Frameworks for standards for non-financial reporting

Final report

BEIS research paper number 2020/052

April 2020

Acknowledgements

We would like to thank all the stakeholder groups and individuals that participated in this research. We would also like to thank Professor Carol Adams (Durham University), Emeritus Professor Robert Gray (University of St. Andrew's), Bronwyn Claire (Cambridge Institute of Sustainable Leadership), and Professor Zoe Robinson (Keele University's Institute for Sustainable Futures) for their input into the conclusions of the study.

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Contents

Executive Summary

Introduction

This research was carried out by Eunomia Research & Consulting Ltd (Eunomia) on behalf of the Department for Business, Energy, and Industrial Strategy (BEIS).

Non-financial reporting refers to reporting on any matters relating to activities of a business that are beyond the financial transactions and financial standing of a business. Two key pieces of legislation govern non-financial reporting in the UK: the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the EU Directive on Non-Financial Reporting (Directive 2014/95/EU).

Currently, while businesses use Financial Reporting Standards or Generally Accepted Accounting Principles standards for financial reporting, there is no equivalent standard for non-financial reporting. However, there are several drivers that have collectively increased pressures on large businesses to provide more non-financial information. These are:

- Environmental concerns, including the role that businesses and others can play in the transition to a low carbon economy.
- Consumer interest in sustainable investment, where investors wish to earn a return but 'do no harm'.
- A perception that to rebuild trust in business, businesses need to demonstrate a wider purpose beyond making profit.
- Trends towards greater litigation as individuals and non-governmental organisations (NGOs) seek to hold businesses to account for their actions and impacts.

These changes have led to the development of mandatory regulations and numerous voluntary reporting initiatives covering non-financial reporting (NFR). These unsynchronised developments have resulted in a complex reporting environment which is highly fragmented. For example, there may be as many as over 400 reporting frameworks. This report identifies 13 major NFR frameworks which differ in coverage:

- Some provide tools/principles and standards for reporting, and some provide both.
- Some are predominantly focused on investor needs whilst others cater for a range of stakeholders.
- Some cover environmental reporting, others relate to governance or social aspects of businesses, and some cover a combination of these topics and others.

There have been efforts to harmonise NFR frameworks but these have tended to focus on demonstrating what is common between frameworks, or on creating new frameworks.

The UK Government has legislated for, or promoted, several initiatives which are relevant to NFR. These are:

- UK company law is governed by the Companies Act (2006). Section 172 of the Act requires Company Directors to promote the interests of their shareholders whilst having due regard for their stakeholders. The latter requires Directors to embrace a broad view of their corporate responsibility. In addition, the Companies Act (2006) governs businesses' NFR obligations. All businesses, except the smallest, are required to produce strategic reports and a director's report. These must include reporting on a range of NFR topics.
- Outside of the Companies Act, the Modern Slavery Act (2015) introduced obligations on businesses to produce a slavery and human trafficking statement.
- In 2013, the UK Government set up a Social Impact Task Force with the aim of stimulating the development of the social impact investment market. In 2019, it published the 'Corley Review'[1] which recommended ways to encourage and guide action towards increasingly socially responsible investment from industry, regulators and government.
- In 2017, the UK Government set up an independent task force to accelerate the growth of green finance and advise on the implementation of recommendations by the Task Force on Climate-related Financial Disclosures.
- In addition, the Government is also committed to the delivery of the Sustainable Development Goals (SDGs), and is keen to explore the feasibility of using the SDGs as a reporting mechanism to harmonise the way in which NFR is conducted.

The financial sector has been a key stakeholder in the call for NFR, with awareness of environmental and social risks seen as essential for long-term financial planning.

Project Objective

The aim of this study is to provide an initial evidence base on the preferences of UK stakeholders around non-financial reporting standards. This research is novel in that it includes the views of users of NFR. The rapid evidence assessment (REA) conducted found that this is an understudied area in the discussion around NFR. The work will contribute to the Government's objective of ensuring that the UK is strategically placed "*at the leading edge of international developments in sustainability reporting*."

Methodology

The methodology for this study was designed to reflect the exploratory nature of the research, with different research tools used sequentially to build upon the outcomes of the previous one. The research tools used were:

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[1] Corley, E. (2017) Growing a culture of social impact investing in the UK, accessed 23 September 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811914/Final_report_by_the_Implementation_Taskforce_Growing_a_culture_of_social_impact_investing_in_the_UK_2019.pdf

- An REA which reviewed the existing reporting frameworks and current developments in both academic and grey literature (i.e. research produced by non-commercial publishers) on NFR.
- Stakeholder workshops held with certain users[2] of NFR (mainly NGOs), preparers[3] of NFR, and institutional investment[4] stakeholders.
- Stakeholder surveys covering preparers of NFR, retail investors[5], and current employees[6] and potential employees[7] of large businesses i.e. preparers of NFR.

Key Findings

Rapid Evidence Assessment

The REA focussed on 20 studies concerning stakeholder views on NFR published over the past five years. Of these, 12 focused on existing NFR frameworks and were specifically concerned with stakeholder views on the efficacy of those frameworks. The remainder focused on sustainability reporting more generally or on the performance of specific preparers. The studies covered the spectrum of both preparers and users, with most covering more than one stakeholder group. Out of the studies analysed, investors are the most studied group. The studies covered a range of methodologies, including interviews, focus groups, on-line surveys and consultations.

The main findings of the REA are:

- Investors are an important stakeholder group with regards to driving NFR. Many investors review non-financial reports, seeing activity on NFR issues as a sign that preparers are actively managing risks.
- Users report that NFR frameworks differ in their reporting terminologies and standards, making comparability between preparers that use different frameworks more challenging. However, there is evidence that perceptions around flexibility and comparability may be exaggerated, and that more needs to be done to make clear where commonalities and synergies exist between NFR frameworks.

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[2] User stakeholders are those with an interest in influencing or reviewing non-financial reports (i.e. consumers of reported data).
[3] Preparer stakeholders are those who are required to report or gather information (i.e. suppliers/preparers of NFR – this being businesses themselves, and specialist consultancies providing NFR services). These may be entities such as a private preparer, a charity or other body. In the context of this report, the term preparer refers to entities which are in-scope of the EU Directive on Non-Financial Reporting.
[4] A non-bank organisation or person that controls large enough share quantities or financial amounts to qualify for preferential treatment and relaxed regulation (e.g. investment businesses and fund managers).
[5] Private individuals who invest in businesses or in investment indices using their own capital and have a strong influence on where and how that capital gets invested, excluding investments that individuals make through their pensions.
[6] A person currently employed by a business subject to the EU Directive on Non-Financial Reporting.
[7] A person who does not currently work for a business subject to the EU Directive on Non-Financial Reporting, but who, owing to their personal beliefs and values, would possibly do so in the future.

- Flexibility in reporting, which allows preparers to disclose material information related to their unique priorities and needs, has some negative implications for comparability. Furthermore, compared with financial reporting, NFR is more reliant on qualitative description, rather than more comparable quantification and metrics. Materiality of NFR is a key concern for some users. A high proportion of practitioners in the field of socially responsible investment feel that NFR is often an exercise in 'impression management'.
- There has been a great deal of activity promoting the UN Sustainable Development Goals (SDGs) as a reporting tool; however, the literature on stakeholder preferences around this is limited.

Stakeholder Workshops

BEIS and Eunomia held a series of small workshops in September and October 2019 to obtain current perspectives of stakeholders on NFR. The workshops covered three stakeholder groups:

- **User stakeholders**: those who have an interest in influencing or reviewing non-financial reports. Those invited to the workshops were mainly representatives of NGOs.
- **Preparer stakeholders:** those who are required to report or gather information (i.e. suppliers/preparers of NFR – this being preparers themselves and specialist consultancies providing NFR services).
- **Institutional investor stakeholders:** an important subset of users who use non-financial information to inform investment decisions.

The main findings from the workshops are as follows:

- User stakeholders preferred the introduction of set processes and standards for NFR to improve the comparability of reports. They also expressed a strong preference for greater universality in reporting topics. Meanwhile, preparers acknowledged the need for greater government support and guidance on NFR, but consistently stressed a preference for flexibility in reporting. Fundamentally, users and preparers have different views about what constitutes materiality.
- Institutional investors argued for a 'Core and More' approach to reporting, in which a core of universal reporting requirements would be supplemented by additional, individually tailored reporting. However, the definition of the 'Core' would need different concepts of materiality to be reconciled.
- Preparers and users of NFR disagreed on whether the UN SDGs represent a potentially useful framework for NFR. Preparers are unconvinced of the usefulness of the SDGs, as they were designed for use by nations rather than by businesses. User stakeholders, while recognising that preparers face challenges around reporting on the SDGs, were largely supportive of them, if proper guidelines can be put in place.
- All institutional investors expressed a preference for an international NFR framework, as opposed to a UK-specific one, as this would allow a coherent view of multinational preparers' performances across different international markets.

- Preparers and institutional investors agreed that inconsistency of terminology across different NFR frameworks is an issue with regards to how materiality is assessed. Often, different frameworks use different terminologies for the same concepts, creating ambiguity in the scope and boundaries of reporting.

Survey Results

The REA found that the views of users of reports were understudied in comparison with the views of preparers and institutional investors. We therefore carried out three surveys to capture the perspectives of different stakeholder groups including employees/potential employees and retail investors, as well as preparers. The data generated allows us to further test the themes emerging from the REA and workshop aspects of the study.

There were 504 responses each to the retail investor and employee/potential employee survey, and 45 responses to the survey of preparers. Following cognitive testing of the survey, we decided to use the term ESG (environmental, social, governance) reporting in the survey in place of NFR as ESG is a more commonly understood term. The main findings from the surveys are outlined below.

Content of Reports

Engagement with ESG (Non-financial) Reports by Users

- Half (50%) of the retail investors have read ESG reports for companies they have considered investing in. Only 24% of employees/potential employees have read ESG reports for companies of interest.
- Age, business size and employee status (employee or potential employee) all have a small impact on levels of reading of ESG reports, with the younger cohorts, and those employed by larger preparers, being more likely to have read ESG reports.
- Among retail investors who have read reports, 51% say that ESG performance is important and 38% very important in their decision to invest in a specific preparer.
- Of those who have not read reports, around half claim they did not know where to find them (48% of investors and 52% of employees/potential employees).
- Employees and potential employees, when presented with a scenario question that sought to explore how they value the ESG focus of a business, showed that financial gain continues to be the primary motivator in selecting a job, and the appetite for ‘purpose’ over ‘profit’ remains small.

Familiarity with ESG Reporting Frameworks

- When grouped, 78% of preparer respondents, 26% of investors and 13% of employees/potential employees considered themselves to be ‘very familiar’ or ‘familiar’ with ESG reporting frameworks. Awareness of ESG reporting frameworks is generally high amongst preparers, but low amongst user groups.
- Overall, 55% of retail investors and 35% of employees/potential employees have some degree of familiarity with reporting frameworks, though in both groups more than half of these are only ‘vaguely familiar’.

- An age effect is evident in the retail investor and employee/potential employee groups with the younger cohort in both groups showing higher levels of familiarity with ESG reporting frameworks.
- Of those retail investors who rate ESG reporting as important for investment decisions, 60% of these are only ‘vaguely familiar’ or ‘not familiar at all’ with ESG reporting frameworks, indicating that many users can obtain benefit from ESG reporting without them being aware of a particular framework.

Value of Using a Specific Framework

- Among preparer respondents, 62% said they use an ESG reporting frameworks, 35% reported not using a framework and 3% did not know.
    - Of those using a framework, 91% reported that their business finds the ESG framework valuable (48% ‘agree’ and 43% ‘strongly agree’).
    - Of those who do not use a framework, 65% thought their business would find it useful to use an ESG framework (36% ‘strongly agree’ and 29% ‘agree’).
- Around 55% of retail investors were familiar with ESG reporting frameworks, and 50% had read ESG reports. 38% of the retail investors (who had read ESG reports) considered ESG performance very important in their decision to invest in a specific business.
- Where retail investors were familiar with ESG frameworks, a consensus was that preparers should use a specified framework to report ESG data.
- Only 35% of employees/potential employees were familiar with ESG reporting frameworks. Of these, 65% thought businesses should use a specified framework to report their ESG data.

Standardising Content of NFR Reports

- When asked how companies should be required to report on ESG data the preferences of the retail investors and employees/potential employees were very similar and contrasted with the preferences of preparer respondents.
- There was overwhelming support from preparer respondents for a ‘Core and More’ model, with 93% agreeing or strongly agreeing with this option. This idea was also supported by 53% of retail investors and 38% of employees/potential employees.
- The most strongly preferred option of both retail investors and employees/ potential employees was that preparers should be obliged to report on a common and extensive set of ESG data, going beyond the ‘Core and More’ idea. This option was supported by 68% of retail investors and 54% of employees/potential employees but opposed by 35% of preparer respondents.
- Preparers identified their top five themes to report on, supported by over 78% of preparer respondents, as: greenhouse gas emissions; resource usage (water, energy, etc.); diversity; waste; and health and safety.

- The themes identified by the user groups were identical to each other with waste as number one and pollution at number two. These were followed by: climate change measures; greenhouse gas emissions; and health and safety, although in slightly different orders.

Ensuring a Balanced Report

- Amongst retail investors and employees/potential employees who were familiar with ESG frameworks – 55% and 35% respectively – there was strong support for the following propositions:
    - Preparers should have the report externally assured by a third party.
    - Preparers should report on the negative impacts as well as the positive ones.
    - Preparers should involve wider stakeholders in determining materiality for reporting.
    - Preparers should report on how data is collected.
- Support was around 80% approval for retail investors and between 70-76% for employees/potential employees.
- In addition, preparers supported the standardisation of metrics (i.e. measures of quantitative assessment) for reporting on ESG data. It was met with strong support, with 80% of preparers stating that this would be ‘helpful’ or ‘very helpful’.
- There is a particular focus on external assurance as a way of improving stakeholder trust in non-financial reports, especially by retail investors.

Process of Reporting

UK Specific versus International Framework

- The survey results suggest that there is a strong preference across preparers and those users familiar with ESG frameworks for an internationally standardised framework. Amongst users, support for an international framework increases with the degree of familiarity with ESG frameworks; and for retail investors, the importance of ESG reporting in making investment decisions.
- In the absence of an international framework, the vast majority of users familiar with frameworks would support a UK framework. Support amongst preparers is significantly lower though still a small majority.

SDGs

- Preparers are considerably more familiar with the SDGs than users. Amongst users, familiarity is higher amongst the under 40s.
- An identical proportion of preparers state that they use the SDGs in ESG reporting (49%) as do not (49%). Companies with a global reach are more likely to use the SDGs. Of the companies that operate only in the UK, only 18% report on the SDGs compared with 56% of those that operate more widely.

- The survey explored stakeholder views on how the SDGs could be best used in reporting by asking for views on three alternative propositions. Among users who are familiar with the SDGs, there is a strong level of support for all ways of reporting that connect to the SDGs. Amongst preparers there is stronger support for reporting on the SDGs and much less support for reporting against specific SDG targets or indicators.
- Over half of preparer respondents (51%) and retail investors (56%) and 39% of employees/potential employees 'agree' or 'strongly agree' that the SDGs are problematic as a tool for reporting.

Barriers to Better Reporting

- All preparers, regardless of business size, clearly experience five major barriers, which inhibit them from producing better non-financial reports. These barriers are:
    - Lack of data availability (78%)
    - Cost of in-house data analysis and reporting (75%)
    - Cost of external data collection/verification, such as cost of hiring consultants (75%)
    - Cost of data collection, such as extra resource (67%).
    - Lack of consistency in terminologies used by different ESG reporting frameworks (59%).

Comparability of Non-Financial Reporting

- Retail investors with a limited familiarity of NFR frameworks are less likely to agree that definitions and indicators used in NFR are clear and consistent compared to those with greater familiarity. Respondents more familiar with NFR frameworks believe that the data found in ESG reports are easily comparable across preparers.
- Preparers, on the other hand, were asked how helpful certain tools would be in improving their NFR process. There is a strong consensus among preparers that indicators/metrics should be standardised (80%) and that there needs to be greater consistency in definitions used in NFR reports (92%).

Costs Involved in Using or Changing ESG Frameworks

- According to preparers, the following are considered to be 'significant' or 'very significant' costs to them in the NFR process: data collection software/development of internal databases (76%); external assurance and verification of report (76%); internal dedicated resource (76%); training staff on reporting frameworks and processes (67%), and external consultancy support in preparing reports (57%).
- For preparers new to NFR frameworks, 50% 'agree' or 'strongly agree' that adopting a new framework would introduce 'sufficient but reasonable cost', compared to 61% who believe it would introduce a 'significant cost'.

- In terms of preparers switching from one framework to another, 47% ‘agree’ or ‘strongly agree’ that adopting a new framework would introduce ‘sufficient but reasonable cost’, while 32% believe it would introduce a ‘significant cost’.

Presentation of Reports

- Users of NFR appear to have a stronger preference for stand-alone reporting of NFR issues compared to preparers. For example, of those retail investors and employees/potential employees that were familiar with ESG reporting frameworks, 71% of retail investors and 67% of employees/potential employees ‘agreed’ or ‘strongly agreed’, while there was a lower level of agreement from preparers at 37%.
- Preparers appear to look more favourably on integrated reporting as opposed to stand-alone reporting. 51% of preparers, 66% of retail investors, and 49% of employees/potential employees ‘agreed’ or ‘strongly agreed’ to this option.
- Overall retail investors seem relatively relaxed about reporting format with high approval scores for all options.

Frequency of Reporting

- 94% of preparer respondents preferred NFR on an annual basis, while retail investors and employees/potential employees who were familiar with ESG reporting frameworks were open to more frequent reporting than preparers. 21% of retail investors and 23% of employees/potential employees supported quarterly reporting. 41% of retail investors and 25% of employees/potential employees supported reporting every six months.

Timeframe of Reporting

- Preparers are far more opposed to separate publication of financial and non-financial reporting (94% for similar publication periods) compared to those NFR users who are familiar with ESG reporting frameworks. Preparers also have a much stronger preference towards publishing both sets of results at the same time (60%) as do retail investors (72%).

Conclusions

The research aimed to identify existing NFR frameworks – 13 frameworks were identified as the most common – and to explore the commonalities and tensions between the views of different groups of stakeholders regarding NFR. This project sought to gather views of both users of NFR reports and preparers of these reports on a range of issues, which are grouped into aspects relating to the content of reports and the processes of reporting. In this section, we present the conclusions from the research, and the key areas of consensus and discord between stakeholders are highlighted. For each theme, the research question it addresses are indicated below, for example ‘RQ2’, ‘RQ3’, etc.

Areas of Consensus Between Stakeholder Groups

- **Language (RQ3).** The study reveals that comparability is important to stakeholders but is not fully enabled by current NFR frameworks. All stakeholders find the language surrounding NFR complex, and preparers are concerned that NFR language can be quite negative.

- **Comparing Metrics and Terminologies (RQ4).** Users generally agree that it is important to compare metrics and terminologies, but comparability is not fully enabled by current NFR frameworks. Not all users have the same level of familiarity with NFR frameworks, and as retail investors are more familiar with NFR frameworks, they find reports to be comparable in terms of the metrics and language used. Those who are less familiar find consistency and comparability to be an issue. This agrees with preparers' opinions that inconsistent terminologies (definitions, indicators, and metrics) in NFR frameworks act as a barrier to better reporting. Any work towards refining terminologies and indicators with the aim of having clearer definitions and guidelines on how to collect, process and present NFR data would be beneficial. Not only will this promote and enable improved NFR in the UK, but developing a common language for NFR could improve global coherence in this area.

- **Universality versus Materiality (RQ3c).** In terms of consensus on the issue of universality versus materiality, there is widespread support for the 'Core and More' model, i.e. having a core set of mandatory reporting requirements with scope for individuality and optional selection beyond this. The mandatory 'Core' element would include priority NFR issues from government and would therefore allow direct comparison between preparers. The 'More' element of reporting could then be tailored to be sector-specific. However, the definition of the core would still need different concepts of materiality to be reconciled (see below).

- **Impact Reporting and the SDGs (RQ3b).** Institutional investors agreed with preparers that 'telling the story' was a key element to investment decisions and greater consistency/standardisation in NFR would help report preparers communicate their story more effectively. This is both at a broad level, in how businesses describe their value-creation process, and also at a micro-level in contextualising specific non-financial data as needed. Impact reporting is a growing area of NFR, and all stakeholders expressed some confusion about how businesses report on impact. The SDGs are seen as a potentially valuable tool in this, given their global audience, but the difficulties of reporting against the SDGs were recognised by all. This is partly because the SDGs were designed with governments in mind rather than private businesses. This also touches on the issue of how to turn the qualitative aspects of impact into quantitative metrics which can then be reported against.

- **National versus International Framework (RQ3a).** All stakeholders value an internationally standardised framework to guide the development of non-financial reports and are also flexible to the idea of a nationally standardised framework in the absence of an international one. A framework with a global approach provides opportunities for preparers to benchmark their non-financial performance against their competitors and peers around the world. Users who are familiar with NFR frameworks recognise that large businesses operate in different regions and that an international framework may address the needs in a flexible manner for reporting according to contextual or geographical differences in the areas that businesses operate in. This may enable preparers to account for context-specific themes that maybe relevant in one area but may not be as relevant in another.

- **Barriers to Better Reporting (RQ5).** Most preparers experience similar barriers towards improving the NFR process, which in turn impacts the quality of their non-financial reports. These barriers relate to lack of available data, NFR costs, and inconsistent terminologies. The costs for data collection, external assurance and verification of reports, and internal dedicated resources (e.g. staff) were also reflected as the most significant costs of NFR to preparers.

Areas of Discord Between Stakeholder Groups

- **Materiality (RQ3, RQ5 & RQ6).** Discussions around standardisation in relation to materiality are complex, and perceptions of materiality are different across stakeholder groups. Users are putting increasing pressure on preparers to consider two forms of materiality: firstly, issues that directly affect business profitability, and secondly, issues where the activities of their business have a wider impact on the environment or society. Although reporting on environmental themes is more extensive across current NFR, coverage of social themes is less. Industry sector-based working groups could define issues that are material at a sectoral level.

- **Objective and Audience of NFR (RQ3 & RQ5).** There is a need to clarify the objective and the audience of NFR for it to be successful. Issues with the content of NFR arise when preparers are trying to cater to the demands of different stakeholders. Although the range of topics that interest both retail and institutional investors increasingly overlap with topics of concern to wider stakeholders, the level of detail and messaging required can be quite different. On the one hand, preparers are trying to provide data by which their financial viability can be evaluated. On the other, they are engaging in an ‘impression management process’ when reporting non-financial information. Balancing these two goals within one single report can become problematic. As the range of stakeholders interested in scrutinising business impacts widens, there is a need to map out what needs should be prioritised and how such needs can be addressed. Improved guidance around mandatory reporting requirements and their purpose could help to bring greater clarity of the objectives of NFR, and how these objectives should best be met.

- **Business Case for NFR (RQ3).** Despite a clear demand from some users, from a preparer perspective there is a lack of appreciation for the business case of NFR and how this may interact with both reputational risk and financial-related risks. Results from the survey indicate that many preparers still see the primary value of NFR as satisfying the needs of stakeholders. The more that businesses value NFR for their own business development/improvement/de-risking processes, the stronger the drive to improve reporting (and the process leading to this) will be. Whether firms embrace NFR requirements enthusiastically depends on the value and requirement and how these are communicated to businesses.

- **Balanced Reporting (RQ3 & RQ4a).** The ‘plasticity’ of data was recognised by all, meaning that numbers can be presented or manipulated in different ways to emphasise different concerns or move the spotlight away from negative non-financial performance. This research has shown a strong demand for preparers to report on both their positive impacts and negative impacts in order to minimise the potential for ‘greenwashing’. There is agreement that business transparency should be rewarded, but preparers need reassurance that transparency may not result in unwanted consequences for them. The strong demand for more ‘balanced’ reporting, which also supports comparisons across preparers, led many stakeholders to support the move to greater standardisation of data and metrics. However, preparers, and some users, raise concerns that this would bring a new set of problems, and may dilute the value of the reporting process, leading to increased ‘box ticking’.

- **Questioning the ‘Maturing’ of a Report Process (RQ2 & RQ4).** This research highlights a potential difference in the thinking between policy makers, framework developers/managers, and NFR users. Many of the reports from framework organisations, accountancy bodies and think tanks that emerged in 2019 talked in terms of a ‘maturing’ of the reporting process, assuming a strong appetite from preparers to improve their NFR in line with changing expectations on the role of a business in society. The surveys revealed that the complex nature of NFR content and processes, and the challenges this poses to stakeholder engagement, do not indicate a ‘maturing’ of the reporting process. Furthermore, it revealed that currently there is a reluctance amongst preparers to move away from their own bespoke reporting approach. Board buy-in to NFR and the extent to which they champion NFR is a key determinant for ensuring that NFR activity is sufficiently resourced.

- **External Assurance (RQ5 & RQ6).** There is a tension between the role of external assurance in increasing trust in non-financial reports for readers, and the perceived cost which acts as a barrier to preparers. Preferences evident from the surveys support what has been found in the literature, especially for those investors who put emphasis on external assurance when judging the reliability of a preparer’s non-financial data. Although there are other tools that can increase trust in non-financial reports, there is clearly strong demand for external assurance amongst those users who are familiar with ESG frameworks.

- **Presentation of Reports (RQ4b).** Users who are familiar with NFR frameworks agree on presenting non-financial data in a stand-alone report while preparers seem to prefer integrated reporting. However, preference for a stand-alone report with a summary of key themes in the financial report was generally positive across the board. Although this research shows a general preference for presenting non-financial data in a separate report from the financial report, there are benefits to presenting financial data and non-financial data together. Including both data in the same report could help to significantly increase the standing of non-financial data as compared to financial data, and start to embed non-financial data within investment and business decisions.

- **Frequency of Reporting (RQ4a).** There is a conflict of preferences between preparers, who prefer yearly reporting, and users in relation to the frequency of reporting. While users who are familiar with ESG frameworks prefer more regular access to updated non-financial data (especially retail investors), preparers see data and costs as a barrier to better reporting which can only improve if NFR is reported more regularly than once a year. Overly-frequent reporting may further limit preparers’ abilities to act on the data, which is seen as the ultimate end-point that NFR is meant to illicit from preparers.

- **Publication Periods (RQ4c).** Users and preparers are inclined towards publishing non-financial and financial reports at the same time. However, opinions from preparers appear to differ with preparer workshop participants who rejected similar publication periods. Workshop participants rejected this for the reason of reporting additional reporting burden in a situation of reporting under similar deadlines. If the ‘Core’ and

‘More’ model were to be taken forward, the ‘Core’ and ‘More’ elements could have a separate reporting cycle to alleviate concerns of stakeholder over the burden of too much reporting at the same time.

This report provides a sizeable body of evidence around the views of key stakeholders with regards to standards and frameworks for NFR. This evidence base on NFR issues and stakeholder preferences provides a platform for the UK Government’s ongoing work streams in sustainability reporting.

Introduction

This research was carried out by Eunomia Research & Consulting Ltd (Eunomia) on behalf of the Department for Business, Energy, and Industrial Strategy (BEIS).

At a global level, the landscape within which the corporate sector operates is changing. Businesses are navigating an increasingly high-risk environment for growth and are also facing pressure to, at the very least, understand their environmental, social, and governance (ESG) impacts alongside achieving growth and/or providing financial returns. Demand for businesses to report on a range of non-financial themes has been increasing, from governments, investors (institutional and retail) and citizen organisations. Known as non-financial reporting (NFR), this involves reporting on any matters relating to the activities of a business that are beyond the financial transactions and financial standing of a business. This demand has prompted the development of not only mandatory regulations but also numerous voluntary reporting initiatives, each of which partially meets the needs of certain groups of stakeholders. This has resulted in a complex reporting environment.

Since 2017, the United Kingdom (UK) Government has been proactive in supporting the growth of green finance and impact investing in the UK. This has led to an awareness that current business reporting of non-financial data is inadequate and fragmented, presenting a key barrier to developments in NFR. At the same time, the Government is facing increasing demand from stakeholders for the regulation of reporting on a wider range of non-financial issues. The UK Government is also committed to the delivery of the United Nation's (UN) Sustainable Development Goals (SDGs) and is keen to explore whether using the SDGs as a reporting mechanism could assist with both monitoring achievements of the goals themselves, as well as harmonising the way in which NFR is conducted.

In a 2018 paper, the Government stated it wants to keep *'the UK at the leading edge of international developments in sustainability reporting'* and is exploring how businesses are engaging with the UN's SDGs. [8] To this end, the Department for Business, Energy, and Industrial Strategy (BEIS) commissioned this study to provide an initial evidence base on the preferences of UK stakeholders around NFR standards. This research complements other work in this area by seeking to learn from stakeholders which are producing and using business reports, to better understand their needs and concerns in this area.

This report synthesises the results of a literature review, workshops and several surveys of different stakeholder groups undertaken by Eunomia Research & Consulting Ltd. Following an initial literature assessment, an inductive research approach was used to explore key NFR themes. A series of workshops informed the development of surveys aimed at gathering the preferences of businesses, institutional investors and employees. The results of this research are set within the context of existing stakeholder research, and the analysis draws on both the qualitative workshops and the quantitative data from the surveys. In combining these two approaches, this work provides an evidence base for views on stakeholder preferences around

[8] HM Government (2018) Government Response to Advisory Group Report on 'Growing a Culture of Social Impact Investing in the UK', accessed 13/03/2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717511/Government_Response_to_Advisory_Group.pdf

existing NFR frameworks, standards, and indices to better inform the future direction of this policy area. This report does not seek to endorse specific NFR frameworks. Instead, the focus is on where the preferences of stakeholders meet and where they diverge. The findings from this research may then be used to support future studies that aim to explore potential changes to policy in this area.

The report is divided into the following sections:

- **Research Questions:** The broad research questions for this study are presented in this section.
- **Methodology:** An overview of the qualitative and quantitative methods employed in this study (a full methodology is included in the '*Technical Appendices'*).
- **Terminology:** A discussion of the terminology used in NFR, including challenges in this area. A list of definitions is also provided for reference.
- **Understand the Current Reporting Environment:** A summary of global drivers for NFR, the UK policy context, and current NFR obligations in the UK. The most prevalent existing NFR frameworks are mapped out, and recent attempts to harmonise these frameworks are discussed.
- **Existing NFR Frameworks:** A summary of the 13 major NFR frameworks including a comparison of these frameworks and a discussion on international efforts to harmonise the reporting environment.
- **Existing Stakeholder Preferences:** An outline of the perspectives from the preparers and users of NFR, the factors that influence a business' choice of framework, and inconsistencies between frameworks.
- **Workshop Discussions on Key NFR Themes:** A discussion of the outcomes of the stakeholder consultation workshops, drawing out main themes and concerns and comparing these across the stakeholder groups.
- **Surveys:** A summary of the details regarding the three surveys of separate stakeholder groups: preparers, retail investors and employees/potential employees.
- **Analysis of Findings:** The results of the survey are set in the context of qualitative stakeholder research and the literature review. Conclusions are presented along with recommendations.
- **Conclusions:** Conclusions on the key areas of consensus and discord between the stakeholder groups.

An initial set of research questions for this project were developed in collaboration between Eunomia and BEIS. The research questions are defined as follows:

1. What potential frameworks for NFR standards currently exist?
2. What does the existing research tell us about stakeholder preferences for NFR?
    a. What frameworks for NFR do key stakeholders propose when posed the question openly?

   b. What are the stakeholders' views on the existing frameworks they have identified?

3. What views do stakeholders have on the principles of NFR, and what implications does this have for the content of reports?

   a. Should standards be international or UK based?

   b. How far should NFR be structured around the UN Sustainable Development Goals (SDGs)?

   c. Where should the line be drawn between what all preparers report on (the principle of universality), versus reporting on what is material to them (but need not be reported on by all preparers)?

4. What views do stakeholders have on the process of NFR?

   a. Do stakeholders propose specific metrics around NFR?

   b. What views are there around how reporting boundaries might work for NFR?

   c. What views are there around what reporting periods should be?

5. How far do preparers feel they can apply the potential frameworks identified by key 'user' stakeholders?

6. How different are the capabilities of the suppliers of the NFR, and the expectations of the consumers?

These research questions were used as a guide to focus the literature review and to develop the workshop themes in the first part of the study.

Methodology

This section of the report gives a summary of the methodology used for this research. For full details, please see the '*Methodology*' section of the '*Technical Appendices*'.

We designed the methodology for this study to reflect the exploratory nature of the research, with different research tools used sequentially to build upon the outcomes of the previous one. The research tools used were: an REA; stakeholder workshops; and stakeholder surveys. The REA reviewed the existing reporting frameworks and current developments in both academic and grey literature (i.e. research produced by non-commercial publishers) on NFR. Workshops were then held with three stakeholder groups: users of NFR i.e. non-governmental organisations (NGOs) and institutions, preparers of NFR, and institutional investors. Finally, surveys were undertaken of: preparers of NFR; retail investors; and current and potential employees of public interest entities.

Terminology

This section explains the nuances around terminology relevant to NFR and defines some of the key terms used in this report.

Non-Financial

The term ‘non-financial’ as applied to corporate reporting was first popularised in 1994 by the Jenkins Report.[9] The report was a project of the American Institute of Certified Public Accountants, which proposed a comprehensive model of reporting by businesses intended to meet the needs of investors and creditors.[10] In this report, ‘non-financial information’ was strongly business-focussed and said to cover the environment around the business and of the business itself. Therefore, it covers strategy and management issues, business trends, products and customers.[11]

Around the same time, the concept of corporate social responsibility (CSR) reporting, which originated in the 1950s, saw renewed popularity. CSR reporting widened the scope of non-financial information to include the social impacts of businesses.[12] From these beginnings, the concept of NFR has grown to encompass a wide range of non-financial topics. As a 2017 semantic analysis of the term ‘non-financial information’ summarises:

‘*All in all, the term ‘non-financial information’ has been used within various reporting concepts and areas over the last decades, fostering different interpretations that embrace narrative contextual business information, information on intangible assets and intellectual capital, environmental, social and governance issues and data about KPIs.’* [13]

The meaning of ‘non-financial information’ and other associated terms is heavily context-dependent. Different NFR stakeholders bring their own interests, perceptions, and professional contexts to bear in the discourse, resulting in a multitude of understandings with varying degrees of overlap. This intellectual environment complicates the challenge of making NFR frameworks and standards easy for businesses to implement, and non-financial reports easy for users of NFR to understand and compare. Also, what are commonly thought of as non-financial risks can have financial implications for businesses.

NFR encompasses several different types of reports and associated terminologies (e.g. sustainability reporting, environment, social and governance (ESG) reporting, and CSR), many of which are used loosely and interchangeably by stakeholders and commentators. The situation is complicated by the fact that many of these terms lack a consistent definition.

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[9] Improving Business Reporting – A Customer Focus (The Jenkins Report) (1994) American Institute of Certified Public Accountants
[10] New Reporting Models for Business, Information for Better Markets initiative (2003) Financial Reporting Faculty
[11] Haller, A., Link, M., and Gross, T. (2017) The Term ‘Non-financial Information’ – A Semantic Analysis of a Key Feature of Current and Future Corporate Reporting: Accounting in Europe: Vol 14, No 3, Accounting in Europe, Vol.14, No.3, pp.407–429
[12] Ibid.
[13] Ibid.

Furthermore, none of the different reporting types has a single, agreed list of constituent factors.

Frameworks and Standards

While there is a significant amount of literature concerning stakeholder opinions on NFR (corporate governance, and general disclosure practices, among other topics), there are no formal, universal definitions of either a 'framework' or a 'standard' in the context of NFR.[14] Based on inferences from previously conducted research, a framework may be understood to provide the theory and focus of NFR. It may contain principles and standards, which in turn inform specific NFR metrics and indicators. A framework is sometimes defined as the umbrella theory, and standards are sometimes defined as statements and components within the framework that manage the reporting procedure.[15]

However, while it is only possible to provide loose definitions for many of the key terms, they do still have some distinct meanings, with each type of reporting having certain defining characteristics of their own.

Terminology Used in This Report

Table 1 provides working definitions of key terms used in this report.

Table 1: Key Terms and Definitions

Term	Definition
Non-financial reporting (NFR)	Reporting on any matters relating to activities of a business that are beyond the financial transactions and financial standing of the business. This term may be used to describe different types of reporting, across different frameworks and standards. As its meaning is context-dependent, there is no single definition common to all stakeholders. However, this term may be broadly used in relation to information on the narrative context of a business, intangible assets and intellectual capital, as well as environmental, social and governance issues. The minimum scope for NFR under Directive 2014/95/EU is reporting on how a business' policies are implemented in relation to environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery, and diversity on boards.[16] While this

[14] Haller, A., Link, M., and Gross, T. (2017) The Term 'Non-financial Information' – A Semantic Analysis of a Key Feature of Current and Future Corporate Reporting: Accounting in Europe: Vol 14, No 3, Accounting in Europe, Vol.14, No.3, pp.407–429
[15] Datamaran (2019) The Non-Financial Reporting Directive: What You Need To Know
[16] Non-financial reporting, Europa website, accessed 27/01/2020, https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

Term	Definition
	provides a useful list of common components of NFR, only those businesses to whom the requirements of the Directive apply will be reporting on this exact suite of issues.
Sustainability reporting	A report published by a business about the economic, environmental and social impacts of its everyday activities. A sustainability report also presents a business' values and governance model and demonstrates the link between its strategy and its commitment to a sustainable global economy.[17]
ESG (Environmental, Social and Governance) reporting	Common terminology used by investors and businesses – this is often used synonymously with 'sustainability reporting', covering areas of sustainability, and ethical and corporate governance. After cognitive testing, we used this term in the surveys as respondents struggled to understand the term NFR. Therefore, when reporting on the results of the survey, the phrase 'ESG reporting' is used to highlight the fact that the two terms are being used interchangeably.
CSR (Corporate Social Responsibility)	A term created in the 1950s to encourage businesses to demonstrate wider social responsibility for their activities. Still widely used, in recent years the term has become associated with reporting that is aimed at improving the external image of a business rather than seeking to make a positive contribution.[18] [19]
Impact reporting	Impact reporting encourages businesses to go beyond reporting on outputs and outcomes and to consider how these outcomes contribute to concrete change.
Integrated report	An integrated report, in the context of this study, refers to including financial and non-financial data within the same report. This is done for the purpose of including non-financial issues into the business strategy but also engaging finance-focused individuals with non-financial data. This is different from Integrated Reporting <IR> by the International Integrated Reporting Council (IIRC), which provides an account of how a

[17] Sustainability Reporting, accessed 17 January 2020, https://www.globalreporting.org/information/sustainability-reporting/Pages/default.aspx

[18] Aggarwal, P., and Kadyan, A. (2011) Greenwashing: The Darker Side Of CSr, Indian Journal of Applied Research, Vol.4, No.3, pp.61–66

[19] Latapí Agudelo, M.A., Jóhannsdóttir, L., and Davídsdóttir, B. (2019) A literature review of the history and evolution of corporate social responsibility, International Journal of Corporate Social Responsibility, Vol.4, No.1, p.1

Term	Definition
	business's strategy, governance, performance and prospects lead to value creation over the short, medium and long term. Integrated reports are prepared in accordance with the IIRC's International Integrated Reporting <IR> Framework.
Public Interest Entities (PIE)	Businesses that are of significant public relevance because of the nature of their business, size or the number of employees. In the context of the 2014 European Union (EU) Directive on Non-Financial Reporting, this includes large organisations (those with greater than 500 employees) that are either quoted businesses, banks, insurance companies or independently designated as a PIE by Government.
Users or User	Those user stakeholders with an interest in influencing or reviewing non-financial reports (i.e. consumers of reported data). This includes retail investors, employees, potential employees, NGOs, institutions, and institutional investors, etc.
Preparers	Those preparer stakeholders who are required to report or gather information (i.e. suppliers/preparers of NFR – this being businesses themselves, and specialist consultancies providing NFR services). In the context of this report, the term preparer refers to entities which are in-scope of the EU Directive on Non-Financial Reporting (they are therefore PIEs). While we use the term 'preparer' throughout the main body of the report, the original language of 'organisation' or 'business' is retained in the appendices connected to the surveys to reflect the actual language presented to survey respondents.
Retail investor	Private individuals who invest in businesses or in investment indices using their capital and have a strong influence on where and how that capital gets invested, excluding investments that individuals make through their pensions.
Institutional investor	A non-bank organisation or person that controls large enough share quantities or financial amounts to qualify for preferential treatment and lower fees (e.g. investment organisations and fund managers).
Employee of an in-scope business	A person currently employed by a business subject to the EU Directive on Non-Financial Reporting.

Term	Definition
Potential employee of an in-scope business	A person who does not currently work for a business subject to the EU Directive on Non-Financial Reporting, but who, owing to their personal beliefs and values, would possibly do so in the future.
Materiality	In the context of NFR, this is the degree of relevance or importance of topics to preparers of non-financial reports, with regards to the impacts of their business.
Mandatory reporting	Mandatory reporting is reporting that preparers are required to provide under UK law, as opposed to voluntary reporting, which preparers engage in through their initiative.

Understanding the Current Reporting Environment

Four trends have increased expectations for what, and how, preparers report on NFR. These are: increased expectations on businesses to demonstrate a beneficial impact on wider society; concerns over environmental footprints; a growing interest in ethical investment and wider reputational concerns.

The financial sector has been a key stakeholder in the call for NFR, with awareness of environmental and social risks seen as essential for long-term financial planning.

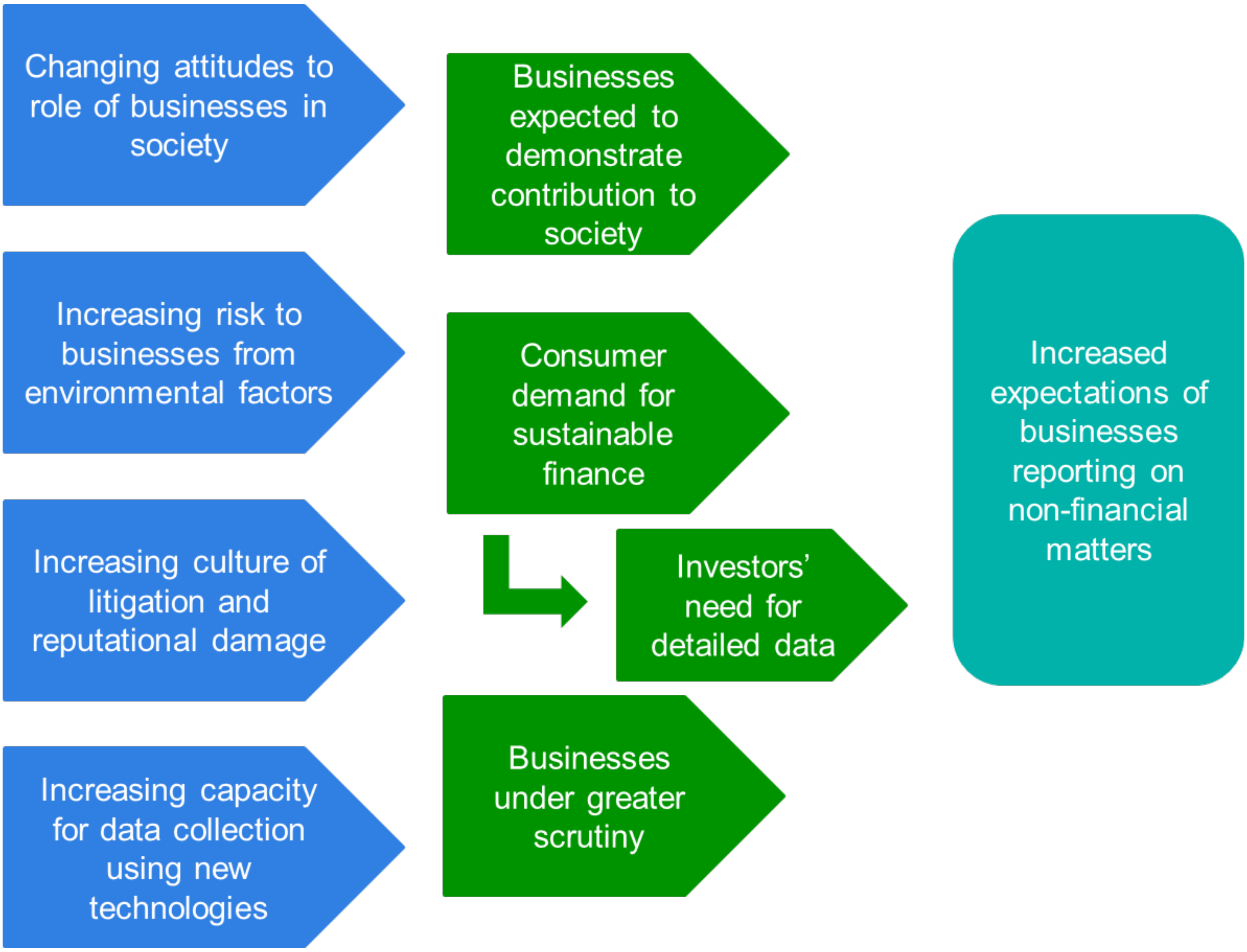
The UK Government has responded through several initiatives designed to stimulate NFR and green finance. These include adopting the UN’s 2030 Agenda for Sustainable Development and establishing a Social Impact Taskforce and a Green Finance Taskforce. A suite of legislation is also in place requiring large businesses to report on certain non-financial topics, including emissions, energy consumption and action taken on energy efficiency, as well as human rights issues.

This section provides an overview of the current state of reporting on non-financial information; the factors driving NFR in a global context; and the UK’s response to these factors, in terms of government action on legislation and investment as well as actions being taken by preparers. It then provides an overview of the numerous existing frameworks for NFR, explaining the key features of each and the differences between them. Finally, the section looks at international efforts that have been made to harmonise the disparate frameworks.

Global Drivers of NFR

Figure 1 sets out some of the global trends that have resulted in increased expectations for what and how preparers report on non-financial matters. This is based on the findings of the literature review.

Figure 1: Global Drivers of NFR



Source: Eunomia

At a macro level, there is an observable culture shift in how society views businesses:

'*Companies recognise that their license to operate can no longer be taken for granted: it needs to be earned and maintained. This is essential to rebuild trust in business.*'.[20]

Both governments and stakeholder groups are encouraging businesses to show a responsible attitude to the welfare of their workers and a positive contribution to the societies within which

[20] Cogito (2019) Interconnected Standard Setting for Corporate Reporting

they operate. [21] The internationally agreed SDGs are one way in which the shared nature of the challenge to achieve sustainability has been articulated.[22] [23] Although CSR has been on the corporate agenda since the 1950s, it is seen as a tool to boost the image of a preparer, with a lack of substance behind it.[24] [25] Some stakeholders argue there is insufficient effort to ensure widespread and accurate information dissemination in this area.[26]

Also, environmental concerns are affecting the corporate reporting landscape. This is seen in two main ways. Firstly, governments recognise the important role that preparers can play in driving a transition to a low carbon economy. The 2019 EU guidelines on reporting climate-related information state that '*organisations and financial institutions have a critical role to play in the transition to a low carbon and climate-resilient economy.*'[27] Secondly, environmental factors are increasingly recognised as material risks within businesses. In the 2019 World Economic Forum Global Risks report, environmental risks constitute half of the top 10 risks both in terms of likelihood and impact.[28] The implication of this is that preparers which are not regularly assessing their exposure to such factors could suffer financial losses.

The increasing importance of environmental factors on the long-term success of a business has led to pressure from investors for more accurate data on these issues, along with the consideration of environmental factors in their long-term financial planning. The financial sector has been a key stakeholder in the call for NFR. It is commonly accepted that a focus on financial information alone is no longer enough to reflect a preparer's complex reality. Preparers' awareness of new risks and liabilities is of critical interest to investors, lenders and insurance underwriters. These stakeholders are asking for data that can genuinely allow them to compare the viability of businesses for the next 20 years and beyond.[29] In addition, there is a growing consumer movement pushing for sustainable finance and ethical investment portfolios stimulating investors to scrutinise a preparer's sustainability in new ways. These consumers want to know their money is not only 'doing no harm' but will be making a positive contribution to society. This requires a new type of data that can demonstrate impact in a range of areas over time.[30]

The Impact Management Project (IMP), a think tank which includes key players such as the Global Reporting Initiative (GRI), has described how capital can be influential in a range of ways by outlining 'the spectrum of capital' (see Figure 2). This sets out a map which investors can use to position their finance according to increasing social impact. This shift could enable the corporate sector to go beyond sustainability, particularly to become 'impact-driven' and actively contribute to societal challenges. To achieve this, it is important that stakeholders know where to look for, and can trust, non-financial reports.

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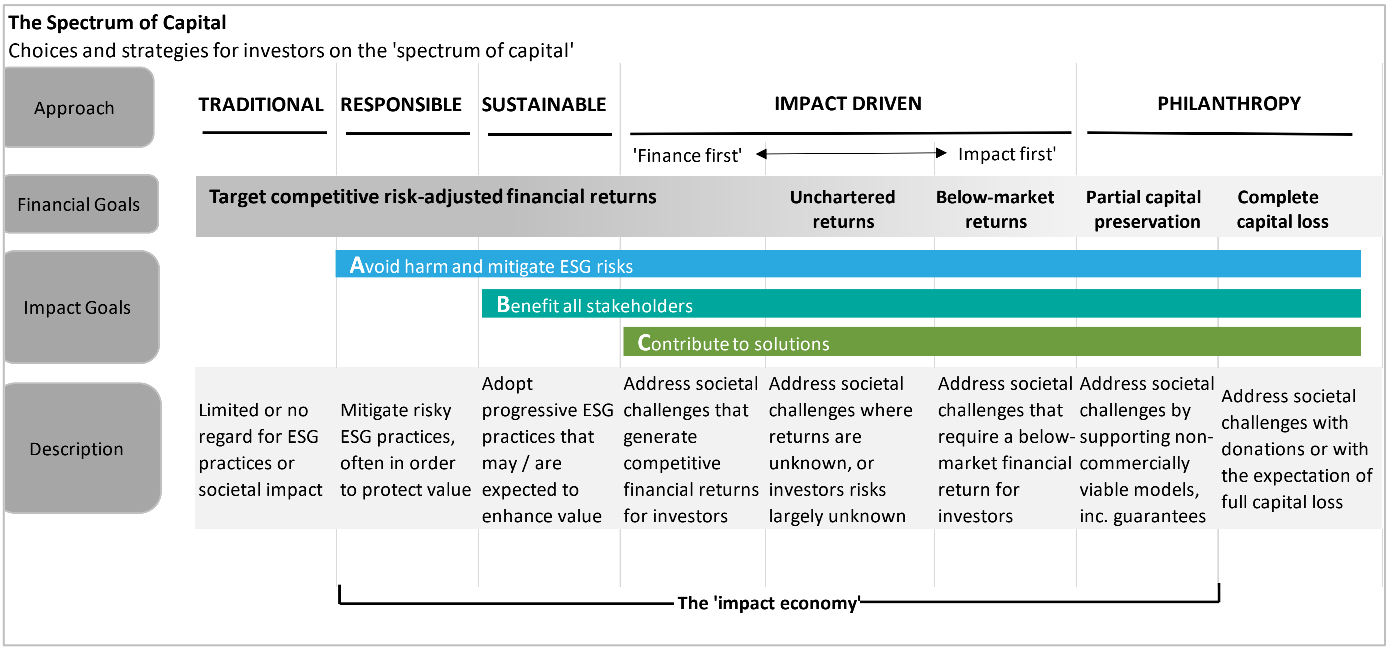
[21] Cone Communications (2017) 2017 Cone Communications CSR study
[22] Social Impact Investment Taskforce (2018) Better Reporting Landscape Report
[23] Global Reporting Initiative (2017) Business Reporting on the Sustainable Development Goals: A Practical Guide
[24] Aggarwal, P., and Kadyan, A. (2011) Greenwashing: The Darker Side Of CSR, Indian Journal of Applied Research, Vol.4, No.3, pp.61–66
[25] Latapí Agudelo, M.A., Jóhannsdóttir, L., and Davídsdóttir, B. (2019) A literature review of the history and evolution of corporate social responsibility, International Journal of Corporate Social Responsibilip.1
[26] Ibid.
[27] European Commission (2019) Guidelines on reporting climate-related information
[28] Weltwirtschaftsforum, and Zurich Insurance Group. (2019) Global risks 2019: insight report,
[29] Eccles, R., and Klimenko, S. (2019) Harvard Business Review: The Investor Revolution
[30] Cambridge Institute for Sustainability Leadership (2019) Walking the talk: Understanding consumer demand for sustainable investing

Figure 2: The Spectrum of Capital



Source: Recreated from Impact Investing Institute (2019) Building an Inclusive Economy

From the perspective of preparers, this shift has been described as moving from a pure focus on profit to one that includes ‘purpose’.[31] [32] [33] Several authors have set out the business case for including ‘purpose’, and this adopts a wider view of value creation and encourages a longer time perspective on this process. [34] [35] [36]

Finally, reputational damage and the trend towards increased litigation further exacerbate reporting pressures on preparers. Preparer reports have wider audiences and there is increased demand for a more holistic approach to disclosure; individuals and NGOs increasingly hold preparers accountable for their actions and impacts.[37]

The culture shift that is described in the literature traces a movement away from traditional business models solely motivated by profit, towards responsible business that seeks to avoid harm and mitigate environmental, social, and governance (ESG) risks, on to sustainable business that seeks to benefit all stakeholders. This is by no means a universally accepted

[31] Black Sun (2019) Purpose and Profit. https://integratedreporting.org/wp-content/uploads/2019/05/Purpose_and_Profit_2019.pdf
[32] PricewaterhouseCoopers (2016) Putting Purpose to Work - A study of purpose in the workplace: June 2016, June 2016
[33] Harvard Business Review (2016) The Business Case for Purpose, 2016
[34] Fink, L. (2019) Larry Fink’s Letter to CEOs: a Fundamental Reshaping of Finance, accessed 3 March 2020, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter
[35] Black Sun (2019) Purpose and Profit. https://integratedreporting.org/wp-content/uploads/2019/05/Purpose_and_Profit_2019.pdf
[36] PricewaterhouseCoopers (2016) Putting Purpose to Work - A study of purpose in the workplace: June 2016, June 2016
[37] Watchman, A., and Papa, V. (2019) Need for a Holistic Approach to Enhancing Corporate Disclosure Requirements, Schmalenbach Business Review, Vol.71, No.2, pp.255–261

viewpoint, and for some preparers, particularly smaller businesses, a social responsibility perspective is seen as burdensome. However, as more large businesses work with this new perspective, a culture of best practice on reporting is beginning to grow, leading to some positive change in the corporate sector.

UK Response to International Developments in NFR

This section sets out some of the main actions, to date, from the UK Government which support developments in NFR. They principally relate to green finance and social impact investing.

Since the Task Force on Climate-related Financial Disclosures (TCFD) published its recommendations in 2015, there has been strong UK interest in the area of green finance.[38] In September 2017, the UK Government set up an independent task force to accelerate the growth of green finance and advise on the implementation of TCFD recommendations.[39] This Green Finance Taskforce advocated the adoption of the TCFD recommendations:

'*There must be a comprehensive effort by the Government and relevant regulators to support successful adoption, implementation, and enforcement of the TCFD recommendations, such as through public rankings, off-the-shelf tools and scenarios, and publicly available datasets*'.[40]

In March 2018, the UK Working Group on Data, Disclosure and Risk – a sub-group of the Green Finance Initiative – published a document with the ambition to create '*the most comprehensive and deeply embedded disclosure framework in the world'* whilst building on existing initiatives and standards, and to thus *'contribute to global harmonisation*.'[41] The sub-group sees its work as supporting the UK in becoming a world leader in innovation and standard-setting. In recognition of the TCFD's limitations, it recommends that new and voluntary disclosure recommendations should be developed by incorporating reporting on the SDGs. A discussion paper on these issues was released for comment in October 2018.[42] In July 2019, the Government published its Green Finance Strategy, building on the recommendations of the Green Finance Taskforce. Industry reaction to the Green Finance Strategy has been largely positive, although it has been criticised for not going far enough, with calls for a Clean Growth Strategy and further funding to enable businesses to meet the government's net-zero emissions target for 2050.[43] [44]

In 2013, the UK Government set up the Social Impact Taskforce with the aim of stimulating the development of the social impact investment market. This organisation continues to play an important role in discussions on impact reporting by expanding the scope of the dialogue to

[38] Amone, F., and Pareglio, S. (2018) The British Approach to the World's Best Framework for Climate-Related and Sustainability-Related Financial Disclosure, p.8
[39] Green Finance Taskforce (2018) Accelerating Green Finance
[40] ibid
[41] P27 Green Finance Initiative (2018) Establishing the world's best framework for climate-related and sustainability-related financial disclosures, 2018, https://www.tcfdhub.org/resource/establishing-the-worlds-best-framework-for-climate-related-and-sustainability-related-financial-disclosures/
[42] Financial Conduct Authority (2018) Climate Change and Green Finance Discussion Paper DP18/8
[43] Business Green (2019) Green Finance Strategy: Industry Reaction, accessed 28 April 2020, https://www.businessgreen.com/news-analysis/3078251/green-finance-strategy-industry-reaction
[44] Financial Reporting Council (2019) FRC statement on the Government's Green Finance Strategy, accessed 22 July 2019, https://www.frc.org.uk/news/july-2019/frc-statement-on-the-government%e2%80%99s-green-finance-st

include issues beyond green finance.

Impact reporting is also a key tool in relation to the UN SDGs. The UK signed up to the UN SDGs in 2015, by way of adopting the UN's 2030 Agenda for Sustainable Development. Since then, there has been Government interest in whether preparers should include data relevant to these goals within NFR.

2019 saw further developments in this field with the establishment of the Impact Investing Institute, which was created to promote the work of global standard setters in a UK context.[45] In June 2019, a Government advisory group published the final report by the Impact Investing Institute, '*Growing a culture of social impact investing in the UK*'.[46] This report, colloquially known as the Corley Review, was a collaboration of the Department of Digital, Culture, Media and Sport with HM Treasury. The Corley Review looks for more effective ways to combine financial returns with a social purpose to help improve people's lives. Its recommendations aim to encourage and guide action towards increasingly socially responsible investment (SRI) from industry, regulators and governments.

NFR Obligations in the UK

In the UK, the legal definition of the purpose of a company (according to Section 172 of the Companies Act 2006) sets out that Company Directors are required to promote the interests of their shareholders, with due regard for wider stakeholders. The inclusion of the requirement to show due regard to wider stakeholders is a move to embrace a broader view of corporate responsibility. And NFR obligations are often prescribed in order to meet the information requirements of wider stakeholders.

In the UK, NFR obligations are governed by the Companies Act 2006 and the EU Non-Financial Reporting Directive (2014/95/EU). The Companies Act of 2006 requires all companies, except those subject to the small companies' exemption, to produce focused strategic reports and a directors' report.[47] The strategic report should include the high-level information shareholders need to gain an immediate understanding of the business. Businesses are additionally required to release information on greenhouse gas emissions in their directors' reports and to disclose human rights issues within their strategic reports. Quoted businesses are additionally required to report on their strategy and business model to the extent necessary for an understanding of the preparer.

Outside of the Companies Act (2006), there are legal obligations to report on certain key social concerns. In 2015, the Modern Slavery Act formalised that businesses with turnovers exceeding an amount prescribed by the Secretary of State must prepare a slavery and human trafficking statement for each financial year.[48]

The 2014 EU Directive on Non-Financial Reporting (Directive 2014/95/EU) requires all large

[45] Impact Investing Institute (2019) Building an Inclusive Economy
[46] Corley, E. (2017) Growing a culture of social impact investing in the UK, accessed 23 September 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811914/Final_report_by_the_Implementation_Taskforce_Growing_a_culture_of_social_impact_investing_in_the_UK_2019.pdf
[47] UK Government (2006) Companies Act 2006 Part 15 Chapter 4a and 5
[48] Modern Slavery Act 2015, accessed 23 September 2019, http://www.legislation.gov.uk/ukpga/2015/30/section/54/enacted#section-54-2

(those with greater than 500 employees) public interest entities (quoted businesses, banks, insurance businesses) to disclose information on environmental, social and community matters.[49] This disclosure should be sufficient for an understanding of a business' development, performance and position, along with the impact of its activities. This requirement has made the concept of materiality (materiality being the relevance to decision-making by users) a key consideration for NFR, with preparers having to make value judgements on which sustainability aspects are relevant to them and should be reported on. There is considerable flexibility in how preparers disclose this information, including using EU guidelines, the UN Global Compact, the OECD guidelines for multinational enterprises, or ISO 26000 and others. For example, reporting can take the form of website statements in addition to written annual reports.[50] [51] [52] [53]

The UK Government published new regulations in December 2016 implementing the Non-Financial Reporting Directive and amending the Companies Act 2006 strategic report requirements. This included a requirement for information on diversity to be published under the Disclosure and Transparency Rules (DTR).[54] These new regulations apply only to those traded businesses, banking businesses, authorised insurance organisations and organisations carrying out insurance market activity that have more than 500 employees.[55] Businesses not within the scope of the 2016 regulations continue to be governed by the 2013 regulations.[56]

Two additional UK regulations were released in 2018:

- The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 – which came into force on 1st April 2019.
- The Companies (Miscellaneous Reporting) Regulations 2018.[57]

The former of these introduced new requirements to disclose information about emissions, energy consumption and action taken on energy efficiency for quoted businesses, large unquoted businesses in their directors' reports, and for large Limited Liability Partnerships in an additional specific report. The latter amends the reporting requirements contained in Part 15 Companies Act 2006 (CA 2006), in the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and in the Community Interest Companies Regulations 2005 by expanding the required content of reporting.

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[49] EU Commission (2014) Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU, accessed 18 July 2019, https://eur-lex.europa.eu/eli/dir/2014/95/oj
[50] European Commission (2019) Commission guidelines on non-financial reporting, accessed 22 August 2019, https://ec.europa.eu/info/publications/non-financial-reporting-guidelines_en
[51] UN Global Compact, accessed 22 August 2019, https://www.unglobalcompact.org/
[52] Guidelines for multinational enterprises - OECD, accessed 22 August 2019, http://www.oecd.org/corporate/mne/
[53] ISO ISO 26000 Social responsibility, accessed 22 August 2019, http://www.iso.org/cms/render/live/en/sites/isoorg/home/standards/popular-standards/iso-26000-social-responsibility.html
[54] UK Government (2016) The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016
[55] Financial Reporting Council (2017) Non-Financial Reporting Factsheet, accessed 18 July 2019, https://www.frc.org.uk/getattachment/3dfe0ac6-ac6d-41a0-91bf-df98cbba0ad6/Non-Financial-Reporting-Factsheet-Final.pdf
[56] The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, accessed 11 February 2020, http://www.legislation.gov.uk/uksi/2013/1970/pdfs/uksi_20131970_en.pdf
[57] BEIS (2018) The Companies (Miscellaneous Reporting) Regulations 2018 Q&A, 2018

In February and March 2019, the European Commission held a consultation on the proposed revision of the non-binding guidelines on NFR as part of its Sustainable Finance Action Plan.[58] Following this consultation, the Commission published a supplement to the existing guidelines on reporting climate-related information, with suggestions on how preparers can assess their impacts on the climate as well as how climate change may impact their financial performance.[59]

A new mandatory reporting framework came into force from 1st April 2019. The Streamlined Energy and Carbon Reporting (SECR) requirement was introduced through The UK Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The aim of the new framework is to simplify and bring together earlier reporting schemes (Climate Change Levy, Mandatory Greenhouse Gas Reporting (MGHG), Carbon Reduction Commitment and Energy Savings Opportunity Scheme). As was the case for the MGHG, disclosure on energy use and emissions will be made through annual directors' reports. The number of preparers required to report increases tenfold, from 1,200 under the MGHG to around 11,900 under the SECR. This expansion comes from the inclusion of 'large' unquoted businesses and Limited Liability Partnerships, where 'large' is defined as meeting at least two of the following three criteria in a reporting year:

- A turnover of £36 million or more.
- A balance sheet of £18 million or more.
- 250 employees or more.

The intention is to provide a more level playing field in reporting across large businesses.[60]

In 2019, progress was seen on the Management Commentary framework update by the International Accounting Standards Board (IASB). In undertaking the project, the IASB will consider how broader financial reporting could complement and support existing guidelines for financial statements from the International Financial Reporting Standards (IFRS) Foundation. The project began in 2017, and in July 2019 the Board met to develop guidance on the qualitative characteristics of useful, relevant, and material financial information.[61]

The Government hopes that the new framework will encourage the implementation of energy efficiency measures contributing to its goal '*to enable businesses and industry to improve energy efficiency by at least 20 per cent by 2030*.'[62] The Green Finance Strategy also indicates that the Government is exploring digital reporting of SECR disclosures in order to make the process easier and to ensure that information is more accessible for external stakeholders.[63]

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58 European Commission (2019) Commission guidelines on non-financial reporting, accessed 22 August 2019, https://ec.europa.eu/info/publications/non-financial-reporting-guidelines_en
59 European Commission (2019) Guidelines on reporting climate-related information
60 BEIS (2019) Green Finance Strategy, accessed 22 July 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/813656/190701_BEIS_Green_Finance_Strategy_Accessible_PDF_FINAL.pdf
61 IFRS (2019) Management Commentary - Current Stage., accessed 25 September 2019, https://www.ifrs.org/projects/work-plan/management-commentary/#current-stage
62 BEIS (2018) Streamlined Energy and Carbon Reporting. Government Response
63 BEIS (2019) Green Finance Strategy, accessed 22 July 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/813656/190701_BEIS_Green_Finance_Strategy_Accessible_PDF_FINAL.pdf

Existing NFR Frameworks

We identified 13 major NFR frameworks, split between those that solely provide tools (six), those that solely provide principles or standards for reporting (three), and those that provide both principles/standards and tools (four).

Four frameworks primarily address the needs of investors, while a further three address the needs of investors alongside those of wider stakeholders.

Environmental topics have the highest representation, being covered by all but one of the 13 frameworks. Social topics are covered by nine of the frameworks, while governance topics are covered by eight of them.

Efforts to harmonise NFR frameworks tend to either focus on demonstrating commonalities and synergies between existing frameworks or on creating new frameworks. Aligning with the TCFD and the SDGs has been a particular point of focus.

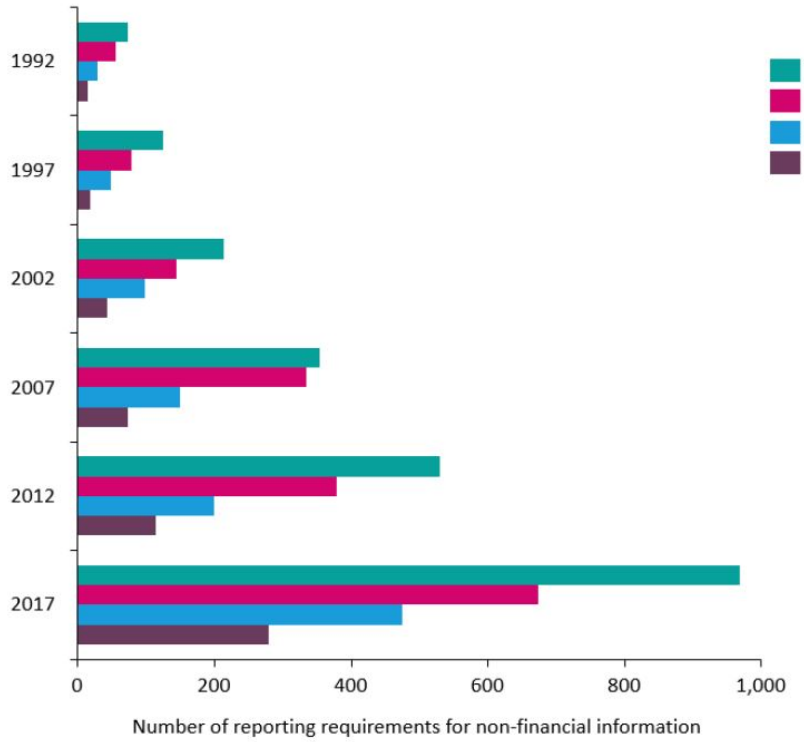
While the IFRS and Generally Accepted Accounting Principles (GAAP) are mandatory for preparers to use in preparing their accounts, there are no equivalent standards for NFR. As discussed in the previous section, NFR obligations are evolving and how preparers actually report on these obligations is not mandated. Preparers must navigate a complex array of choice from existing frameworks for reporting. The following section describes this landscape of NFR frameworks.

The requirements for preparers to report on their non-financial data has led to the proliferation of voluntary NFR frameworks used by preparers and industry. Many new bodies have been created and each sets out its own approach to reporting. With so many different options for frameworks available, it can be difficult for preparers and investors to know which reporting option is most valuable.[64]

Figure 3 shows the growth in reporting requirements has been exponential in recent years and now exceeds over 1,000 requirements. This has been accompanied by a growth in the number of frameworks. Between 2013 and 2016, the number of reporting frameworks that focus on sustainability in a broad sense doubled to nearly 400.[65] This proliferation of frameworks has been described as '*large and stultifying*' and lacking in '*both coordination and consistency'*.[66] [67] However, within this myriad of options, the frameworks that are influential on a wide scale are less numerous, and this report highlights 13 of the most high profile frameworks for a closer comparison in the section '*Summary of Most Used NFR Frameworks'* within the '*Technical Appendices.'*

[64] Stolowy, H., and Paugam, L. (2018) The expansion of non-financial reporting: an exploratory study, Accounting and Business Research, Vol.48, No.5, pp.525–548
[65] Social Impact Investment Taskforce (2018) Better Reporting Landscape Report
[66] Corporate Reporting Dialogue (2019) Driving Alignment in Climate-related Reporting
[67] WBCSD (2019) Reporting Matters. Navigating the landscape: a path forward for sustainability reporting

Figure 3: Growth of Reporting Requirements for Non-Financial Information



Source: Reporting Exchange: Insights from the Reporting Exchange 2018

Comparison of NFR Frameworks

Table 2 compares some of the broad characteristics of 13 key frameworks, including their use by preparers and primary audiences. Further information on each of these frameworks is provided in the section '*Summary of Most Used NFR Frameworks'* within the '*Technical Appendices'* to this report.

Table 2: Comparison of Selected NFR Frameworks [68]

Task Force on Climate-Related Disclosures	TCFD	Principles and a tool for scenario forecasting	27 of FTSE 100	Investors
Global Reporting Initiative	GRI	Standards and tools (detailed metrics for reporting data)	71 of FTSE 100	Investors and wider stakeholders
CDP (formerly Carbon Disclosure Project)	CDP	Tool (metrics for ranking businesses)	77 of FTSE 100	Investors and wider stakeholders
Sustainability Accounting Standards Board	SASB	Tool (metrics for ranking businesses)	Mainly the US, recently endorsed by Black Rock	Investors
RobecoSAM – Dow Jones Sustainability Index	DJSI	Tool (metrics for ranking businesses)	73 of the FTSE 100	Investors
B Lab	B Corp	Standards and tools (for benchmarking business' progress towards their own goals)	176 businesses – mostly SMEs, many in the food sector; currently in 64 countries	Wider stakeholders
Science-Based Targets Initiative	SBT	Tools (for benchmarking business' progress towards their own goals)	24 of FTSE 100, website states 778 businesses globally	Wider stakeholders

[68] Information relating to FTSE 100 companies, for which details are in the *Technical Appendices: Summary of Most Used NFR Frameworks.*
[69] Note that some businesses will report against more than one framework.

World Benchmarking Alliance	WBA	Tools (for benchmarking) Promotes the use of SDGs in reporting	No data[70]	Wider stakeholders
Social Value UK	SROI	Principles and tool (for reporting social impact)	Mainly used by not-for-profits and social enterprises, SROI has been also used within the health and construction sectors in the UK	Wider stakeholders
Impact Management Project	IMP	Principles for reporting impact	No data	Investors and wider stakeholders
International Integrated Reporting Council	<IR>	Principles for reporting impact	Private and public sector	Wider stakeholders
Climate Disclosure Standards Board	CDSB	Standards for benchmarking	Private sector	Investors
United Nations	SDGs	Tool (detailed metrics for reporting impact)	Private and public sector	Wider stakeholders

Four of the 13 reporting frameworks are intended to primarily address the needs of investors (TCFD, SASB, DJSI, and CDSB), while a further three are aimed at investors alongside wider stakeholders (GRI, IMP, and CDP). As we see a high level of reporting by FTSE 100 businesses against four of these frameworks (GRI, CDP, DJSI, and to a lesser extent TCFD), this shows a prevalence of investor-focused reporting in the UK, at least among the largest

[70] The World Benchmarking Alliance was recently established in 2017 and is still in the process of completing its framework standards.

businesses.

Some frameworks are not designed to preferentially cater to the needs of investors (B Corp, SBT, WBA, SROI, <IR>, and the SDGs). SBT is being used for reporting by around a quarter of the FTSE100, while SMEs mainly use B Corp for reporting. SROI stands out as a specifically socially focussed framework and is helping to meet the needs of not-for-profits and social enterprises with a social focus.

Of the 13 frameworks identified, we can distinguish between those that solely provide tools (six) and those that solely provide principles or standards for reporting (three), while a third category provides both principles/standards and tools (four). Of those providing solely reporting tools, three provide metrics for ranking businesses (CDP, SASB and DJSI). All three are used by investors, enabling them to compare the performance of different preparers on non-financial metrics.

It is difficult to compare directly which are the most used frameworks, as some are much older than others. As of August 2019, when the research was undertaken on this, all but six FTSE 100 businesses (Carnival Corporation, CRH, DCC, Flutter Entertainment, Smurfit Kappa, and Scottish Mortgage Investment Trust) were reporting against at least one of the five major NFR frameworks, while most were reporting against multiple frameworks.

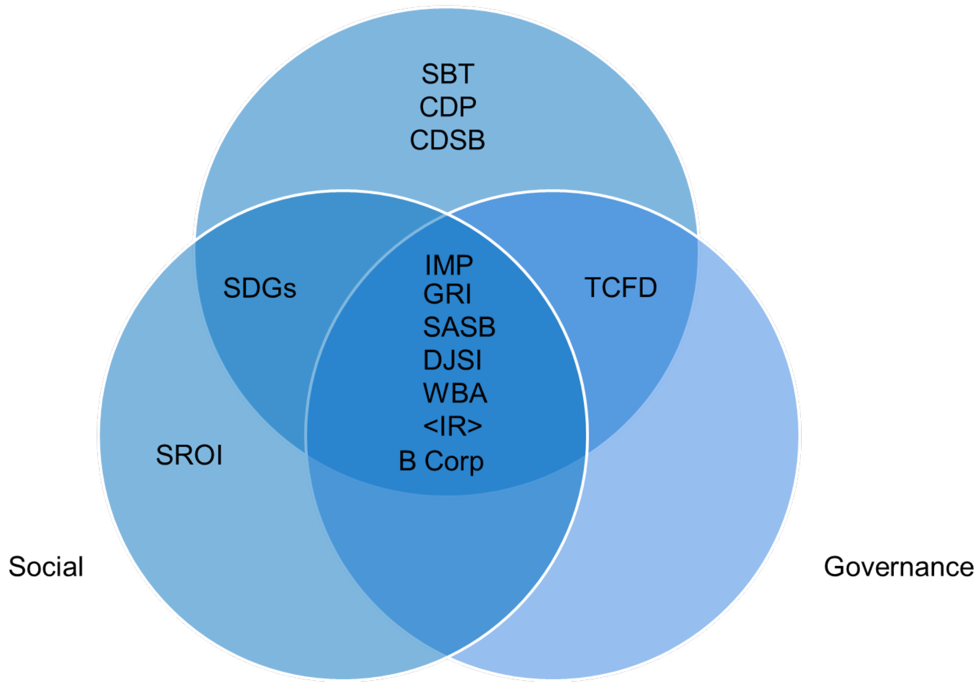
Various attempts have been made to compare existing frameworks. Whilst it is beyond the scope of this report to perform an independent analysis of the frameworks, it is useful to consider the ways in which these frameworks differ. [71] [72] [73] Building on the analysis of the Social Impact Investment Taskforce, the key ways in which reporting frameworks differ include the following:

- **Themes** – The relative coverage of ESG themes. Some frameworks were developed specifically to focus on specific topics, with a recent upsurge evident in frameworks that cover climate-related environmental aspects.
- **Reporting inputs** – Some frameworks offer a conceptual basis for reporting, outlining reporting principles that define best practice in reporting or specifying standards that present minimum requirements for reporting. Most frameworks take one approach, such as <IR> that is focussed on principles, or SASB that takes a standards-based approach. GRI and CSDB offer both principles and standards.
- **Differing Needs of Practitioners** – Different frameworks serve the needs of particular stakeholder groups. On the preparer side, different frameworks focus on the needs of different sectors, and also cater to different size operations. Meanwhile, the needs of report users, whether investors or other stakeholders, are the driving force behind other frameworks. For example, some frameworks solicit specific data from preparers in order to produce a ranking of businesses with reference to a particular theme that is relevant to investors. Other frameworks focus on ways of measuring impact, or on embedding sustainability within a business which may be of relevance to wider stakeholders.

Figure 4 shows the main ESG themes covered by these 13 frameworks.

[71] Social Impact Investment Taskforce (2018) Better Reporting Landscape Report
[72] WBCSD (2019) Reporting Matters. Navigating the landscape: a path forward for sustainability reporting
[73] Social Impact Investment Taskforce (2018) Better Reporting Landscape Report

Figure 4: NFR Frameworks Grouped by Main Coverage of Themes



Source: Eunomia

Of the 13 frameworks identified, seven have a broad scope that cover ESG matters. Three frameworks are specific to the environmental sector and have limited to no coverage of the social aspects of NFR. Overall, coverage of environmental data is the most prevalent (compared with coverage of social and governance data) across the different NFR frameworks, with topics ranging from resource efficiency, operational efficiency and climate strategy. However, less attention is paid to biodiversity, supplier environmental assessment, and product stewardship. This may be due to these areas being more difficult to report on, with extensive stakeholder engagement and wider value chain analysis required to understand the full impacts.

Commentary notes that there has been less reporting on social issues compared with reporting on environmental issues. The fact that there are three frameworks dedicated solely to environmental issues, while only one is dedicated solely to social issues (as can be seen from Figure 4) does suggest that more attention has been spent on environmental topics. However, looking at overall coverage, 12 frameworks cover environmental issues and nine social issues, so the disparity does not seem so great.[74]

The frameworks in Figure 4 that cover social aspects include indicators covering human capital development (training, growth and education), diversity and inclusion, and human rights. While some frameworks cover workforce and community issues, only the GRI and DJSI cover most of these issues in a comprehensive way. Assessment of suppliers' social impacts is not covered by most of these frameworks. The SDGs, if more widely adopted as a reporting tool,

[74] WBCSD (2019) Reporting Matters. Navigating the landscape: a path forward for sustainability reporting

cover a much wider range of social issues than other frameworks.

While there are no frameworks solely covering governance data (i.e. reporting on the governance of business operations and activities), it is included in the seven frameworks that cover all aspects of ESG reporting and by the TCFD, which covers environmental and governance data. Frameworks focussed on environmental reporting tend to request data on the transparency of environmental impacts (the act of reporting itself) and strategies, risks, and opportunities in relation to supply chain impacts and climate change. Those frameworks covering reporting on ESG issues tend to provide a higher number of indicators for reporting on governance issues than those frameworks which are primarily environmental or social frameworks but which also include a governance element.

Unfortunately, this array of choice conflicts with the need for comparable and reliable reports that accurately present a view of businesses' sustainability impacts. There is evidence from the literature that this has undermined investors' trust in NFR who are concerned over inadequate reporting of risks.[75] The key question has now become whether governments should mandate reporting against a particular NFR framework or set of indicators.

International Efforts to Harmonise the Reporting Environment

There have been increasing efforts, particularly over 2019, to harmonise different reporting frameworks and bring more consistency into this area. Actors in this process include organisations such as the Corporate Reporting Dialogue, the World Business Council for Sustainable Development (WBCSD), and the Impact Management Project (IMP) as well as accountancy bodies such as Accounting 4 Sustainability and Accountancy Europe.[76] [77] [78] These organisations have called for a shift from a fragmented, chaotic reporting environment to one which displays a more consolidated, mature approach.

One strand of this attempt at harmonisation has sought to communicate to practitioners and stakeholders how existing standards align and connect, and how they can be used complementarily. This has shown that while the content of frameworks is already fairly well aligned, there remain differences in terminology and methodologies.[79]

The Better Alignment Project is an initiative of the Corporate Reporting Dialogue that facilitates cooperation between NFR frameworks and standard setters (including the CDP and GRI) on improving the coherence, consistency, and comparability of frameworks and standards. A 2019 report from the project looked specifically at the climate change-focussed reporting of the CDP, GRI, and the SASB. [80] It found strong alignment between these frameworks and the TCFD, with the frameworks covering 80% of the TCFD's suite of 50 metrics to a satisfactory degree. However, it also found that stakeholders were not fully aware of the overlaps between the

[75] Business Green (2019) FRC: Trust in business undermined by inadequate reporting of risks, accessed 11 March 2020, https://www.businessgreen.com/news/3083251/frc-trust-in-business-undermined-by-inadequate-reporting-of-risks
[76] Corporate Reporting Dialogue (2019) Driving Alignment in Climate-related Reporting
[77] WBCSD (2019) Reporting Matters. Navigating the landscape: a path forward for sustainability reporting
[78] Cogito (2019) Interconnected Standard Setting for Corporate Reporting
[79] Corporate Reporting Dialogue (2019) Driving Alignment in Climate-related Reporting
[80] Driving Alignment in Climate-related Reporting, Year One of the Better Alignment Project (2019), Corporate Reporting

frameworks due to differences in terminology. Representatives from the frameworks felt that it would be useful for the Better Alignment Project to develop a taxonomy guide covering terminology to help make clear where commonalities do exist. Similarly, participants recommended that the Project should develop an interactive online tool to bring together frameworks and standards and show how they can be used either individually or in conjunction for different reporting purposes.

The application of the SDGs across different international contexts is potentially challenging given the very different nature of the targets and how they may be applicable across different contexts. One report compiled by the CRD in 2019, focusses on the integration of the SDGs in corporate reporting, comparing the coverage of the SDGs in the CDP, CDSB, GRI, ISO standards, SASB, and <IR>.[81] The comparison looked at the topics and/or indicators that matched the 17 SDG goals, finding that the GRI and ISO standards were comprehensive in their coverage while, the CDP and CDSP covered only the environmental themes (SDG numbers 6, 7, 11, 12, 13 and 15). This might be expected from frameworks focussing on carbon emissions and climate change. Further to this, the CDSP also covers SDG number 14 (life underwater) and SDG number 17 (partnerships for the goals).

As the focus of the paper was on topics and indicators, the <IR> framework was reported as not directly addressing any of the SDG goals, as it is a principles-based approach and offers no indicators; however, it's guidance does recognise several SDG themes, and it could indirectly support all SDGs to the extent that preparers deemed them material to value creation. In direct contrast to this analysis, Adams et al have produced recommendations for the implementation of SDG reporting that show close alignment with the <IR> framework. [82] This highlights the difficulties of comparing frameworks that take a different approach to reporting.

Similarly, a 2019 report from the WBCSD identified 30 key ESG issues on which there are significant commonality and agreement between preparers, regulators, standard setters, and investors.[83] Environmental topics account for the greatest proportion of the 30 issues (18), with social and governance topics accounting for similar numbers (seven and five respectively). The report recommends that future work on consolidation and alignment of reporting requirements should begin by focussing on the 30 issues identified. Ten further emerging issues are also identified (one environmental, seven social and two economic), and the recommendation made that regulations and reporting frameworks be updated in these areas.

Although now a few years old, one important contribution to the global project of harmonising the reporting environment is Accountancy Europe's concept of 'Core & More' reporting. This was first launched as part of the organisation's Cogito reports series in 2015 – whereupon the reporting community welcomed it – before being expanded on in a further 2017 paper.[84] [85] The idea behind the concept is to improve how corporate reporting is presented while expanding the potential user base by '*organising different strands of reporting in a structured yet*

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[81] Corporate Reporting Dialogue (2019) The Sustainable Development Goals and the future of corporate reporting, February 2019, http://integratedreporting.org/wp-content/uploads/2019/02/The-Sustainable-Development-Goals-and-the-future-of-corporate-reporting-1.pdf
[82] Adams, C., Druckman, P., and Golman, R. (2020) Sustainable Development Goals Disclosure (SDGD) Recommendations
[83] WBCSD (2019) Reporting Matters. Navigating the landscape: a path forward for sustainability reporting
[84] Accountancy Europe (2015) The Future of Corporate Reporting – creating the dynamics for change
[85] Core & More (2017) An opportunity for smarter corporate reporting

connected manner'.[86] The 'Core' concept provides the most relevant and material information, such as key financial and non-financial data, prospects, and risks, and would be aimed at a wide stakeholder audience. This would then be supplemented by a suite of 'More' reports tailored to more specific audiences, including information such as full financial statements, full corporate governance reports, and detailed information on performance related to sustainability issues.

Accountancy Europe states that 'Core & More' is essentially a presentational concept, and it sees technology as playing an important role in the development of corporate disclosure. Noting that stakeholders already expect digital reporting to become more prevalent in the future, it suggests that the interfaces through which users access reports could be designed to help them find the information most important to them. For example, hyperlinks in the 'Core' report could link out to more detailed information in the 'More' reports, and users could even create customisable dashboards that would be automatically populated with detailed information on the subjects of most interest to them from the 'More' reports.

A more recent report in the Cogito series considers various approaches to coordinating, rationalising, and consolidating NFR frameworks and standards, as well as how to best connect NFR to financial reporting.[87] The report concludes that the best approach would be a global corporate reporting structure, in which:

- At the top-level, an enhanced monitoring body provides a broad representation of public authorities, multilateral agencies, and other international bodies, as well as providing policy representation.
- At the middle level, the IFRS Foundation would be restructured to create a new Corporate Reporting Foundation, which would be responsible for developing and maintaining a framework for connected reporting, with an interconnected standard setting for both financial and non-financial reporting.
- At the lowest level, a new International Non-financial Reporting Standards Board would be established through the alignment or consolidation of existing bodies. This board would formalise NFR standards and develop a global set of core metrics. NFR would be connected to financial reporting through a shared conceptual framework for all connected reporting.

This attempt by Accountancy Europe to imagine what more structured, harmonious reporting might look like would clearly require significant international collaboration to meet the associated implementation challenges.

At an international level there are efforts to make existing commonalities and synergies more explicit as well as develop new methods and infrastructures for reporting. Many harmonisation efforts have focussed around aligning with the TCFD and the SDGs.

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[86] Ibid.

[87] Cogito (2019) Interconnected Standard Setting for Corporate Reporting, Accountancy Europe, 2019

Existing Stakeholder Preferences

Investors are an important stakeholder group in driving NFR. Many investors review non-financial reports, seeing activity on NFR issues as a sign that preparers are actively managing risks. Out of the 20 studies identified on stakeholder preferences on NFR, investors are the most studied group.

Users report that NFR frameworks differ in their reporting terminologies and standards and thus makes comparability between producers, which use different frameworks, more challenging. However, there is evidence that the perceptions around flexibility and comparability may be exaggerated, and that more needs to be done to make clear where commonalities and synergies exist between NFR frameworks.

Flexibility in reporting, which allows preparers to disclose material information related to their unique priorities and needs, has some negative implications for comparability. Furthermore, NFR is more reliant on qualitative description, rather than more comparable quantification and metrics. Materiality of NFR is a key concern for some users. A high proportion of practitioners in the field of socially responsible investment feel that NFR is often an exercise in 'impressions management' or 'greenwashing'.

There has been a great deal of activity promoting the UN SDGs as a reporting tool; however, the literature on stakeholder preferences around this are limited.

NFR centres around those preparers that are either mandated or have chosen to report on NFR issues. However, NFR involves a large range of stakeholders, which can be broadly split into 'preparers' and 'users'.

Preparers (e.g. businesses) are those generating non-financial data and reports, for users of this data.

Users are those which make use of the NFR information generated by the preparers. Demand for NFR comes from, most notably, investors, NGOs/civil society groups/think tanks, employees, consumers, communities, governments, and academics.

Investors form a distinct sub-group and are important in driving demand for rigorous NFR. They include investment organisations and fund managers, as well as private individuals. Investor preferences are important because investors increasingly evaluate non-financial information when making investment decisions. In a global Ernst & Young investor survey on preferences around NFR, 97% of respondents said that they evaluate non-financial information.[88]

Investors realise that corporate performance on a relatively small number of NFR issues will limit downside risk (the risk of actual financial return being lower than expected return) and

[88] Ernst & Young (2018) Does your nonfinancial reporting tell your value creation story? https://www.ey.com/Publication/vwLUAssets/ey-ccass-survey-2018-report/$FILE/ey-ccass-survey-2018-report.pdf

create upside opportunities (the chance that financial return will be higher than expected).[89] Consequently, choosing to produce a report that simply meets the minimum requirements and not producing a comprehensive non-financial report using a voluntary framework is frequently interpreted as a signal of potential weaknesses in the preparers' governance and risk management frameworks.[90] Furthermore, some investors aspire to practice 'ESG integration' where they consider a preparer's non-financial performance in their investment assessments just as they do its financial performance; a lack of good or available information hinders their ability to practice ESG integration.[91]

Stakeholder Preferences Evident in the Literature

This section gives an overview of research conducted into stakeholder preferences on NFR. Our research identified 20 studies concerning stakeholder views on NFR published over the past five years. Of these:

- 12 focus on specific NFR frameworks and are primarily concerned in presenting stakeholder views on the efficacy of these frameworks when used either individually or in conjunction with others.
- The other eight studies focus either on sustainability reporting in general or focus on the ESG performance of specific preparers.

The studies examine the preferences of stakeholders across the producer and user groups. Of the 20 studies identified:

- 14 cover more than one stakeholder group.
- Of the six that focus on only one group, four focus on investors and two on preparers.
- Overall, the investment community is the group studied most, considered by 18 studies.
- 13 studies consider the preferences of preparers, while other users' preferences are considered by ten studies.

In terms of method:

- 15 studies are based on primary research conducted on stakeholders. Of these, nine studies engaged directly with stakeholders either through interviews or focus groups, while the other six studies gathered information through online surveys or consultations.
- Two studies were based on literature reviews.
- One further study was primarily a literature review with a small additional interview

[89] Fox, I. (2019) "To B or not to B": is achieving B Corporation status valuable for organisations in 2019?, accessed 30 July 2019, https://pwc.blogs.com/industry_perspectives/2019/03/to-b-or-not-to-b-is-achieving-b-corporation-status-valuable-for-organisations-in-2019.html
[90] Florence, D., Jeanjean, T., and Tiphaine, J. (2016) Voluntary Disclosure of Greenhouse Gas Emissions: Contrasting the Carbon Disclosure Project and Corporate Reports, Journal of Business Ethics, No.3, pp.445–461
[91] Eccles, B. (2016) What The World Needs Now: Sustainability Accounting Standards, Forbes, accessed 26/02/2020, https://www.forbes.com/sites/bobeccles/2016/05/03/what-the-world-needs-now-sustainability-accounting-standards/#7a374d5574d8

element.

- Of the remaining two studies identified, one presents the views of the author (a sustainability non-profit) and the other is an assessment of the investment portfolio of a specific preparer.

The sections below present a summary of the study findings regarding stakeholder preferences on NFR.

Views on Existing Framework Harmonisation

As the number of NFR frameworks has increased over recent years, so has the literature surrounding the challenges associated with NFR and how this influences stakeholder preferences around individual frameworks and methods of reporting. There are several industry associations and task force groups that have published reports detailing challenges associated with using different frameworks and approaches. This section aims to highlight some of the more recent reports and identify the commonly cited issues that influence stakeholder preferences, including the harmonisation of frameworks.

Inconsistencies in the disclosure of information in non-financial reports remain problematic, despite recent efforts towards standardisation, such as the release of the Operating Principles for Impact Management by the International Finance Corporation.[92] Such inconsistencies limit the quality and credibility of information that businesses report.[93] [94] Key issues relate to:

- The disclosure of overly generic and irrelevant information.
- Difficulties analysing performance over time, challenges determining long-term quantitative targets.
- The differences in the units used to quantify some indicators.
- Other challenges concerning precision, clarity, and reliability in reporting.

Some reporting frameworks are flexible in that they offer varying methodologies for different sectors whilst allowing preparers to incorporate their unique priorities and needs into their reporting.[95] Though this enables preparers to streamline reporting to issues relevant to them, it has negative implications for comparing non-financial data. In a stakeholder survey, approximately 65% of respondents expressed difficulties relating to comparing business performance over time. Whilst a broad reporting methodology could prohibit preparers from implementing a framework, a ‘flexible’ framework can lead to incomparability of reporting across preparers, owing to differences in the measurement units, definitions and indicators

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92 Franklin Templeton (2019) Five Building Blocks for Impact Management, accessed 21 August 2019, https://www.ftinstitutionalemea.com/content-common/topic-paper/en_GB/five-building-blocks-for-impact-management-tideline-0319.pdf

93 Diouf, D., and Boiral, O. (2017) The quality of sustainability reports and impression management: A stakeholder perspective, Accounting, Auditing & Accountability Journal, Vol.30, No.3, pp.643–667

94 Haller, A., Link, M., and Gross, T. (2017) The Term ‘Non-financial Information’ – A Semantic Analysis of a Key Feature of Current and Future Corporate Reporting: Accounting in Europe: Vol 14, No 3, Accounting in Europe, Vol.14, No.3, pp.407–429

95 Franklin Templeton (2019) Five Building Blocks for Impact Management, accessed 21 August 2019, https://www.ftinstitutionalemea.com/content-common/topic-paper/en_GB/five-building-blocks-for-impact-management-tideline-0319.pdf

used.[96] For example, the 2019 TCFD status report, which surveyed over 1,000 preparers' reports, concluded that only around 25% of preparers disclosed information aligned with more than five of the 11 TCFD recommended disclosures. Meanwhile, only 4% of preparers disclosed information aligned with at least 10 of the recommended disclosures.

Furthermore, reporting on non-financial matters is more reliant on qualitative reporting, which relies on language to convey meaning more than quantitative reporting of financial data. Although some elements of NFR can be reported in quantitative terms (e.g. greenhouse gas emissions), other elements such as those relating to social concepts (e.g. the culture and values of staff within a business) are more valuable in qualitative terms and may be more difficult to quantitatively measure as well. This disparity of quantitative and qualitative information can make it hard to draw direct comparisons between non-financial and financial reports. [97] However, despite the challenges this brings, the presence of qualitative data within NFR remains important for capturing those material elements which are not easily quantifiable.[98]

It is important to note, however, that discussions of comparability between reports primarily concern the metrics used to measure impacts and the terminology used in reporting. Some other aspects of reporting are not improved by a drive for increased comparability, as innovation in reporting will instead be the driver for improving best practice. This applies to areas such as disclosures around stakeholder engagement, how sustainable development issues are incorporated into strategy, and governance oversight.[99]

A 2019 report from the Better Alignment Project[100] presents findings relating to stakeholder experiences with climate-related reporting, specifically focussing on alignment between frameworks.[101] Based on online surveys of stakeholders and roundtables, the report represents the most recent research in this area. It found that, at present, stakeholders have difficulty understanding how different NFR frameworks align. Stakeholders suggested that the market would benefit from greater alignment of reporting terminologies and standards and that this would help make disclosure both more effective and efficient. Stakeholders also highlighted the need for clearer links between ESG and financial information. Interestingly, the scale of perceived misalignment between NFR frameworks according to stakeholders was greater than that found through a technical mapping exercise conducted by the Better Alignment Project. The report concludes that stakeholder perspectives indicate a need for clearer communication on the synergies that do exist between frameworks, of which these stakeholders may not be aware.

The lack of standardisation in NFR also poses a challenge for investors wishing to maximize the social responsibility impact of their investments.[102] More recently developed frameworks,

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[96] Barkemeyer, R., Comyns, B., Figge, F. and Napolitano, G. (2014), "CEO statements in sustainability reports: substantive information or background noise?", Accounting Forum, Vol. 38 No. 4, pp. 241-257.
[97] Diouf, D., and Boiral, O. (2017) The quality of sustainability reports and impression management: A stakeholder perspective, Accounting, Auditing & Accountability Journal, Vol.30, No.3, pp.643–667
[98] Zoe Robinson, Professor of Sustainability in Higher Education, Keele University, via private correspondence during the course of discussion of this report.
[99] Carol Adams, via private correspondence in the course of discussion of this report.
[100] An initiative of the Corporate Reporting Dialogue that facilitates joint working between disparate NFR frameworks, including the CDP and GRI.
[101] Corporate Reporting Dialogue (2019) Driving Alignment in Climate-related Reporting
[102] D'Aquila, J. (2018) The Current State of Sustainability Reporting -, accessed 19 July 2019, https://www.cpajournal.com/2018/07/30/the-current-state-of-sustainability-reporting/

such as the SASB, have taken measures to merge guidance from other frameworks to ensure non-financial data is suitable for benchmarking and evaluating sustainability performance.[103] CEOs and Directors have commended frameworks which adopt a coalition approach, work with stakeholders, and develop a strong dialogue around benchmarks.[104]

Despite issues with comparability, which some stakeholders acknowledge is confounded by the option of multiple reporting frameworks, the Business for Social Responsibility (BSR) argues that a single unified standard is not a desirable or practical solution, because each framework serves a distinct purpose.[105] Instead, they set priorities over the next five years to understand how different standards can be practically used together in combination with harmonized disclosures, metrics, and indicators.[106]

<IR> was developed as a novel approach to assimilate a wider view of value creation into the reporting process. It sought to include reporting on human capital, social capital and natural capital in addition to financial capital, with the aim of giving investors information more relevant to decisions over the longer term. A European Commission public reporting consultation found that just over a half of those respondents that answered the questions on <IR> believed that it could contribute to a more efficient allocation of capital (through improved quality of information to capital providers). A similar proportion feel it could also contribute to better decision-making and risk management in businesses.[107] Just over half of respondents agreed that the EU should encourage <IR> methods; however, the majority of preparer representatives called for <IR> to remain unregulated.[108] Furthermore, an independent study into investors views found that support for <IR> remained low among fund managers and analysts.[109]

The literature indicates that although some stakeholders see multiple framework options as an obstacle to clear reporting, other preparers prefer having this flexibility. Mandating a single framework would prevent this flexibility. This preference is reflected in current reporting trends: only 10% of preparers follow one reporting framework closely, whilst 27% loosely follow one, and 46% two or more (see section '*Technical Appendices: FTSE 100 Reporting*'). Therefore, any single, mandated framework would need to provide significant value to all stakeholders, contain sufficient flexibility to be applicable to all industries, and be appropriately transparent

103 Greenstone (2015) Understanding the SASB standards, accessed 22 August 2019, https://www.greenstoneplus.com/blog/understanding-the-sasb-standards

104 World Benchmarking Alliance (2019) Consultation on the World Benchmarking Alliance, accessed 22 August 2019, https://issuu.com/worldbenchmarkingalliance/docs/wba-finalpublication

105 The BSR is a group of 250 businesses that shares non-financial reporting best practices with each other in order to use these insights to inform the future of non-financial reporting.

106 BSR (2018) A Practitioners View of sustainability Reporting Challenges and Solutions, accessed 18 July 2019, https://www.bsr.org/reports/BSR_A_Practitioners_View_of_Sustainability_Reporting_Challenges_and_Solutions.pdf

107 European Commission (2018) Summary Report of the Public Consultation on the Fitness Check on the EU framework for public reporting by companies, accessed 22 July 2019, https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2018-companies-public-reporting-feedback-statement_en.pdf

108 European Commission (2018) *Summary Report of the Public Consultation on the Fitness Check on the EU framework for public reporting by companies*, accessed 22 July 2019, https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2018-companies-public-reporting-feedback-statement_en.pdf

109 Slack, R., and Tsalavoutas, I. (2018) Integrated reporting decision usefulness: Mainstream equity market views, Accounting Forum, Vol.42, No.2, pp.184–198

and stringent to ensure relevance and effectiveness.[110]

Views on the Contents of Non-Financial Reports

The materiality concept is used in accounting to determine the importance of reported information to the user. In financial terms, information is material if it will have a direct bearing on financial decisions. The TCFD encouraged businesses to use the same principle in determining materiality for climate-related issues; however, when applied more generally to NFR, the principle of materiality does not make decisions on content simple. Materiality of NFR is a key concern for some users, particularly in the context that businesses are able to selectively report on areas that put them in a good light.

In a 2015 literature review (supplemented by three targeted interviews), the GRI and RobecoSAM explored whether materiality means the same thing to investors as it does to stakeholders on the preparer side.[111] Focussing on two sectors (technology hardware and equipment, and banks and diverse financials), the study found a high degree of overlap between the topics that preparers of NFR and investors considered to be material. Topics found to have high materiality for both stakeholder groups were: supply chain management; innovation and environmental management (in the technology hardware and equipment sector) and risk management; corporate governance; training and education; and diversity and equal opportunity (in the banks and diverse financial sector).

The study attributes the high level of overlap in part to preparers reporting in response to the views and needs of their key stakeholders, including investors. Therefore, those preparers exhibiting an understanding of materiality largely in-line with those of investors have a greater understanding of investor preferences. The study also found that, even in areas of overlap, the terminology preparers of NFR and investors use in these areas can differ. However, recent research from BEIS found that materiality is a key concern for users of NFR, including investors.[112] Out of 30 stakeholders consulted in face-to-face interviews, around a quarter felt negatively about the issue of materiality, with the main concern being that NFR is of limited use in meeting investor needs. Problems mentioned include a tendency for NFR to be overly long, vaguely worded, and to indulge in 'green-washing' (the conveying of a false impression through selective and misleading reporting). The gap between what a preparer reports on and its actual impacts has also been cited as a problem by several authors. [113] [114] The BEIS research also shows that some users believe the different methods preparers use to determine materiality lead to a lack of comparability between reports. One stakeholder suggested that this is due to the lack of a formal materiality test. As a result, the most important issues can sometimes be overlooked.

Studies reviewed show that there is stakeholder concern over whether preparers report on

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[110] Corporate Reporting Dialogue (2019) The Sustainable Development Goals and the future of corporate reporting, February 2019, http://integratedreporting.org/wp-content/uploads/2019/02/The-Sustainable-Development-Goals-and-the-future-of-corporate-reporting-1.pdf
[111] GRI, ROBECOSAM (2015), Defining Materiality: What Matters to Reporters and Investors, https://www.coursehero.com/file/31720900/Defining-Materiality-What-Matters-to-Reporters-and-Investorspdf/
[112] BEIS (2019) Stakeholder Perceptions of Non-financial Reporting, https://www.gov.uk/government/publications/non-financial-reporting-regime-stakeholder-perceptions
[113] Adams, C.A. (2004) The ethical, social and environmental reporting-performance portrayal gap, Accounting, Auditing & Accountability Journal, Vol.17, No.5, pp.731–757
[114] Aggarwal, P., and Kadyan, A. (2011) Greenwashing: The Darker Side Of CSr, Indian Journal of Applied Research, Vol.4, No.3, pp.61–66

their wider impacts such as those of the supply chain. A 2019 BEIS report mentions one stakeholder's concern over the omission of supply chain impacts in reporting, which are likely to be significant.[115] This stakeholder felt that the reporting of less significant, positive actions can be seen as mere greenwashing. The gap between what preparer reports on and its actual impacts have been documented by several authors.[116] [117] Another stakeholder, meanwhile, is quoted as expressing a desire to see more information on supply chains and the workforce in NFR.

The importance of collaboration with supply chains in NFR is highlighted in a 2017 paper from Blanco et al.[118] Here, 18 out of 33 preparer stakeholders interviewed strongly agreed that supply chain collaboration is important in implementing carbon emissions reductions. However, the paper finds that preparers are failing to take a suitably extensive supply chain perspective, both with regards to measurement and disclosure.

Research by Diouf and Boiral of Laval University from 2017 found that the perceptions of SRI practitioners tend to support the argument that non-financial reports reflect 'impressions management' strategies.[119] Almost 90% of practitioners interviewed, including SRI analysts and consultants, portfolio managers and investment specialists, SRI product advisors, and expert authors in the field of SRI, believed that the majority of preparers do not publish information that could contribute to tarnishing their reputation, and seemed well aware of the prevalence of impression management.

Impression management occurs when managers, '*select the information to display and present that information in a manner that is intended to distort reader's perceptions of corporate achievements*.'[120] Preparers can therefore use data to highlight the positive aspects of their sustainability performance and to obfuscate negative outcomes. In this way, non-financial reports are often interpreted in the literature as marketing instruments and tools for social legitimation.[121] [122] An indication of this issue is the discretionary inclusion of climate-related supply chain reporting. One study estimated that firms only disclose 22% of their supply chain emissions (if they disclose any at all).[123]

Views on the SDGs

Increasing global interest in the SDGs in recent years has generated several reports championing the goals as reporting tools and seeking to demonstrate how they may be

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[115] BEIS (2019) Stakeholder Perceptions of Non-financial Reporting, https://www.gov.uk/government/publications/non-financial-reporting-regime-stakeholder-perceptions
[116] Adams, C.A. (2004) The ethical, social and environmental reporting-performance portrayal gap, Accounting, Auditing & Accountability Journal, Vol.17, No.5, pp.731–757
[117] Aggarwal, P., and Kadyan, A. (2011) Greenwashing: The Darker Side Of CSR, Indian Journal of Applied Research, Vol.4, No.3, pp.61–66
[118] Blanco et al. (2019) An inside perspective on carbon disclosure. https://www.sciencedirect.com/science/article/pii/S0007681317300654
[119] Diouf, D., and Boiral, O. (2017) The quality of sustainability reports and impression management: A stakeholder perspective, Accounting, Auditing & Accountability Journal, Vol.30, No.3, pp.643–667
[120] ibid
[121] ibid
[122] Merkl-Davies, D.M., and Brennan, N.M. (2011) A conceptual framework of impression management: new insights from psychology, sociology and critical perspectives, Accounting and Business Research, Vol.41, No.5, pp.415–437
[123] Christian, B., Caro, F., and Corbett, C. (2017) An inside perspective on carbon disclosure, Vol.60, No.5, pp.635–646

operationalised by preparers. However, the literature on the preferences of users and preparers of NFR on the subject is limited.

A recent report developed by the GRI, PRI, and UN Global Compact provides guidance for preparers on how to report against the SDGs to meet the needs of investors.[124] It provides a suite of recommendations, including that preparers should demonstrate why SDG data is relevant to their operations and discuss the implications of impacts on business strategy and financial performance. According to this report, investors use SDG-related reporting in the following ways:

- To screen portfolios against business risks and SDG-related criteria.
- To adjust investment decisions by building potential SDG-related impacts into risk/return calculations.
- To improve business performance and reduce negative impacts through engagement activities.

The report also notes that, as the SDGs represent an agreed list of the world's most pressing ESG issues, they effectively provide '*a definitive list of the material ESG factors that should be taken into account as part of an investor's fiduciary duty.*'[125] This is the duty to act in the best interests of investors, which includes factoring in ESG issues, given their potential financial significance.

PricewaterhouseCoopers (PwC) examined the extent to which preparers were engaging with the SDGs in a 2017 paper.[126] Of the 470 preparers studied across 17 countries, it found that 37% had selected specific SDGs as priorities for either corporate or sustainability reporting, while an additional 25% claimed to have made a commitment to the SDGs but did not provide details on specific goals. A further 38% made no mention at all of the SDGs. PwC notes that these figures can be read either optimistically as 62% of preparers mentioning the SDGs in their reporting, or pessimistically as 62% of preparers lacking any meaningful engagement with the SDGs. Furthermore, while 28% set quantitative targets and linked these to their societal impact for at least one KPI, most SDG reports were reliant on qualitative reporting, describing actions taken rather than measuring impacts. Therefore, this research suggests that, at least as of 2017, utilisation of the SDGs for NFR purposes was relatively limited.

The UN's Global Sustainability Index Institute conducted a study of business take-up of the SDGs as evidenced by their 2016 annual reports.[127] On analysing the reports of 100 blue chip businesses globally, it found that 24% explicitly referenced the SDGs, while a further 58% mentioned content relating to the SDGs, and 18% made no reference to the SDGs. Interestingly, the study reveals that 22% of the UK preparers included in the analysis explicitly referenced the SDGs, while the remaining 78% all mentioned some SDG-related content. Unfortunately, it is not clear what 'referencing the SDGs' means in practice, and whether this is a meaningful commitment to specific goals in the sense used in the PwC report.

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[124] United Nations Global Compact (2018) In Focus: Addressing Investor Needs in Business Reporting on the SDGs, GR, PRI.
[125] Ibid.
[126] PwC (2017), SDG Reporting Challenge 2017, Exploring business communication on the global goals,
[127] UNGSII (2017) SDG Commitment Report 100: Tracking companies' efforts to contribute to the Sustainable Development Goals

The CRD explored how the SDGs are being integrated into corporate reporting in a 2019 paper, comparing the coverage of the SDGs in the CDP, CDSB, GRI, ISO standards, SASB, and <IR>.[128] The paper looked at the topics and/or indicators that matched the 17 SDGs and found that the GRI and ISO standards were comprehensive in their coverage while the CDP and CDSP covered only the environmental themes. This paper is discussed in more detail in the '*International Efforts to Harmonise the Reporting Environment'* section.

Looking to the future, in 2017 the Business & Sustainable Development Commission launched an action plan in which the SDGs provide the basis for a '*new, socially focussed business model*', in which business strategy would be set and markets transformed in line with the SDGs.[129] It argues that the SDGs present a compelling growth strategy for both preparers and the economy as a whole, but that the potential can only be realised by preparers seizing the market opportunities the SDGs offer. This cannot be realised by governments alone.

In January 2020, the <IR> and WBA partnered with a number of prominent accountancy bodies to publish a suite of recommendations around how preparers should include SDG disclosures in their reporting.[130] The SDG recommendations are intended to help preparers develop SDG disclosures that align with other reporting frameworks they are using while embedding SDG considerations into business strategy. This ideally enhances the credibility of preparers' NFR. The recommendations are aligned with the IIRC, GRI and TCFD.

Views on the Costs of NFR

The 2019 BEIS research found that the majority of preparers do not measure the costs of complying with NFR legislation as a matter of routine.[131] Furthermore, the wide disparity between areas of focus means that it is difficult to compare cost values. However, for those preparers which could provide information on costs, the costliest activities associated with NFR were found to be the initial costs relating to familiarisation with the new regulatory requirements, and ongoing data collection.

Views on NFR Cycles

Unlike mandatory financial reporting and those NFR elements UK preparers are mandated to provide as part of their annual reports alongside their accounts, both of which have fixed reporting cycles, the timing of voluntary NFR disclosures varies by preparer. For example, a study of 10 climate change accountability reports produced by Australian businesses participating in the CDP revealed that there are differences in the reporting time frame used, namely the fiscal year or the calendar year.[132] Meanwhile, the Centre for International Governance Innovation suggests that external reporting cycles should increase the quality of

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128 Corporate Reporting Dialogue (2019) The Sustainable Development Goals and the future of corporate reporting, February 2019, http://integratedreporting.org/wp-content/uploads/2019/02/The-Sustainable-Development-Goals-and-the-future-of-corporate-reporting-1.pdf
129 Business & Sustainable Development Commission (2017) Better Business, Better World
130 Adams, C A, with Druckman, P B, Picot, R C, (2020) Sustainable Development Goal Disclosure (SDGD) Recommendations, published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. ISBN: 978-1-909883-62-8
131 BEIS (2019) Stakeholder Perceptions of Non-financial Reporting, https://www.gov.uk/government/publications/non-financial-reporting-regime-stakeholder-perceptions
132 Haque, S., and Islam, M.A. (2015) Stakeholder pressures on corporate climate change-related accountability and disclosures: Australian evidence, Business and Politics, Vol.0, No.0

reports through the setting of benchmarks for performance measurement and development.[133]

Views on Governance Issues

Respondents to consultations conducted as part of the work to bring together the WBA suggested that, to encourage a change in business mind-sets, NFR benchmarking agendas should be targeted at the CEOs and board members of businesses, not just sustainability departments. It is noted that this will play to the fact that, for some preparers, the emphasis of reporting is on being seen to be amongst the highest rankers, therefore attracting more investment.[134] The majority of respondents to the European Commission's public reporting consultation at least partially agreed that a board's willingness and ability to challenge senior management decisions remains a relevant NFR issue.[135] Many respondents stressed the need for more sustainability expertise on the Boards of businesses.[136]

A 2017 paper by Professor Carol Adams (Professor of Accounting at Durham University Business School and Swinburne Business School) seeks to provide a conceptual underpinning for linking financial and NFR.[137] The report views financial and non-financial matters as linked in a broader view of value creation, termed 'integrated thinking'. Integrated thinking involves both ESG risks and opportunities on one hand and long-term businesses strategy on the other and how they impact upon value creation. ESG issues (e.g. environmental disasters) affect value by impacting on reputation, relationships and profits, and therefore are fed into the process of determining long term business strategy. As the purpose of strategy is value creation, the financial and non-financial should, therefore, come together in strategy. Furthermore, Adams sees corporate reporting and board governance as being the two forces of influence on how ESG risks and opportunities are incorporated into strategy development.

Produced by the <IR> and WBA in partnership with a number of accountancy bodies, the recently published SDG Recommendations provides a list of recommended disclosure themes around governance and management approach and the evidence that preparers need to provide to enhance the credibility of their reporting.[138] This evidence would constitute reporting on the process of reporting – something that Adams (lead author of the SDG Recommendations) calls 'critical'.[139] Examples of the evidence called for include minutes of senior management team meetings, documented internal control procedures and processes, and interviews with management.

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133 ElAlfy, A., and Weber, O. (2019) Corporate Sustainability Reporting The Case of the Banking Industry, No.211, p.32
134 World Benchmarking Alliance (2019) Consultation on the World Benchmarking Alliance, accessed 22 August 2019, https://issuu.com/worldbenchmarkingalliance/docs/wba-finalpublication
135 (82% from businesses, 9.2% private individuals and 8.9% public authorities)
136 European Commission (2018) Summary Report of the Public Consultation on the Fitness Check on the EU framework for public reporting by companies, accessed 22 July 2019, https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2018-companies-public-reporting-feedback-statement_en.pdf
137 Adams, CA, (2017) Conceptualising the contemporary corporate value creation process, Accounting Auditing and Accountability Journal 30 (4) 906-931 http://dx.doi.org/10.1108/AAAJ-04-2016-2529
138 Adams, C A, with Druckman, P B, Picot, R C, (2020) Sustainable Development Goal Disclosure (SDGD) Recommendations, published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. ISBN: 978-1-909883-62-8
139 Private correspondence during the course of discussion of this report.

Views on External Verification of NFR

NGOs, shareholders, and business clients have highlighted that external verification of NFR significantly increases a report's credibility.[140] [141] [142] [143] In a survey of professionals in the field of SRI – including consultants, fund managers and analysts – half were of the opinion that reports should be externally verified. Close to 90% of respondents emphasized the importance and benefits of an external audit of non-financial reports in order to enhance the credibility and reliability of sustainability disclosure.[144] However, whilst external verification may be a popular user preference, there is also criticism that some NFR 'audits' (for example B Corp) warn preparers too far in advance about site visits, affecting the credibility of external verification.

Summary

This review has found that across different stakeholder groups there are common themes emerging, particularly in the call for greater clarity in the reporting arena, and how this would serve the underlying need for more credibility in reporting. Different stakeholders also recognised a similar set of challenges in the process of reporting. More controversial was the question of whether specific reporting tools should be made mandatory. These themes were used to guide the design of the stakeholder workshops and surveys.

Workshop Discussions on Key NFR Themes

User stakeholders preferred the introduction of set processes and standards for NFR in order to improve the comparability of reports. They also expressed a strong preference for greater universality in reporting topics. Meanwhile, preparers acknowledged the need for greater government support and guidance on NFR but consistently stressed a preference for flexibility in reporting. Fundamentally, users and preparers have different views about what constitutes materiality.

Institutional investors argued for a 'Core and More' approach to reporting, in which a core of universal reporting requirements would be supplemented by additional, individually tailored reporting. However, definition of the core would need the different concepts of materiality to be reconciled.

[140] Diouf, D., and Boiral, O. (2017) The quality of sustainability reports and impression management: A stakeholder perspective, Accounting, Auditing & Accountability Journal, Vol.30, No.3, pp.643–667
[141] O 'Dwyer, B., Unerman, J., and Hession, E. (2005) User needs in sustainability reporting: Perspectives of stakeholders in Ireland, European Accounting Review, Vol.14, No.4, pp.759–787
[142] Kwon, S. (2018) State of Sustainability and Integrated Reporting 2018, Integrated Reporting, p.44
[143] De Villiers and Van Staden (2010, 2012) cited in Diouf, D., and Boiral, O. (2017) The quality of sustainability reports and impression management: A stakeholder perspective, Accounting, Auditing & Accountability Journal, Vol.30, No.3, pp.643–667
[144] Diouf, D., and Boiral, O. (2017) The quality of sustainability reports and impression management: A stakeholder perspective, Accounting, Auditing & Accountability Journal, Vol.30, No.3, pp.643–667

Preparers and users of NFR disagreed on whether the UN Sustainable Development Goals (SDGs) represent a potentially useful framework for NFR. Preparers are unconvinced of the usefulness of the SDGs to preparers (as they were designed for use by nations). While users recognise that preparers face challenges around reporting on the SDGs, they were largely supportive, if proper guidelines can be put in place.

All institutional investors expressed a preference for an international NFR framework, as opposed to a UK specific one, as this would allow a coherent view of multinational preparers' performances across different international markets.

Preparers and institutional investors agreed that inconsistency of terminology across different NFR frameworks is an issue with regards to how materiality is assessed. Often, different terminologies are used for the same concepts, creating ambiguity in the scope and boundaries of reporting.

In order to capture a snapshot of current perspectives of stakeholders on NFR, we held a series of interactive small group workshops in September and October 2019, each comprising one of three important stakeholder groups:

- **Users:** those with an interest in influencing or reviewing non-financial reports (consumers of reported data, specifically as NGOs, think tanks, and civil society groups).
- **Preparers:** those who are required to report or gather information (i.e. suppliers/preparers of NFR – this being preparers themselves, and specialist consultancies providing NFR services).
- **Institutional investor stakeholders:** an important subset of users who use non-financial information to inform investment decisions.

The following sections outline the content of the discussions which arose in the stakeholder workshops. These discussions have been grouped into key themes, some of which were identified in the initial research questions for the project.

Content of Non-Financial Reports

Materiality

What preparers include in their non-financial reports is currently at their discretion, barring the existing requirements detailed in the original Companies Act 2006, the 2013 Strategic Report, and 2016 NFR regulations (see section '*NFR Obligations in the UK*'). These requirements require preparers to apply the principle of 'materiality' where they determine for themselves which themes are relevant to their business operations, have significant environmental or social impacts to their activities (and vice-versa), or are of critical interest to key stakeholders. Materiality, therefore, leads to reporting on non-financial indicators unique to preparers, as opposed to indicators which are common to all.[145] The issue of universality versus materiality –

[145] Global Reporting Initiative (2016) Defining What Matters – Do organisations and investors agree on what is material?

or *'Who reports on what?'* – encompasses many of the concerns surrounding NFR by bringing into the discussion issues around the autonomy of preparers in their reporting process versus the need for comparable data. The Financial Reporting Council's (FRC) Guidance on the Strategic Report advises that '*Information is material if its omission or misrepresentation could reasonably be expected to influence the economic decisions shareholders take on the basis of the annual report as a whole*.'[146]

In the workshops, NFR users showed strong interest in greater universality in reporting, which they expect would increase the comparability of reports—a purpose that is crucial to these stakeholders. It was clear that some users have a different concept of materiality from preparers. Users pressed for preparers to consider their outward impacts (i.e. those that are material to wider society). According to NFR users, preparers tend to look inward and account more for how the preparer is affected by sustainability issues (i.e. they consider how sustainable issues are material to the firm's operations). Some existing frameworks (e.g. GRI, B Corp Certification) introduce this practice of 'double materiality', encouraging preparers to assess what is material within the business and from an external stakeholder viewpoint. [147] [148]

Several users suggested engaging stakeholders in the process of defining what is material for preparers. Responses were mixed on the idea that preparers should be required to follow a particular methodology for determining materiality, and to what extent the information this provided would be of use to users of reports. In particular, it is not clear how qualitative information detailing materiality methodologies could be turned into quantitative data that could be integrated into investment models. Institutional investors acknowledged that the preparers' decisions on what issues are material to their NFR affects the ability of institutional investors to analyse the performance of those businesses. Therefore, institutional investors are faced with the task of reconciling a preparer's materiality assessments with their investment concerns.

As an area of potential tension, both preparers and users agreed that there are currently no generally accepted best-practice guidelines, or enforcement thereof, on processes for choosing what to report. Preparers argued strongly for flexibility in reporting and contended that different sectors have very different concerns. Adding to this, even sub-groups within a business may operate in distinct ways. Moreover, businesses operating in different locations face further issues owing to the variance in context. Such preparers argued that having the decision-making power to evaluate what material issues to report on generates more specific and valuable information. Preparers suggested that sector working groups would be useful in defining a high-level understanding of the universal aspects of a particular sector. Users also proposed a similar idea of 'Core and More' reporting, with greater standardisation around a small number of core issues, coupled with a stricter materiality assessment on wider issues.

Overall, there is a call for greater clarity in the materiality process, with a multi-stakeholder approach favoured, similar to that proposed in the <IR> approach.[149] This could include sector working groups and stakeholder engagement in the process of defining what is material to a preparer. It was thought that if materiality assessments were to be more standardised, users

[146] FRC (2018), Guidance on the Strategic Report. https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf
[147] Stichting Global Reporting Initiative (2016) Defining What Matters – Do organisations and investors agree on what is material?
[148] Certified B Corporation (2020) Certification Requirements, accessed 28 April 2020, https://bcorporation.net/certification/meet-the-requirements
[149] Integrated Reporting (2020), accessed 28 April 2020, https://integratedreporting.org/

would then place great importance on putting in place suitable accountability mechanisms to uphold and enforce this standardised process. However, it was clear that both preparers and users have different concepts of materiality and different views on the benefits of flexibility.

What Makes a 'Balanced' Report?

According to institutional investors, in the absence of requirements to report on specific topics or metrics, preparers are unrestricted to 'cherry-pick' topics which are either easiest to report on or improve their reputation. Preparers can opt-out of reporting on topics which present difficulties in collecting data or highlight negative aspects of its business – making NFR less useful in discerning the true impacts of businesses. Preparers ultimately have the freedom to withhold data on potentially controversial aspects of their operations, which is referred to as 'greenwashing'. There was a concern that reports can also end up 'benign' and devoid of challenging content when they are written for multiple audiences with different areas of interest. Risk arises in trying to make reporting relevant to all stakeholders, as preparers may not report enough detail of real interest to specific groups.

Preparers acknowledged that there is a changing culture regarding what is permissible to report and what is confidential. It is now common practice to report information that was once seen as confidential. One stakeholder stated: *"I'm sure in three years from now, the things we see as confidential will all be [available]."* There seemed to be a general agreement that more balanced reporting on successes as well as challenges would benefit all stakeholders. According to a preparer participant: "*A balanced story improves credibility [of a non-financial report and the process]*". Should this approach be adopted more widely across the business landscape, this could alleviate hesitation on reporting negative matters. With this in mind, it is important to encourage perceptions of the acceptability of reporting both positive and negative information.

Preparers commented on the lack of guidance on balanced reporting and expressed that they would welcome more examples of what makes a 'good report'. *"What does good look like?"* were the words of one participant when calling for tools, education, and a platform where preparers can access information (an example was given of the Business & Human Rights Resource Centre).[150] Celebrating best practice in terms of balanced reporting was seen as an important incentive with which to steer preparers towards improved reporting, as there was consensus among preparers that comparison with one's peers was a key driver in changing a preparer's processes.

Preparers acknowledged that the content of reports is sometimes heavily influenced by upper management fears around the potential repercussions of reporting inaccurate data or reporting information that reveal the negative impacts of their business. These stakeholders highlighted that it can be prudent to recognise that preparers feel a need to withhold information on certain issues, especially in cases of conflict with privacy laws or with regulatory practices in different regions. To address this, one suggestion preparers proposed was the idea of disclosing sensitive information to a government institution, but one which would not publish the received information publicly and would act as a platform for preparers to compare their ranking within their sector. This could help alleviate preparers' fears of the repercussions of reporting. On the other hand, the immediate benefits to users would be limited, and thus a further option was

[150] Business & Human Rights Resource Centre (2020), accessed 28 April 2020, https://www.business-humanrights.org/

considered of making the information publicly available as grouped data sets that would report on a sector but would not give the preparer specific information that stakeholders still seek. The mechanics of this, however, were not explored in detail.

Both preparers and users expressed concern that the current discourse around NFR can be negative in its language and its stance. Preparers admitted that there is considerable fear around reporting on their part, fuelled by greater threats of litigation and reputational damage. Users revealed that they attentively seek out gaps between what is reported and what a preparer's actual activities are – the so-called 'authenticity divide'.[151] At the same time, users agreed that preparers' transparency should be rewarded and that there should be ways to incentivise reporting non-financial data that reveals a preparer's negative sustainability impacts.

The workshops discussed whether the practice of linking or providing context to interconnected metrics could be potentially helpful as a way of helping preparers be transparent and overcome hesitation in publishing negative information. For example, a business in the construction industry might build a new residential area, which also provides safe social spaces and affordable housing. While the construction efforts would mean an increase in the preparer's overall carbon emissions, the social impact of the same initiative might have been a positive one. Likewise, the long-term benefits of erecting carbon-neutral buildings could compensate for the short-term increase in carbon output.

Institutional investors explained that they saw the 'Core and More' approach as the solution to these 'balance' issues. Building a set of objective metrics into core reporting requirements could ensure that preparers are not able to ignore important but difficult topics and that they report a core set of useful, detailed non-financial data. However, participants noted that a problem with using a limited number of requirements for the purpose of standardisation is that, where what is most material to preparers falls outside the scope of the core requirements, there is a risk that key information will not be captured. This illustrates a challenge in defining the core: does it cover those areas that are material to business operations, or does it cover areas which some users decide is material to wider society? In some cases, these two definitions of materiality may align, but in others they may not. It also raises questions of legitimacy: who gets to define the core, and how much support across preparers and users does there need to be for issues to be included in the core, especially if reporting is mandatory?

Standardisation of Content in Reports

Institutional investors felt that there should be general guidelines that apply to all sectors in the style of a 'Core and More' approach to NFR. The simplicity of this concept is engaging: a core of universal reporting requirements, with scope for individually tailored reporting beyond this. Several participants agreed that having sector-specific guidelines would be a good way of standardising materiality at the sector level while assuring a minimum level of quantifiable disclosure. Institutional investors felt that once sector-specific baselines had been established, preparers could choose to report on any additional material issues not covered in the baseline set. Although institutional investors generally felt positive about this approach, they nonetheless felt that it would require significant designing and testing.

[151] CGMA (2018) Creating a sustainable future. The role of the accountant in implementing the Sustainable Development Goals

However, preparers and some users cautioned that increased standardisation of reporting content could lead to greater ‘box-ticking’, whilst also limiting opportunities to explain the context of each indicator. If such practices were the effect of standardisation, this may potentially reduce the value of the information reported. One participant demonstrated a strong opinion on this issue by saying that standardisation “*will kill the credibility of a report.*”

One compromise mentioned by preparers was for government to set sustainability priorities for the country, requiring preparers to report their progress against those priorities and targets. In addition to preparers undertaking their materiality assessment, they would then also have to report on key areas of interest to users, which might otherwise have been omitted. Likewise, this would allow preparers to include, in their reporting, non-financial data material to their sustainability issues, but which may be outside the scope of government priorities.

The principle of ‘comply or explain’ was discussed, which is a regulatory approach for setting minimum standards through codes or guidelines, rather than binding laws. If preparers do not comply, they are required to explain why they are unable to comply. This approach was not well-liked amongst institutional investors, with the major criticism being that if preparers are fearful of being seen not to comply, they will be less likely to develop their own, potentially better ways of doing things. It was felt that ‘comply or explain’ tends to stifle innovation. Furthermore, institutional investors felt that without a harder regulatory approach involving government-mandated requirements, there could be no progress in the harmonisation of NFR.

Although institutional investors were on the whole supportive of standardisation in NFR, one argument against greater standardisation concerned the danger that innovation could be stifled by mandatory reporting. This would reduce preparers’ competitive advantage, which is a key quality that institutional investors look for when deciding whom to invest in. However, institutional investors raised the point that greater standardisation and allowing individuality within reporting were not necessarily mutually exclusive.

Overall, institutional investors felt that the challenge was to achieve completeness in reporting without stifling the ability of preparers to use reporting to lead themselves on a journey of self-improvement. Also, they highlighted that they use different NFR frameworks for the purpose of differentiating commercial advantage amongst preparers. A multitude of frameworks allows preparers to differentiate themselves from other preparers, based on their choices about which frameworks to report on.

Value Creation – Telling A Story

This topic was only covered in the user workshops.

Users believed how a preparer conceives its value-creation process strongly influences how well sustainability is integrated within its business strategy. For example, where preparers are aware of their own broader social and environmental value, it is in their interest to focus on wider non-financial impacts. Users were vocal in challenging the conventional definition of value as being solely determined by financial value to shareholders. They argued that value should include a ‘quality’ element covering intangibles such as reputation, human resources, and a demonstration of a purpose beyond profit. Overall, all NFR frameworks endorse this wider interpretation of value, even if some focus on a certain aspect, e.g. environmental value (CDP and TCFD). This view is also reflected in the five capitals model of sustainability:

manufactured, financial, social, human, and natural capital.[152] When a preparer has an awareness of its value, in a broad sense, then it becomes part of a preparer's interest to consider wider impacts, as these are interlinked with the business itself.

Institutional investors made the point that they wanted to 'know the story' of a preparer when making their investment decision.

Embedding Sustainability

An issue discussed only at the preparer workshop was the need for greater clarity on how sustainability is incorporated into corporate strategy, which in turn can provide a more holistic understanding of a preparer and facilitate the NFR process. Moreover, where the sustainability strategy is led by the board and is well embedded throughout a business, this can facilitate more meaningful reporting and a more structured NFR process.

Preparers discussed how, within businesses, the human capital component necessary for embedding NFR can be divided into two parts. Firstly, there exists a top-down element, with the board playing a key role in NFR. Preparers confirmed that convincing board members of the importance of NFR is crucial to prioritising sustainability in order to achieve meaningful outcomes. Typically, management or board members have not been trained or educated in sustainability-related issues and NFR. One user of NFR linked this to the fact that business and management schools are still largely focused on the financial aspects of businesses, and thus fail to integrate into their education programmes the larger sustainability considerations that businesses should incorporate in their operations.

Board members can also respond to external motivators to prioritise sustainability within their business. One participant reported that remuneration for their board members was linked to their performance against sustainability targets. Recent high-level support, in particular from the financial services sector, has made implementing such measures easier for preparers. In fact, one workshop attendee explained that Mark Carney's open letter concerning climate-related financial risks in April 2019 helped influence his business' decision to account for climate risks and sustainability within its operations.[153]

The second human capital component of NFR comprises those personnel in charge of reporting, as well as employees more generally. Preparers highlighted that staff responsible for NFR within their businesses were expected to both lead the whole NFR process, whilst also initiating activities that act on the reported data. They stressed that the teams involved in NFR do not usually have the resources to tend to both tasks, making it difficult to go beyond 'reporting for reporting's sake'. Generating employee support and understanding is important in embedding sustainability, especially as employees are often the 'front line' in data generation. In this regard, it is important for management to clearly communicate the purpose of NFR, as well as the strategies used to gather, analyse, and publish data.

Issues with Data, Metrics, and Reporting on Impact

In the workshops, opinions differed on the role of data and metrics. Data is the raw information

[152] Forum for the future (2017) Five Capitals Model https://www.forumforthefuture.org/Handlers/Download.ashx?IDMF=8cdb0889-fa4a-4038-9e04-b6aefefe65a9

[153] Carney, M., Villeroy de Galhau, F. and Elderson, F. (2019) Open letter on climate-related financial risks, Bank of England

preparers collect, while metrics provide the lenses through which preparers view this data by setting the parameters for how they measure their performance. Deciding which metrics to present, and therefore which data matters, is a persistent theme in NFR discussions and attempts to balance the needs of all stakeholders. Some stakeholders are concerned with comparing business performance within a sector, some want to compare individual business performance over time, while others are concerned with evaluating the impact of business activities.

Users expressed a need for increased comparability of numerical information around sustainability issues. They felt that, currently, the potential for comparability is not being realised, either because preparers are not providing comparable information or because the different frameworks do not enable comparability.

Institutional investors raised the point that there is a discrepancy between the kinds of information they need in order to compare businesses and the information that preparers think is important. Where metrics exist, institutional investors prefer that preparers should use them. Nevertheless, it was recognised that preparers will develop their own KPIs in a continual process of improvement, which institutional investors would like to see balanced with globally recognised benchmarking tools. A related point also raised is that the NFR process can be made easier for preparers to adopt if they can use the data systems already available to them.

For comparing business progress over time, users also recommended that NFR should utilise a trajectory of change to help preparers better determine if they are on the right track to improving their sustainability performance. Supporting this could be a set of tools to help preparers track their short-term outcomes and impacts and how these connect to longer-term goals – i.e. shifting to more resilient business models. The need for a clear strategy and goals was reiterated as a key driver for the creation of non-financial reports that have value for all stakeholders. Preparers also revealed a degree of vulnerability in providing data points with no context, as context is essential to understanding the meaning of a data point. Being able to examine a time series of historical data would allow one to gain a more holistic understanding of a preparer’s overall performance.

Users expressed strong interest in using impact-level data to evaluate the actual changes coming about as a result of activities. However, preparers conveyed frustration with impact data, arguing that users should also be interested in data on activities and outputs.

Ideally, users would want preparers to report on three different layers of impacts: direct business impacts, indirect business impacts, and supply chain impacts. Direct impacts are those arising directly from business operations, such as resources consumed or greenhouse gasses emitted during the manufacture of products. Indirect impacts are those that occur upstream of operations, but which are connected to business operations in some way; supply chain impacts are a subset of indirect impacts.

Users disagreed when discussing whether preparers should provide high-level or granular data. Ultimately, they suggested that both types of data should be reported, and there was limited discussion on the extra reporting burden that this would place on preparers. The preparers reported that they already face many issues when trying to gather data at a local level, related to, amongst other things, differences in methods, terminology and legal contexts (including privacy laws around access to data). Furthermore, data management is highly complex and increasingly demands technological solutions.

Preparers challenged how some of the existing frameworks pay insufficient attention to the process of data collection. A few stakeholders remarked that the CDP, for example, only focuses on a final ‘score’ for a preparer. There is a perception that data on outcomes and impacts is far more difficult to gather, but users argued that the problem is rather a lack of willingness to monitor impacts, and the solution is investment in people and data collection.

One preparer participant explained how their business is exploring ways in which the sustainability of a new project could be judged using metrics in the same way that a project is evaluated using financial metrics. They hoped that adopting greater use of metrics for sustainability would put these issues ‘on par’ with financial considerations and increase the visibility of sustainability concerns amongst staff who think in a data-driven way. This illustrates how certain approaches to sustainability reporting might create value for a business, thus driving positive change within the business itself.

Stakeholders discussed the challenges of reporting across a complex business structure and how feasible it is to consolidate NFR data in the same way as financial data. Preparers expressed concerns about the consistency and reliability of the data they can access. They are duly concerned about reporting inaccurate data, and also noted a scarcity in data on social impacts. Even in areas of sustainability where generating numerical data is easier (e.g. resource use), there are still many factors that influence these data, and preparers need to explain the context in a way that they do not with financial data.

A point of agreement between both preparers and users was that there is little value in reporting for reporting’s sake. Preparers expressed that currently part of the ‘burden’ of reporting is that they must respond to many requests for data from different stakeholders, all with their own concerns about what is important. One individual shared that, in their experience, the same data would have to be reported in three or more different ways because of different slants required by individual reporting frameworks (or across different geographies, or timescales, etc.). Collectively, a greater coherence in what matters could simplify this, and indeed, if preparers had a stronger sense of what matters to them in their sustainability reporting, then the appetite for reporting would be increased.

SDGs

During the three workshops, preparers and users disagreed about whether the SDGs were a potentially useful framework for NFR. The former mainly struggled with a lack of guidance and questioned the usefulness of the SDGs to businesses. The latter recognised that this poses a challenge for preparers, but were broadly supportive of reporting against the SDGs.

Choosing What to Report

When considering the SDGs as a framework for NFR, one important issue is whether preparers should report on all the goals or only on a select few. Since there is such a wide range of SDGs, concerns were raised that preparers may be able to cherry-pick which to report on, leading to important issues – such as human rights, for example – being overlooked.

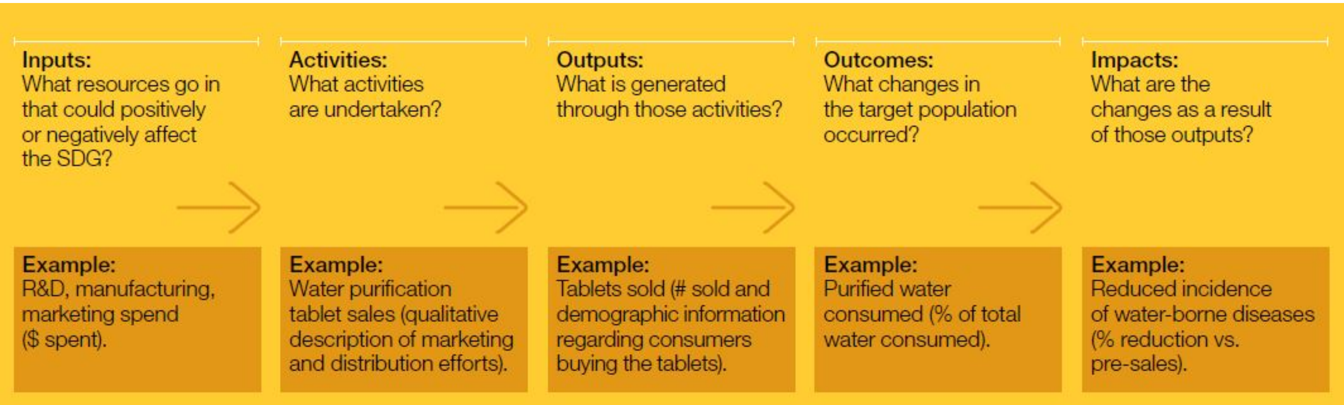
Exercises undertaken as part of the preparer workshop clearly showed that deciding on the importance and relevance of individual SDGs is challenging. The diversity of contexts and sectors make it difficult to standardise, and stakeholders called for more guidance on this issue, including whether prioritisation of the SDGs should be connected to the impact of the SDG issue on the business itself. On the whole, preparers commented that using the SDGs as a tool for NFR is problematic since the SDGs were developed with countries and governments in mind, not individual organisations such as businesses and as such, it would be unrealistic for them to use targets intended to apply at a national level.

During the institutional investor workshop, participants were split into three groups and presented with a list of the SDGs. They were then asked to suggest which goals they believed were relevant to two specific well-known businesses based on the nature of their operations and potential impacts. In this exercise, participants chose different goals for the two businesses. Users acknowledged the difficulty of prioritisation, particularly because there is a tendency for the individual goals to be interlinked. However, if preparers were to pick and choose from among the SDGs, users' main concern would be with the process of prioritisation and whether this process would be regulated and transparent.

How to Report on Impact

The SDG Compass Project provides guidance for businesses on how to report against the SDGs. It presents a logic model of five areas in which preparers can gather data for reporting on the impacts of business activities (Figure 5*)*.

Figure 5: Logic Model for Data Gathering



Source: SDG Compass, https://sdgcompass.org

Some preparers noted that the SDGs might not be useful, as the detailed targets and indicators are simply not relevant. In fact, one workshop participant noted that "*nine times out of ten we can't contribute [to the targets and indicators]*". Again, preparers saw this as being due to the SDGs mainly relating to governments. Therefore, while preparers can try to contribute to the overall goals and support an SDG target, they might not be able to meet that target. This poses a problem, as a preparer would also need to see that applying an SDG framework to their operations and measuring impacts through that lens provides value to the business itself.

A particular concern was that, due to this multitude of choices, preparers might end up overlooking key impacts as a result. Additionally, preparers felt that they can currently only contribute to the SDGs through case studies and high-level descriptions of working in line with the ambitions of the SDGs. This suggests that the SDGs are not currently driving business strategy and actions. Additionally, even when business strategies seem to be in line with SDG ambitions, preparers noted that it is usually a coincidence when outcomes align. Users interpreted this issue as a reflection of preparers simply choosing to report on those SDGs areas in which they are already undertaking relevant activities. In other words, rather than making actual efforts towards SDG-aligned targets, preparers examine their existing operations and try to find SDG goals that match those existing operations. Users were concerned that this does not require much additional effort on the part of the preparers and subsequently does not lead to any meaningful impacts regarding sustainability or the SDGs. Thus, regardless of the choice of SDG, users stressed the importance of integrating and aligning the SDGs with the purpose of the business, as well as making information more accessible on how preparers are addressing the relevant issues.

Potential Benefits of the SDGs

Despite the challenges mentioned, preparers acknowledged that there were many positives and potential benefits of the SDGs in relation to NFR. Firstly, stakeholders becoming increasingly familiar with sustainability issues has also led to an increased understanding and appreciation of the SDGs. This makes the SDGs a more attractive framework for preparers. Secondly, as governments have often made the SDGs a strong policy priority, reporting on sustainability in terms of these goals can allow preparers to show their respective contributions towards them. Furthermore, the SDGs' breadth of scope means that they encourage preparers to think differently about impact and sustainability. However, as mentioned above, the key question of how to unlock their value for preparers remains.

Overall, although they agreed that the SDGs could help preparers reflect on bigger issues, preparers did not consider the SDGs a highly suitable lens for NFR. They expressed some concerns about the suitability of the SDGs for use as an international NFR framework, noting that while the SDGs are international, they are designed more for countries and governments, and do not necessarily 'speak to businesses'. Furthermore, for those SDGs that apply to all businesses, there are already NFR frameworks which cover the same common areas.

Users, on the other hand – while conceding that reporting on the SDGs can indeed be challenging for preparers – were largely supportive of the SDGs as a useful framework for NFR, in particular if proper guidelines were put into place. The fact that the SDGs have been agreed globally is a real strength, perhaps enough to overcome the current issues with using them as a reporting tool.

Processes of NFR

Timeframes for Reporting: Thinking Long-term and Reporting on Risks

This topic was not discussed in the user workshop.

Preparers expressed that a lack of long-term thinking makes it difficult to realise the value of sustainability. One of the reasons for this was that the long-term risks of not being sustainable are not, by their nature, felt immediately. Furthermore, top management positions can change on a three to five-year cycle and thus long-term thinking does not sit easily in this context. It was felt that investors operate on an even shorter cycle (quarter to quarter) and not all are looking to the long-term. The one institutional investor stakeholder present in the preparer workshop admitted that where a preparer shows some awareness of longer-term future risks, that is seen as sufficient to deem them as 'forward-thinking', without regard for the substance of this risk analysis.

Only one of the preparers had attempted a scenario-based assessment of risk as specified in the TCFD, and this had been done for only one key resource. This was described as "*incredibly complex, and we only considered ten factors when there are a host of others*." Furthermore, they felt that the results of this process were of little value. Additionally, not one of the preparers had explored possible long-term risks and opportunities arising from potential climate change impacts.

Institutional investors were of the view that they think longer ahead than preparers do and that this tendency to work to different 'time horizons' can mean that certain issues have greater materiality for one group than another. Aside from this disjunct over timeframes, they also felt that investment managers and business personnel working 'on the ground' tend to have different visions of what successful business operations would look like in the future, and that this also causes the two groups to make different assessments of materiality.

UK Specific versus International Frameworks

This topic was raised in all three workshops, but the perspectives of institutional investors are mainly discussed in this section.

When asked to choose between the option of a UK-level framework or an international-level framework, all institutional investors in the workshop preferred the international framework option. According to participants, a UK-specific NFR framework would have only limited use, since large businesses are often multinational and investors invest globally. From an institutional investor perspective, international standards are the ideal, as they allow a coherent view of a business' performance across the different international markets in which they operate. International standards can also serve to increase the global profile of NFR; an example given was the international collaboration that took place for the TCFD and the subsequent increased levels of awareness of this topic generally. Furthermore, institutional investors believed that introducing UK standards would only add to the complexity already surrounding NFR.

Institutional investors agreed that, where the UK Government mandated UK-specific NFR requirements, these should be harmonised with international standards. This would allow comparison of information and avoid 'reinventing the wheel'. Although most preparers in the preparer workshop preferred an international framework, some would opt for a UK-specific one. Participants of the user workshop were flexible to both options.

Reporting Cycles

This specific topic was not raised with users.

During the workshops, some preparer participants suggested a less frequent reporting cycle for certain non-financial data that are likely to change more slowly. It was thought that this would decrease the reporting burden and allow preparers to act on the data. In terms of the data collection itself, preparers proposed to undertake this on a monthly basis. The rationale they gave for this was that collecting data throughout the year gives greater accuracy, as anomalies can be verified straight away and potential issues clarified faster.

The idea of aligning reporting periods for NFR disclosures made against voluntary frameworks with the reporting periods of financial disclosures was largely opposed by preparers, who argued that NFR should not be held to the same standards as financial reporting. They stressed that both reports cannot be feasibly completed for the same publishing period, since preparers usually experience delays in data collection for NFR. Adding to this challenge is the constant need to reshape data to different base years, as the various frameworks differ in their reporting requirements.

Overall, preparers saw having different reporting periods for non-financial and financial reports as the ideal, so as to allow for more flexibility. It should be stressed that, in general, flexibility emerged as a key issue of importance for preparers, not just concerning reporting periods.

Barriers to Reporting

Discussions in the three workshops revealed that there were issues with terminology. Some users discussed the term ‘non-financial reporting’ and how it hinders the process of embedding sustainability issues within a business. This term conveys that the associated issues are distinct from financial issues, and that therefore a non-financial report has no impact on the financial performance of a preparer. Strategies that promote sustainability issues as being on a par with financial issues were seen as more productive in encouraging a wider dialogue within the preparer.

Institutional investors and preparers alike raised the issue of how terminology choice can affect how materiality is assessed. NFR frameworks may often use different terminologies when referring to the same broad concept, which can create confusion and a multiplicity of interpretations. For example, whether reporting is classified as, for example, ‘NFR’, ‘sustainability reporting’, or ‘corporate social responsibility reporting’ can influence the scope and boundaries of reporting. Preparers also referred to the issue of language barriers, as most NFR frameworks require completion of information in English, which can make reporting challenging for international staff who are not native English speakers.

Data Burden on Preparers

Institutional investors did not discuss this issue in the workshop.

Users recognised that there is an increasing burden on preparers regarding collecting and reporting on data. They also acknowledged that preparers are not equipped with tools to enable them to frame their data using appropriate contextual information. Nevertheless, users stressed that, overall, they wanted more from preparers. They suggested that all departments need to be involved in order to gather the data needed for the wider set of NFR themes. It is unclear whether sharing the reporting burden more widely in this way would decrease or increase the overall burden of reporting. Preparers were concerned that throughout the year they are having to respond to different data requests and that they feel their resources are being drawn into continuous reporting rather than action for positive solutions.

“You don’t have time to act on the data/respond to the data because you’re just reporting.”

One participant even said, “*it’s overwhelming and actually painful!*” For these reasons, preparers were somewhat cautious about supporting the suggestion of increased standardisation, as they fear this may add to their reporting burden. They were, nevertheless, responsive towards suggestions that would reduce this burden.

Furthermore, with the rising importance of sustainability issues and the growing need to address them, many preparers are currently in the process of developing their own mechanisms for reporting and recording data, or already have an established system in place. Preparers thought it would be a challenge for them to reverse this process to introduce a new framework, both in terms of structure as well as the resources needed. They felt that if a national framework were to be introduced in the future, it would need to come with the assurance that its standards and processes will be used for a considerable length of time in order to increase support of adoption by preparers. Preparers did acknowledge, however, that standards are naturally always evolving and being revised.

Stakeholders agreed that technology is a potentially productive way forward to reduce the data burden of NFR. Yet it was remarked that currently there are very few helpful systems in place. Moreover, these systems could only be used on a regional level, thus rendering them inadequate for large, national or multi-national preparers. Another barrier to technology use identified is that remote areas can suffer from poor connectivity, which may make establishing internet-connected systems more of a challenge, and make such systems inaccessible to some people.

Nevertheless, stakeholders agreed that there is a strong need for technology to facilitate NFR on multiple levels.[154] Stakeholders thought that data collection and management, two elements of NFR, would benefit from more widely available technological solutions. It was evident from the workshops that, currently, large volumes of data are problematic in terms of collecting the required amount and subsequently handling and analysing the data once obtained. For example, excessively large spreadsheets can become corrupt or slow down, creating an additional problem for preparers. Stakeholders also thought that technology could help improve the comparability of NFR. One suggestion was that the government could develop an NFR platform with an online questionnaire and accompanying explanations for each metric. This would allow for uniformity in reporting while enabling preparers to report on their material issues.

The Investment Management Process

In the institutional investor workshop, participants discussed the decision-making process used by investment managers and how preparers' non-financial reports are used in this process.

Institutional investors discussed the differences between quantitative analysis and fundamental analysis. Quantitative analysis involves an evaluation of a business' performance through calculations concerning financial data alone, while fundamental analysis evaluates all aspects of a business, including both tangible assets (e.g. plant and landholdings) and intangible assets (e.g. patents and trademarks). Participants felt that preparers' non-financial reports were relevant to both types of analysis, but that these reports alone lacked the data necessary for decision making. It was noted, however, that many fund managers are not using NFR reports directly to make decisions, but are using analyses of these reports provided either in-house by teams of data analysts or externally by other preparers.

Participants highlighted that distinguishing between an opportunity and a risk is an important step in the investment process. They thought that NFR contributed to the decision-making

[154] Technologies that could aid NFR, and that were mentioned by stakeholders, included XBRL – which can be used for both financial reporting, as well as NFR – and blockchain solutions.

process in instances where investment funds focus on impacts. This is because certain non-financial issues can impact on the financial performance of a preparer. Also, there was a general feeling that, due to a business climate in which potential litigation and reputational damage are threats, NFR is now more closely considered at all stages of the investment process than it was in the past. From the discussion, it emerged that there is no single 'one size fits all' approach to investment strategy, rather that different investment funds and differently-minded investment managers utilise varying approaches.

Institutional investors highlighted that transparency in preparers' reports could confer a commercial advantage in attracting them because it makes the investment decision-making process easier. However, participants felt that a lack of clarity around the methodologies behind non-financial performance ratings (i.e. how they are measured and calculated) was a particular problem, which adds to the complexity of the decision-making process. The absence of standardisation in NFR also adds a level of complexity, making strategic asset allocation more difficult.

Participants also discussed the role institutional investors play in voting as shareholders in corporate elections, and how they tie into the concept of business 'stewardship'. The idea is that by engaging with preparers and voting intelligently in an informed manner in leadership elections, shareholders can elect leaders who are engaged with non-financial issues, and therefore guide preparers towards better overall performance.

Conclusions from the Workshops

As aligned with expectations from the literature, users reveal great demand for NFR as a strategic process for businesses. Preparers similarly acknowledged the importance of NFR and overall seemed eager to improve their current reporting practices, though they are encountering multiple issues and obstacles. Each stakeholder group acknowledged several issues surrounding NFR which need to be addressed, both concerning principles and processes. The question of integrated reporting especially highlighted the need for further exploration of this topic.

The workshop discussions showed that support measures with regards to these issues should include more examples of best practice and technology solutions, as well as greater clarity on government priorities and more governmental guidance in general. While preparers did state a great demand for more support and guidance, they also consistently stressed the need for flexibility. This might be a key point that users' and preparers' opinions do not align, as the former are strongly concerned with establishing set processes and standards that will allow for comparability of reports.

Overall, the workshops provided valuable insights into concerns and opinions of preparers and users regarding NFR, which were taken forward into designing the stakeholder surveys. The survey questions were designed to align against these key themes.

Surveys

The REA found that the views of users of reports were understudied in comparison to the views of preparers and institutional investors. Three surveys were undertaken to capture the perspectives of different stakeholder groups including, employees/potential employees and retail investors. The data generated was tested against the themes emerging from the literature review and workshop aspects of the study. Refer to the '*Stakeholder Surveys'* section of the '*Methodology'* provided within the '*Technical Appendices'* of this report for full details of how the surveys were designed and conducted.

The survey results for each stakeholder group can be found within the *Technical Appendices* to this report. Table 3 provides links to these results, along with details of the final response numbers for each group.

Table 3: Details of Stakeholder Survey Results

Stakeholder group	Link to results	Number of responses
Preparers – those who put together NFR data	*'Business Survey Results'*	45
Retail investors – one of the user groups of NFR	*'Retail Investor Survey'*	504
Employees and potential employees – one of the user groups of NFR	*'Employee/Potential Employee Survey Results'*	504 (203 employees and 301 potential employees)

Feedback from cognitive testing of the survey questions indicated that the term ESG reporting should be used, rather than the umbrella term NFR, as this was found to be more commonly understood and more appropriate for surveying purposes. So as not to misrepresent the survey responses, the survey results reported use the term 'ESG'. While we use the term 'preparer' throughout the main body of the report, the original language of 'organisation' or 'business' is retained in the appendices connected to the surveys to reflect the actual language presented to survey respondents.

Analysis of Findings

We present findings in two sections:

- The first covers a range of issues relevant to the content of reports (see section '*Content of Reports*').

- The second covers issues related to the process of reporting (see section '*Process of Reporting*').

Note that reported figures in these sections may not add up to 100% due to rounding.

Content of Reports

Engagement with ESG (Non-financial) Reports by Users

Half (50%) of the retail investors have read ESG reports for companies that they have considered investing in. Only 24% of employees/potential employees have read ESG reports for companies of interest.

Age, business size and employee status (employee or potential employee) all have a small impact on levels of reading of ESG reports, with the younger cohorts, and those employed by larger preparers, being more likely to have read ESG reports.

Among retail investors who have read reports, 51% say that ESG performance is 'important' and 38% 'very important' in their decision to invest in a specific preparer.

Of those who have not read reports, around half claim they did not know where to find them (48% of investors and 52% of employees/potential employees).

Employees and potential employees, when presented with a scenario question that sought to explore how they value the ESG focus of a business, showed that financial gain continues to be the primary motivator in selecting a job, and the appetite for 'purpose' over 'profit' remains small.

Familiarity with ESG Reporting Frameworks

When grouped, 78% of preparer respondents, 26% of retail investors and 13% of employees/potential employees considered themselves to be 'very familiar' or 'familiar' with ESG reporting frameworks. Awareness of ESG reporting frameworks is generally high amongst preparers, but low amongst user groups.

Overall, 55% of retail investors and 35% of employees/potential employees have some degree of familiarity with reporting frameworks, though in both groups more than half of these are only 'vaguely familiar'.

An age effect is evident in the retail investor and employee/potential employee groups with the younger cohort in both groups showing higher levels of familiarity with ESG reporting frameworks.

Of those retail investors who rate ESG reporting as 'important' for investment decisions, 60% of these are only 'vaguely familiar' or 'not familiar at all' with ESG reporting frameworks, indicating that many users can obtain benefit from ESG reporting without them being aware of a particular framework.

Value of Using a Specific Framework

Among preparer respondents, 62% said they use an ESG reporting framework, 35% reported not using a framework and 3% did not know. Of those using a framework, 91% reported that their business finds the ESG framework valuable (48% ‘agree’ and 43% ‘strongly agree’). Of those who do not use a framework, 65% thought their business would find it useful to use an ESG framework (36% ‘strongly agree’ and 29% ‘agree’).

Around 55% of retail investors were familiar with ESG reporting frameworks, and 50% had read ESG reports. 38% of the retail investors (who had read ESG reports) considered ESG performance very important in their decision to invest in a specific business. Where retail investors were familiar with reporting frameworks, a consensus was that preparers should use a specified framework to report ESG data.

Only 35% of employees/potential employees were familiar with ESG reporting frameworks. Of these, 65% thought businesses should use a specified framework to report their ESG data.

Standardising Content of NFR Reports

When asked how businesses should be required to report on ESG data, the preferences of the retail investors and employees/potential employees were very similar and contrasted with the preferences of preparer respondents.

There was overwhelming support from preparer respondents for a ‘Core and More’ model with 93% agreeing or strongly agreeing with this option. This idea was also supported by 53% of retail investors and 38% of employees/potential employees.

The most strongly preferred option of both retail investors and employees/ potential employees was that preparers should be obliged to report on a common and extensive set of ESG data, going beyond the ‘Core and More’ idea. This option was supported by 68% of retail investors and 54% of employees/potential employees but opposed by 35% of preparers.

Preparers identified their top five themes to report on, supported by over 78% of preparer respondents, as: greenhouse gas emissions; resource usage (water, energy, etc.); diversity; waste; and health and safety.

The themes identified by the user groups were identical to each other with waste as number one and pollution at number two. These were followed by: climate change measures; greenhouse gas emissions; and health and safety, although in slightly different orders.

Ensuring a Balanced Report

Amongst retail investors and employees/potential employees who were familiar with ESG frameworks – 55% and 35% respectively – there was strong support for the following propositions: preparers should have the report externally assured by a third party, preparers should report on the negative impacts as well as the positive ones, preparers should involve wider stakeholders in determining materiality for reporting, and preparers should report on how data is collected. Support was around 80% approval for retail investors and between 70-76% for employees/potential employees.

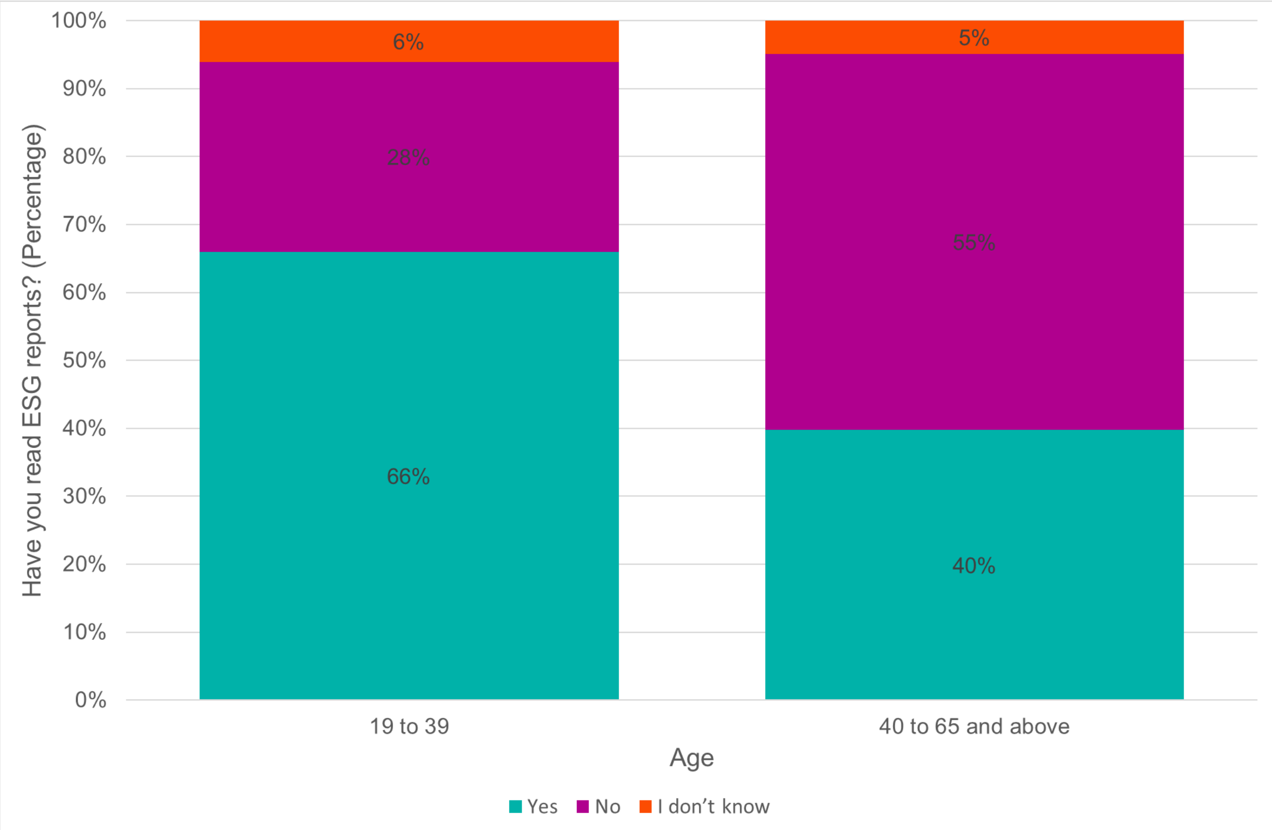
In addition, preparers supported the standardisation of metrics (i.e. measures of quantitative assessment) for reporting on ESG data. It was met with strong support, with 80% of preparers stating that this would be 'helpful' or 'very helpful'.

There is a particular focus on external assurance as a way of improving stakeholder trust in non-financial reports, especially by retail investors.

Engagement with ESG (Non-Financial) Reports by Users

Around a half of all retail investors and a quarter of all employees/potential employees have read any ESG reports.[155] Among both these user groups a slightly higher proportion of the younger respondents have read reports compared with older respondents (Figure 6 and Figure 7). This difference is more marked among the retail investors than among the employees/potential employees.

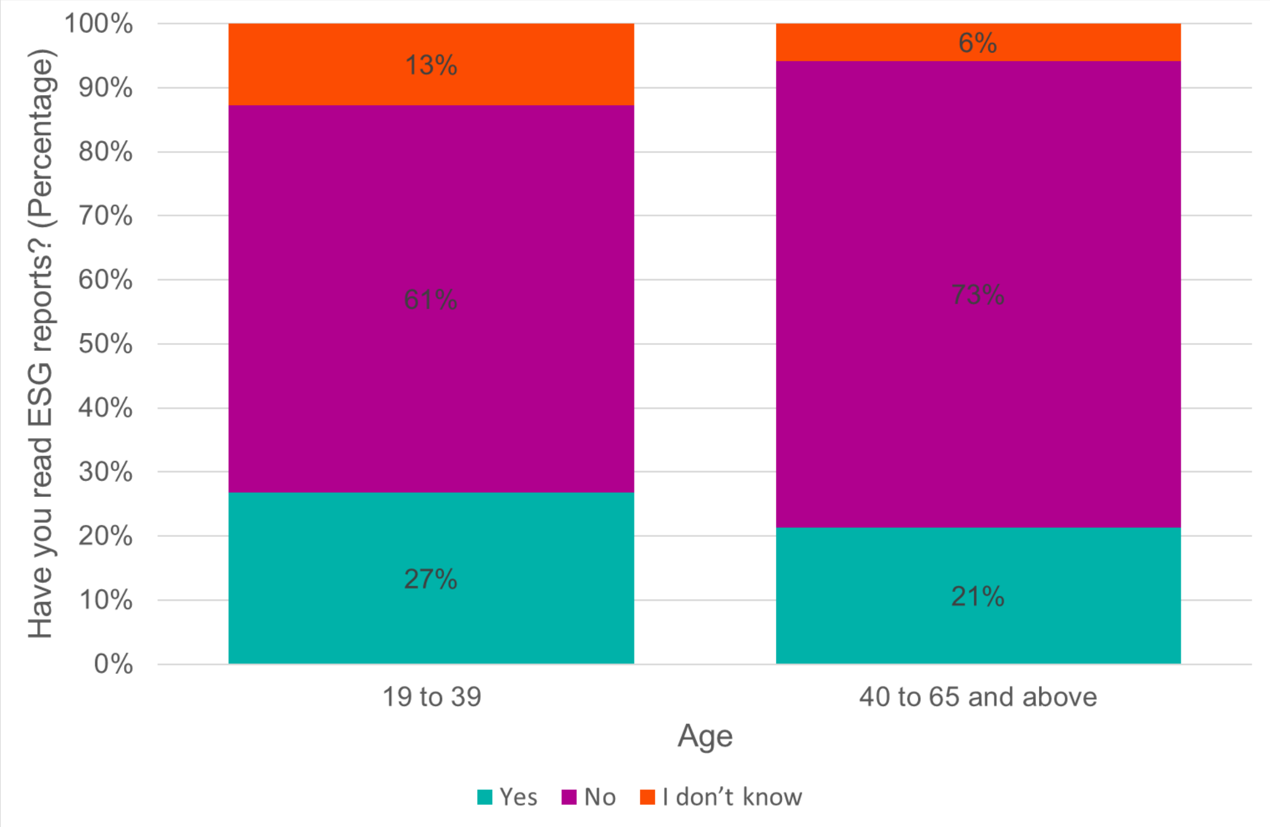
Figure 6: Comparing Rate of Reading ESG Reports Across Younger and Older Age Groups, Retail Investors



N values	19 to 39 = 197	45 to 65 and above = 307
Of the 504 retail investors that completed the survey, all answered both questions: those who had reported age and those who has reported whether they had read ESG reports.		

155 Technical appendices: Figure 69 and Figure 97.

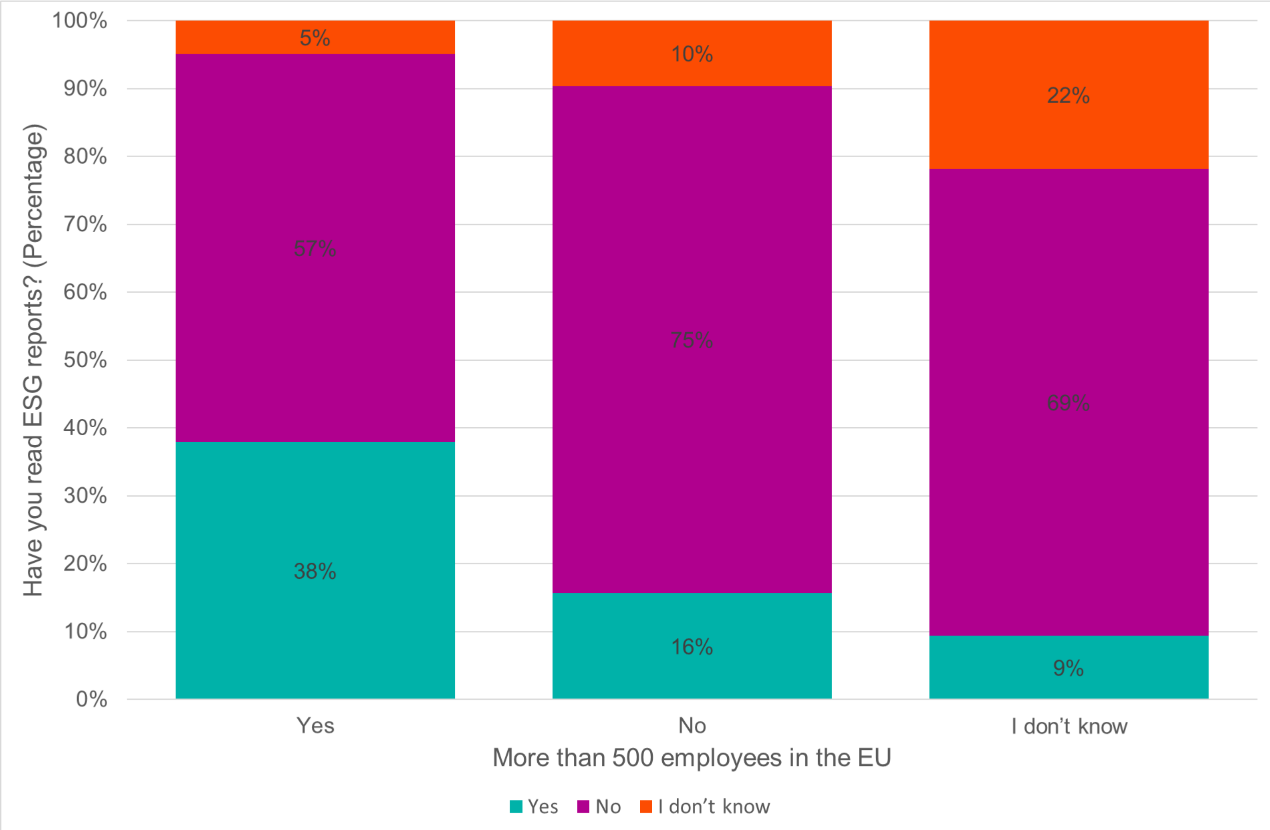
Figure 7: Comparing Rate of Reading ESG Reports Across Younger and Older Age Groups, Employees/Potential Employees



N values	19 to 39 = 228	45 to 65 and above = 276
Of the 504 employees/potential employees that completed the survey, all answered both questions: those who had reported age and those who has reported whether they had read ESG reports.		

Business size also seems to have an effect on the prevalence of reading ESG reports with those employees who work for a business with more than 500 employees in the EU showing the highest level of having read ESG reports (38%). This figure drops to 16% for those who work in smaller businesses (Figure 8). The finding that 57% of employees of large businesses have not read reports is interesting given that the EU Directive on Non-Financial Reporting requires large EU preparers to report. This indicates that over half of employees of large businesses that this survey reached are not reading the ESG report of their own business (Figure 8).

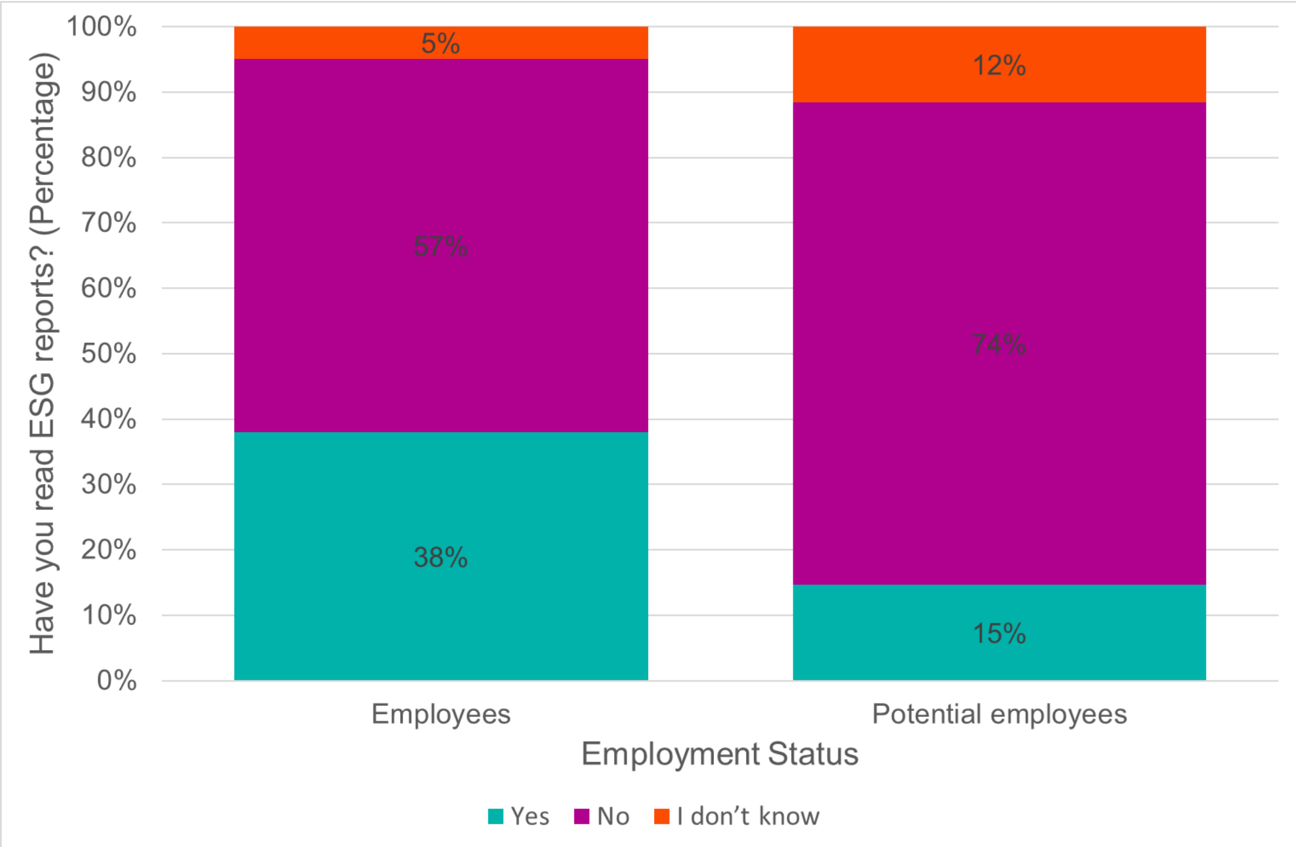
Figure 8: Breakdown of Employees Who Have Read ESG Reports by Business Size



N values	Yes = 203	No = 166	I don't know = 32
Of the 504 employees/potential employees that completed the survey, 401 answered both questions: those who had reported business size because they were employed and those who had reported whether they had read ESG reports.			

There is also a difference in the level of reading reports by employees and potential employees (Figure 9). Over double the number of employees (38%) had read ESG reports compared with 15% of potential employees. It cannot be inferred from this data however that potential employees are less interested in ESG reports, as it is credible to assume that they have less exposure to NFR than employees.

Figure 9: Breakdown of Respondents Who Have Read ESG Reports by Employment Status, Employees and Potential Employees

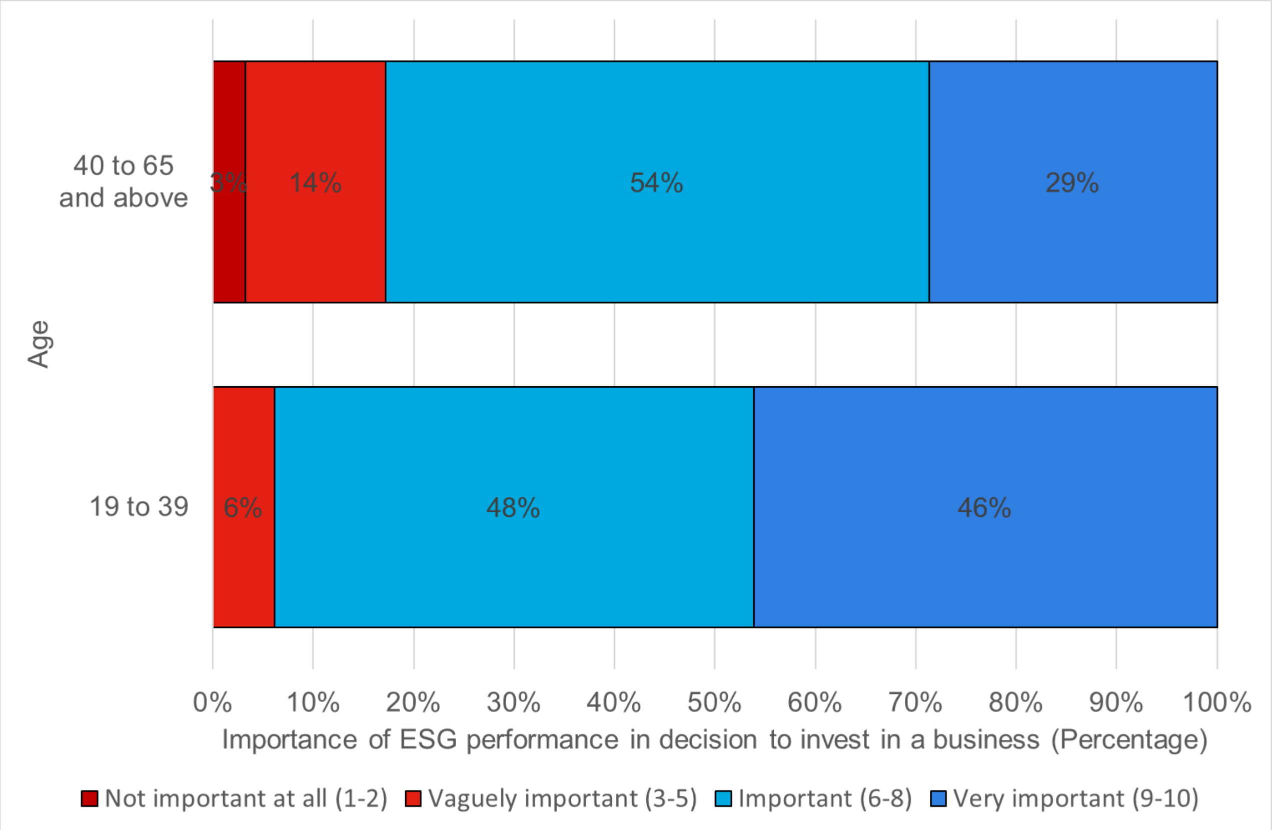


N values	Employees = 203	Potential employees = 198
Of the 504 employees/potential employees that completed the survey, 401 answered both questions: those who had reported employee status and who had reported whether they had read ESG reports.		

Of the retail investors who have read a report, 89% rate ESG performance as important or very important in their decision to invest; 12% rate ESG performance as vaguely important or not important at all in their decision to invest. [156] Younger investors, i.e. those below 40, tend to place more value on ESG performance in their financial decision making (Figure 10).

[156] Technical appendices: Figure 72.

Figure 10: Interest in ESG Performance by Age, Retail Investors



N values	19 to 39 = 130	40 to 65 and above = 122
Of the 504 retail investors that completed the survey, 252 answered both questions: those who had reported age and those that had answered the importance of ESG reports for investment decisions (i.e. those who had read ESG reports).		

Around 45% of retail investors and 67% of employees and potential employees had not read any ESG reporting.[157] Reasons for not reading reports included:[158]

- 48% of investors and 52% of employees/potential employees said that they do not know where to find ESG reports or do not have access to them. This may suggest a lack of interest in the area, as many non-financial reports are published online. It could also indicate that more could be done to improve the visibility of reports, to encourage a wider readership.
- 35% of investors and 38% of employees/potential employees said that they were not interested in ESG reports.
- 15% of investors and 11% of employees/potential employees said that ESG reports do not contain the information they are looking for.
- 14% of investors and 7% of employees/potential employees said that they cannot find the ESG information that they need within the report (too long/unstructured).

[157] Technical appendices: Figure 69 and Figure 97.
[158] Technical appendices: Figure 69 Figure 70 and Figure 98. Respondents could tick all that applied.

Employees/potential employees who had not read reports were asked whether they would do so in the future: 34% said ‘yes’, 29% said ‘no’ and 37% responded ‘I don’t know’. [159]

To gauge employees’/potential employees’ level of importance placed on the ESG focus of a business, potentially capturing the tension between ‘purpose and profit’, we asked the following question:

‘Imagine you have the choice of working for one of the following businesses. As an employee or potential employee, which business would you personally choose to work for?

- *Business A – Provides a salary that is 20% higher than your other options, and it is not transparent about its ESG impacts.*
- *Business B – Provides a salary that is 10% higher than your other options, reports its ESG impacts, and tries to ‘do no harm’ by minimising these impacts.*
- *Business C – Provides a salary that is 0% higher than your other options and reports its ESG impacts and proves that it is having a positive ESG impact in some way.’*

The most popular selection was for Business B that gave both slightly higher income along with a ‘do no harm’ approach to ESG impact (30%).[160] The Business A option that gave higher financial reward with no transparency of ESG impact also scored almost as highly with 27% of respondents choosing this. Only 8% of respondents selected Business C which offered no financial reward but a strong ESG approach. Over a third (35%) of all respondents said ‘I don’t know’.

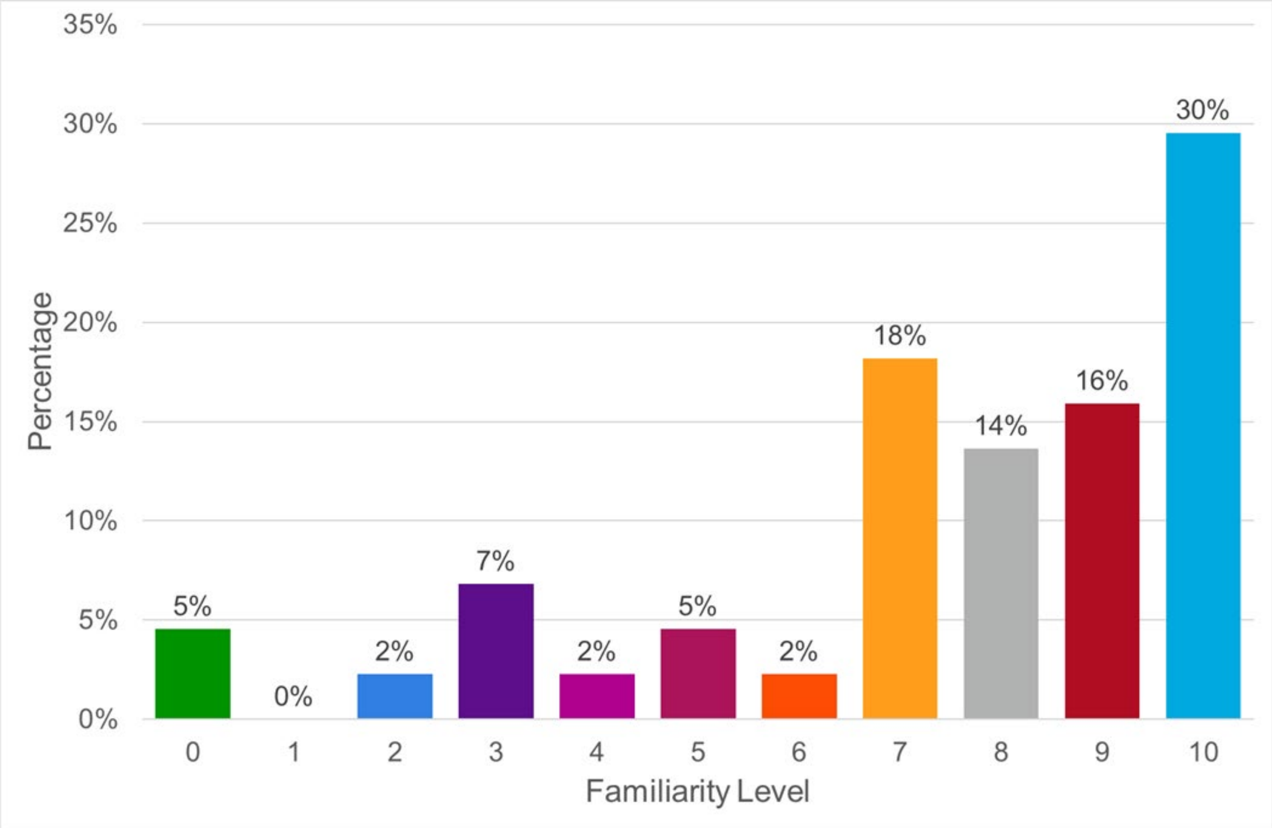
These findings indicate that financial gain continues to be the primary motivator in selecting a job, and the appetite for purpose over profit remains small amongst employees/potential employees, however, a ‘win, win’ scenario with purpose and profit combined is the most preferred option.

Familiarity with ESG Reporting Frameworks

All survey respondents were asked to gauge their current familiarity with ESG frameworks as a structure for reporting on non-financial information. Preparer respondents were asked to judge their familiarity with ESG frameworks on a scale 0-10, with 10 being the most familiar. Nearly a third of preparer respondents (30%) gave themselves the maximum score for familiarity with ESG reporting frameworks.[161] When grouped, 78% of preparers considered that their familiarity level was 7 or higher (see Figure 11).

[159] Technical appendices: Figure 99.
[160] Technical appendices: Figure 100.
[161] Technical appendices: Figure 39.

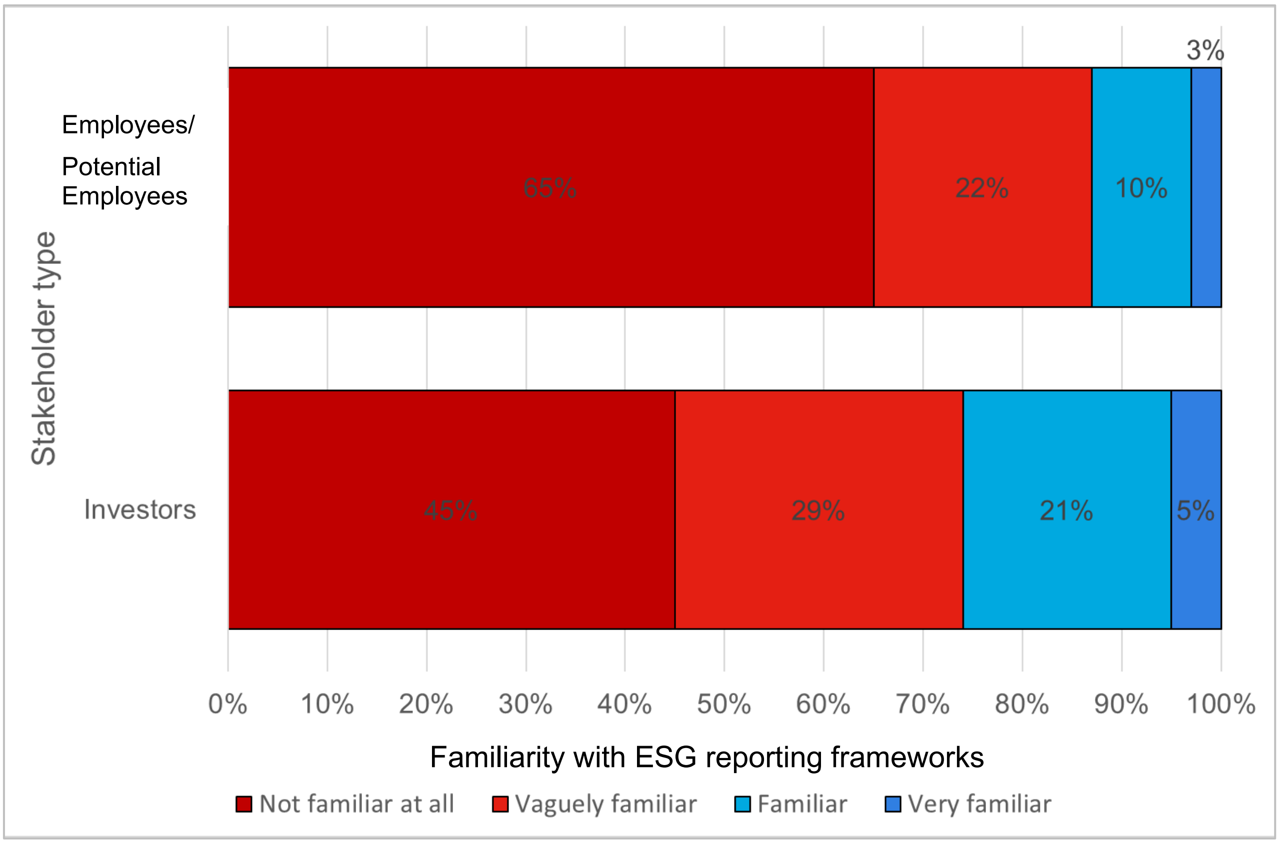
Figure 11: Preparer Respondents' Familiarity with ESG Reporting Frameworks



N value	44
Of the 45 businesses that completed the survey, 44 answered this question.	

These levels of familiarity are much higher than for the other survey groups, showing that awareness of ESG reporting frameworks is generally high amongst preparers, but low amongst user groups. Figure 12 shows how the level of familiarity with ESG reporting frameworks varies across the retail investor and employee/potential employee survey groups. Only 3% of employees/potential employees and 5% of retail investors claim to be 'very familiar' with ESG reporting frameworks. Around two thirds of employees/potential employees (65%) and nearly half of investors (45%) admitted that they were 'not familiar at all' with ESG reporting frameworks. By grouping those who are 'vaguely familiar' with those who are 'familiar' and 'very familiar' it can be read that 35% of employees/potential employees and 55% of retail investors are familiar to some degree with ESG frameworks.

Figure 12: Familiarity with ESG Reporting Frameworks Between Employees and Investors



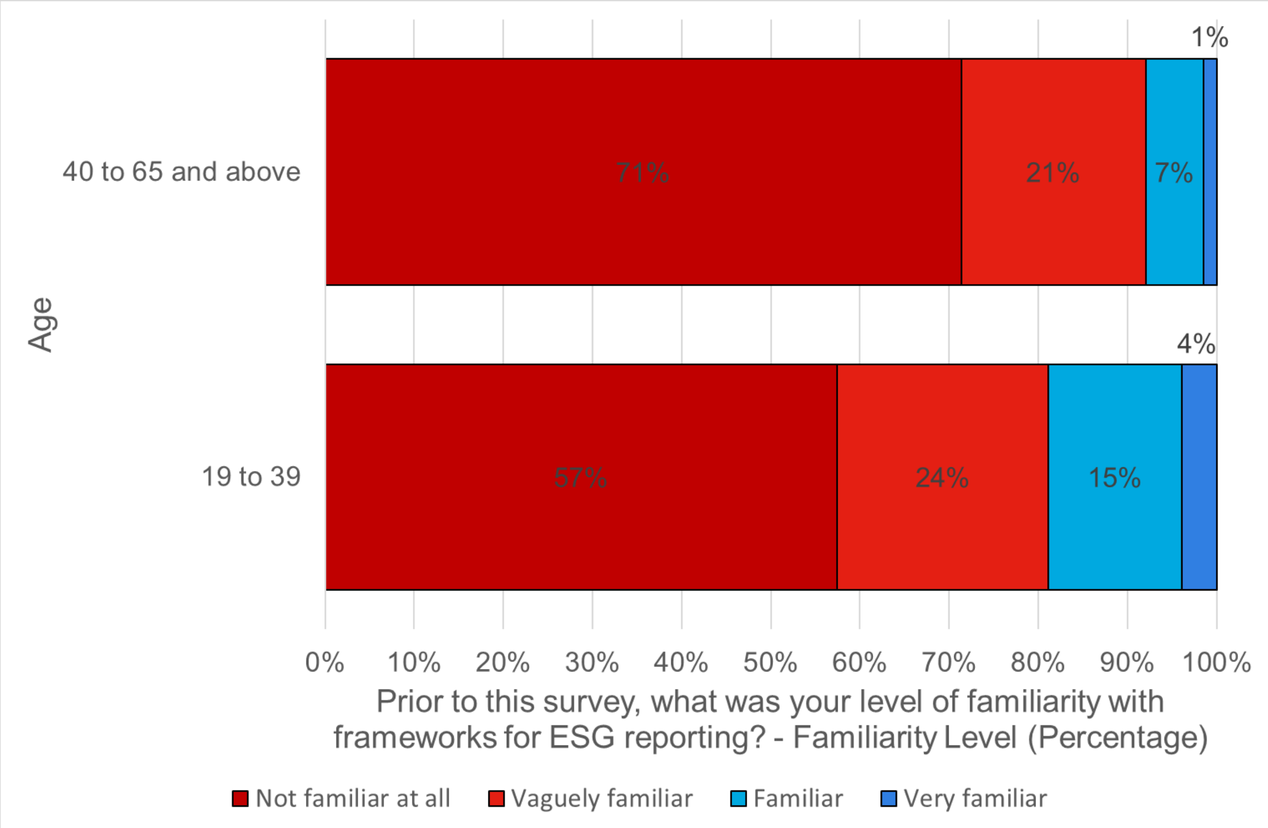
N values	Employees/potential employees = 504	Investors = 504
For the 504 respondents of both employees/potential employees and retail investors, all completed this question.		

A closer analysis of the data within the retail investor and employee/potential employee groups revealed some differences by respondent age in both groups:

- Employees/potential employees below 40 years old are more familiar with ESG frameworks; 19% 'are familiar' or 'very familiar', whereas for the older group aged 40 years and above this is 8% 'familiar' or 'very familiar' (Figure 13).
- A more pronounced difference is observable among the retail investors. Here 44% of those below 40 years are 'familiar' or 'very familiar' with ESG frameworks compared with only 15% of above 40 years (Figure 14).

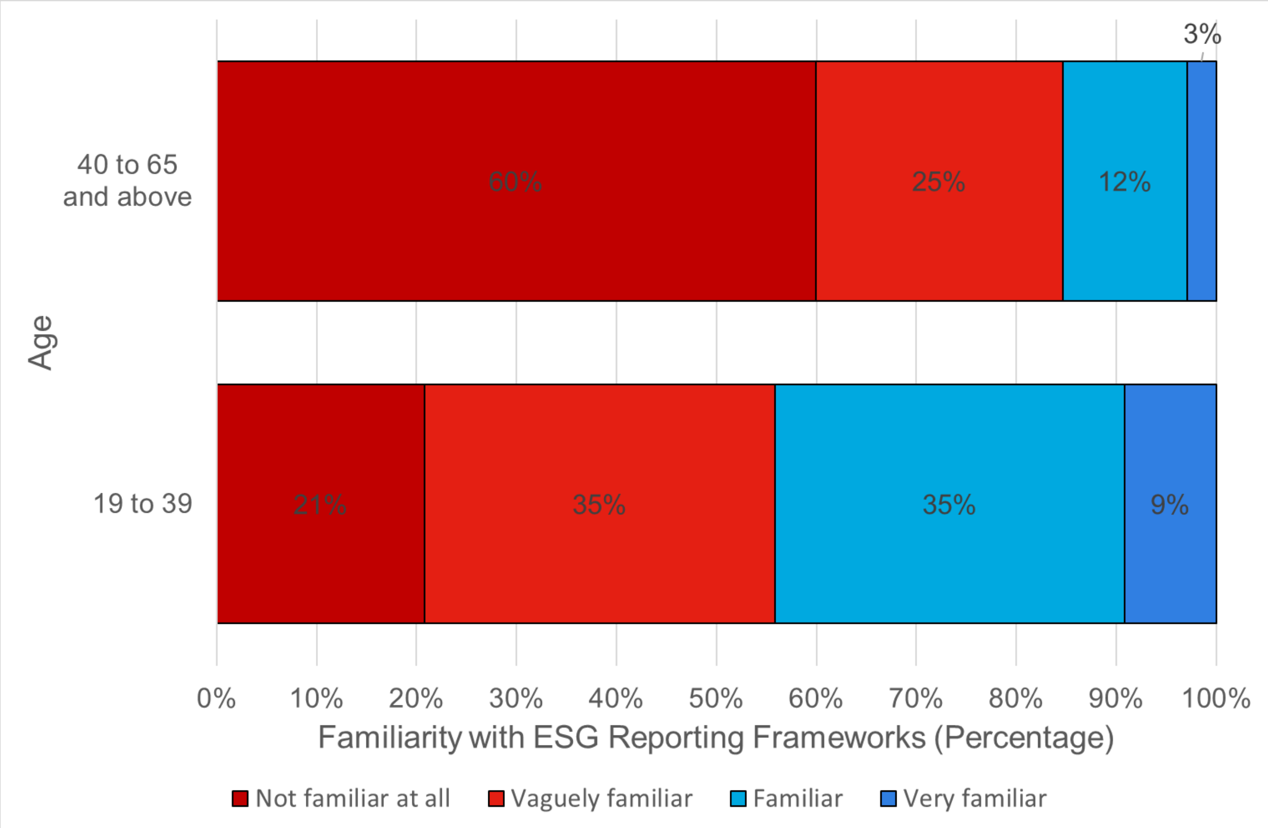
The data therefore suggests that awareness of ESG reporting is likely to increase overtime as the population ages.

Figure 13: Familiarity with ESG Reporting Frameworks by Age, Employees/Potential Employees



N values	45 to 65 and above = 276	19 to 39 = 228
Of the 504 employees/potential employees that completed the survey, all answered both questions: those who had reported age and those that reported familiarity with ESG reporting frameworks.		

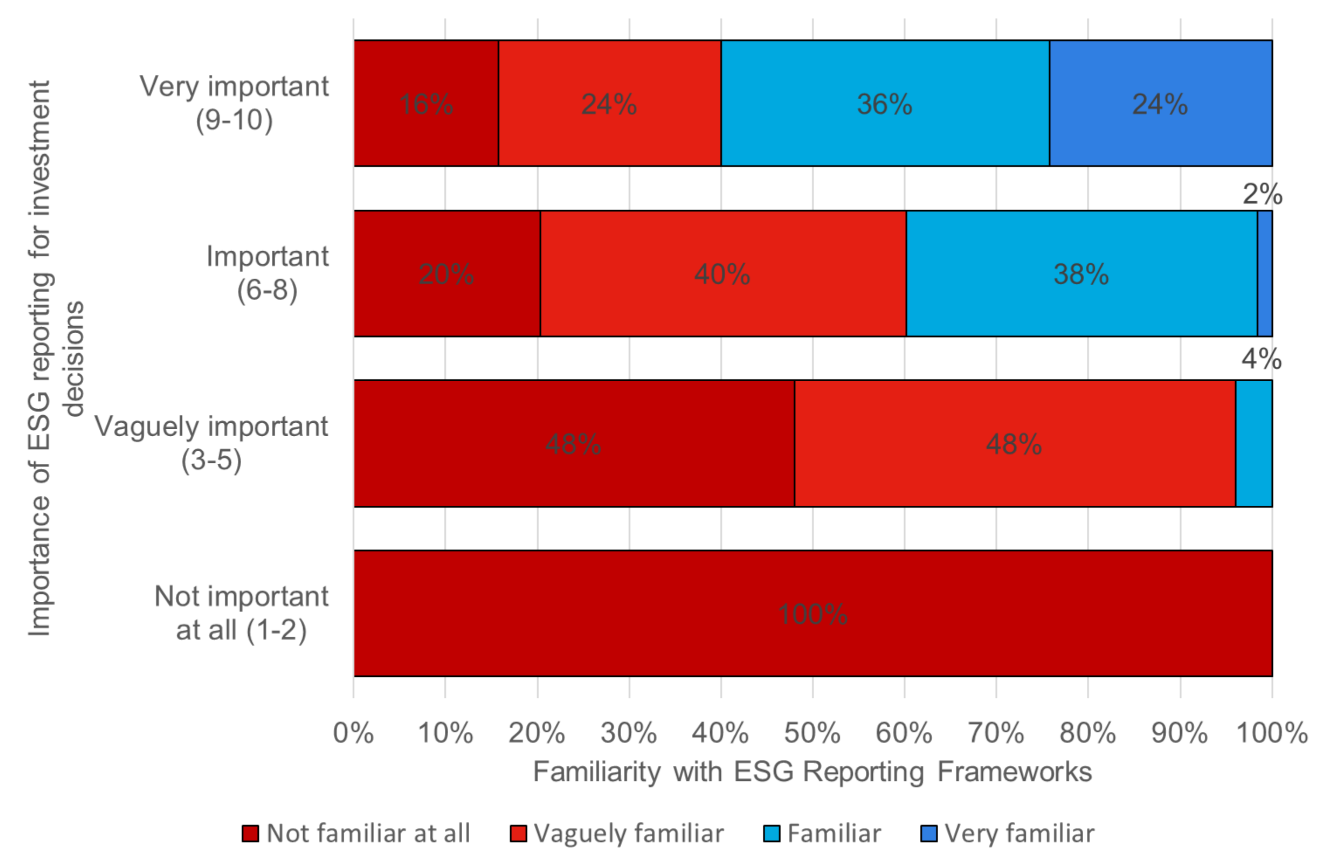
Figure 14: Familiarity with ESG Reporting Frameworks by Age, Retail Investors



N values	45 to 65 and above = 307	19 to 39 = 197
Of the 504 retail investors that completed the survey, all answered both questions: those who had reported age and those who had reported whether they had read ESG reports.		

Of those retail investors who rate ESG reporting as ‘important’ for investment decisions, still, 60% of these are only ‘vaguely familiar’ or ‘not familiar at all’ with ESG frameworks (Figure 15). This indicates that many users can obtain benefit from ESG reporting without them being aware of a particular framework.

Figure 15: Breakdown of Demand for Reporting by Familiarity with Reporting Frameworks, Retail Investors



N values	Very important = 95	Important = 128	Vaguely important = 25	Not important at all = 4
Of the 504 retail investors that completed the survey, 252 answered both questions: those who reported familiarity with ESG reporting frameworks, and those that reported the importance of ESG reporting for their investment decisions (i.e. those who has read ESG reports).				

Value of Using a Specific Framework

The surveys explored the issue of how valuable it would be to use a specific framework for ESG reporting, as opposed to preparers reporting according to their own methods or drawing on multiple frameworks.

37 of the 45 preparer respondents completed questions around reporting frameworks, of which almost two thirds (62%) said that they use a reporting framework in their business, 35% do not and 3% were unsure.[162] The EU Non-financial Reporting Directive does not make the use of a framework mandatory in reporting, which may explain why this data shows that some preparers are reporting on ESG issues but not adhering to a specific framework.

Of those preparers who do use a framework, 91% also reported that their business finds the

[162] Technical appendices: Figure 50.

use of an ESG framework to be valuable (48% ‘agree’ and 43% ‘strongly agree)’.[163] Of those whose business *does not* currently use a framework, 65% thought their business would find it useful to use an ESG framework (36% ‘strongly agree’ and 29% ‘agree’).[164]

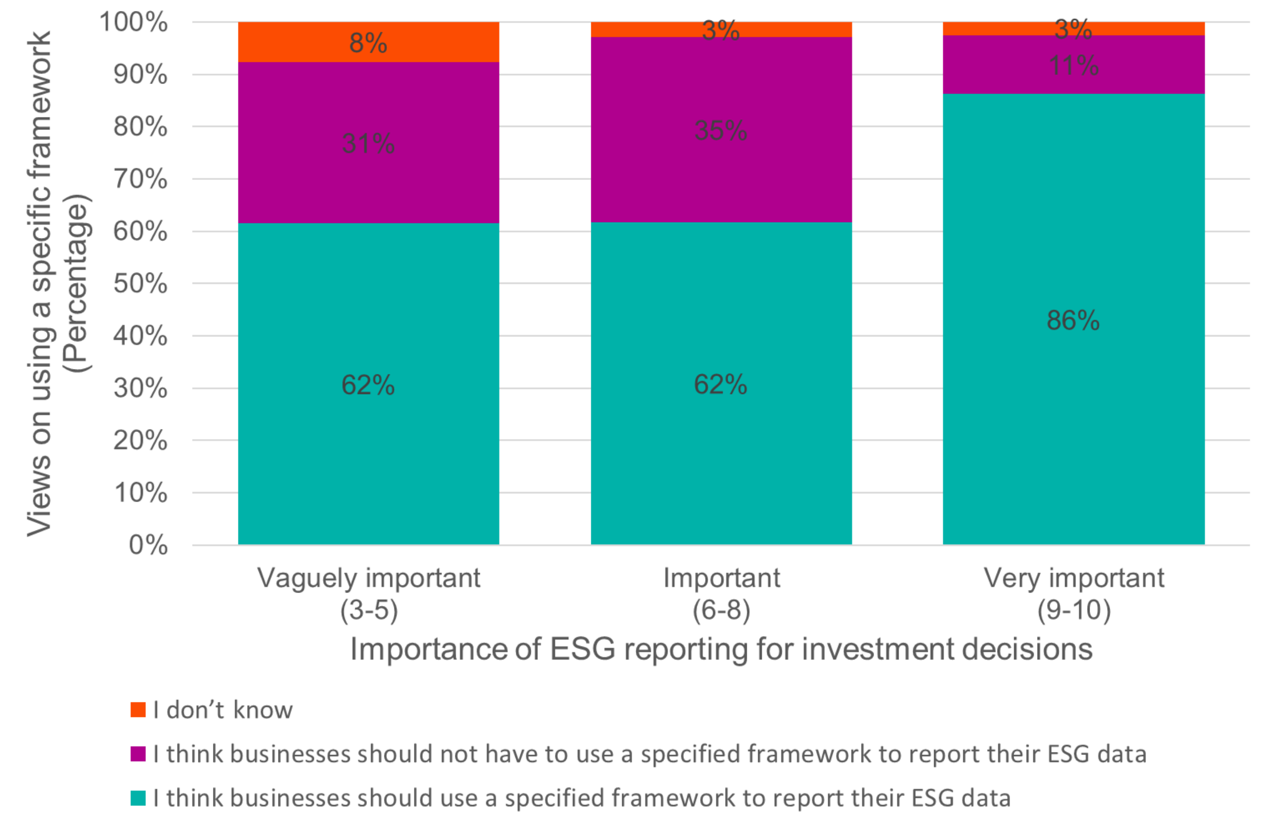
Around 55% of retail investors were familiar with ESG reporting frameworks, and 50% had read ESG reports.

- 38% of the retail investors (who had read ESG reports) considered ESG performance very important in their decision to invest in a specific business.[165]
- Of those retail investors who had both read ESG reports and were familiar with reporting frameworks (Figure 16):
    - Of those who considered ESG performance ‘very important’, 86% showed a greater preference for preparers to adopt a specific framework when reporting.
    - 62% of those retail investors who considered ESG as ‘vaguely important’ and also 62% of those who considered ESG as ‘important’ for investment decisions thought that businesses should adopt a specific framework when reporting data.

Where retail investors were familiar with reporting frameworks, a consensus was that preparers should use a specified framework to report ESG data.

[163] Technical appendices: Figure 52.
[164] Technical appendices: Figure 53.
[165] Technical appendices: Figure 72.

Figure 16: Views on Using a Specific Framework According to Importance of ESG, Retail Investors



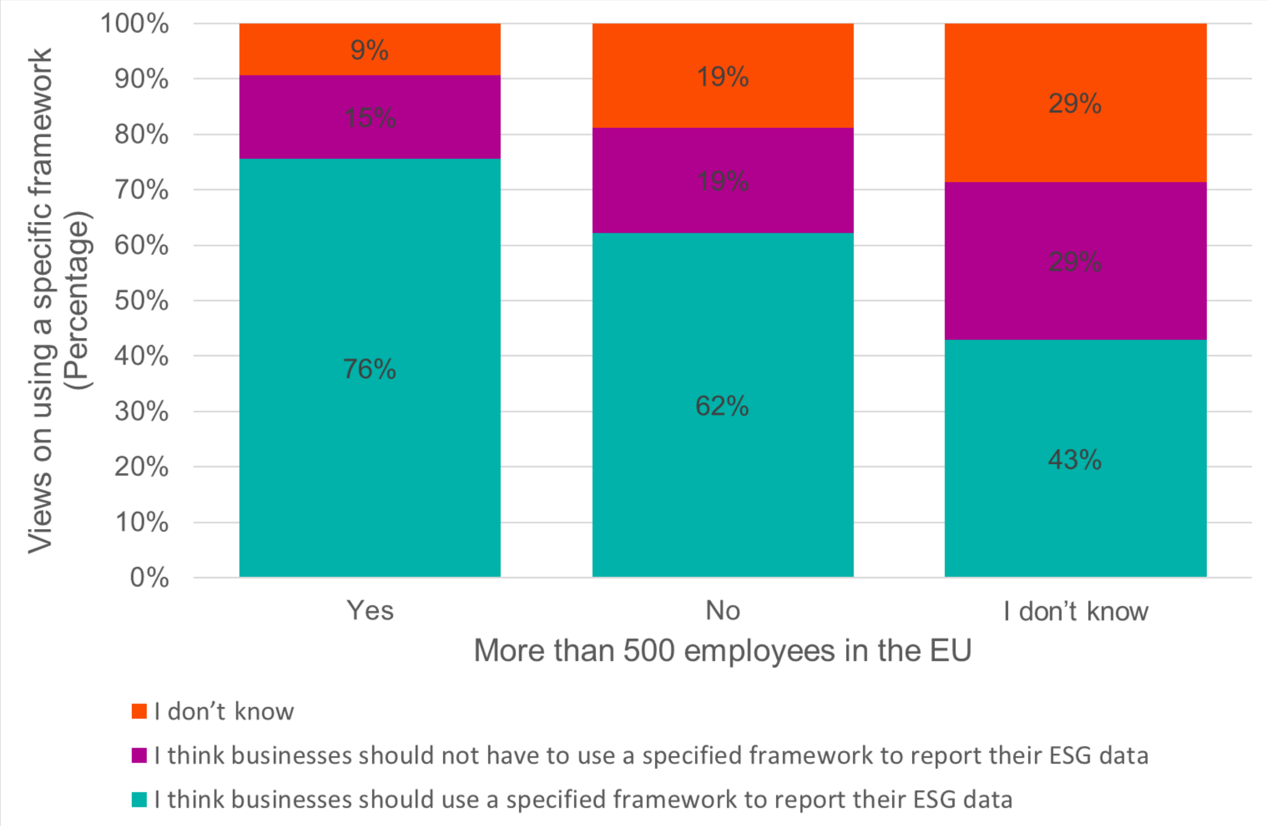
N values	Vaguely important = 62	Important = 102	Very important = 86
Of the 504 retail investors who completed the survey, 195 answered both questions: those who had read ESG reports and were familiar with ESG reporting frameworks.			

Similarly, only 35% of employees/potential employees were familiar with ESG reporting frameworks.[166] Of these, 65% thought businesses should use a specified framework to report their ESG data.[167] Looking at this group in more detail:

- Those employees/potential employees who support the use of a specific framework for reporting tend to be those who come from larger companies (Figure 17), and the employees are more often those whose companies operate beyond the UK as well as within it (Figure 18).
- It appears that employees have stronger views than potential employees on whether preparers should use a specific framework for reporting. 76% of employees support this idea compared with 60% of potential employees (Figure 19).
- A larger proportion of potential employees (20% compared with 9% for employees) were not sure how to answer this question. Again, this result points to the finding that those stakeholders who are more familiar with reporting are more strongly in favour of using a specific framework.

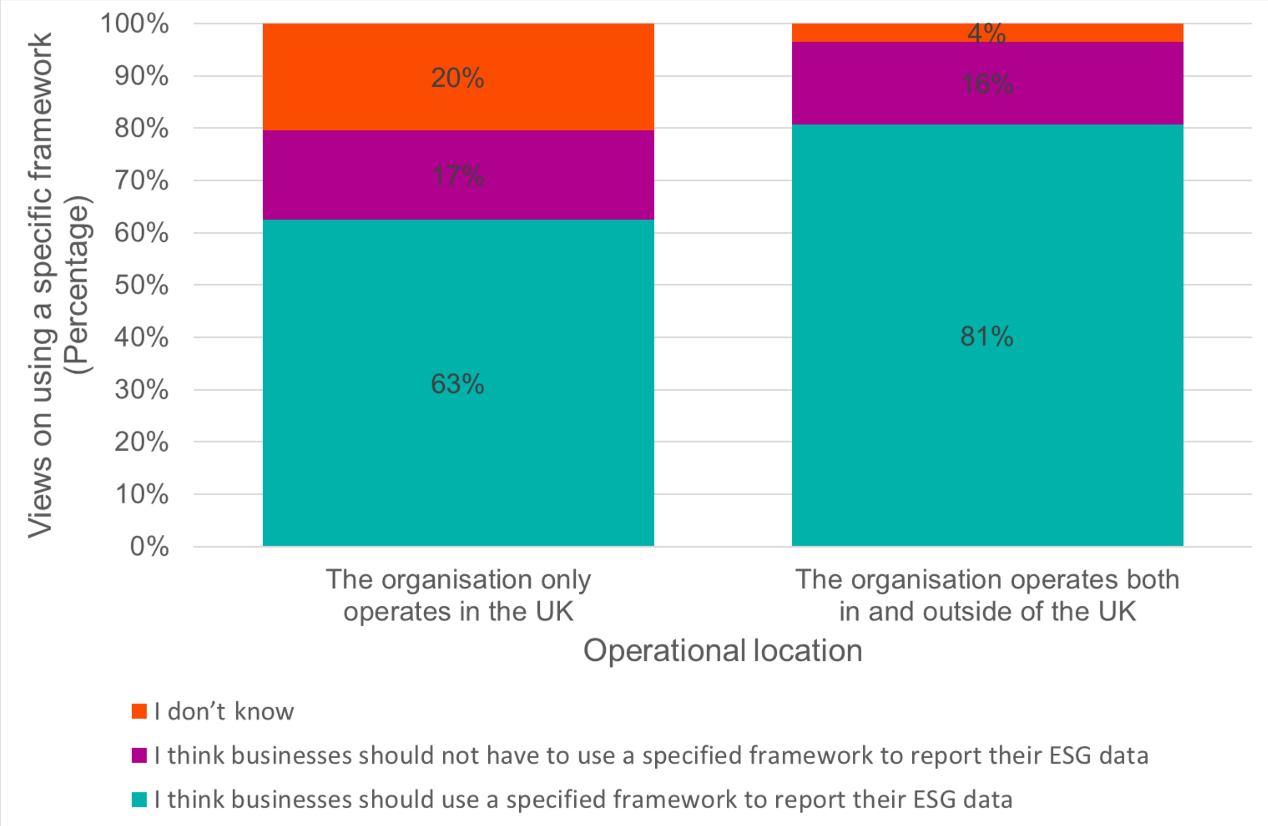
[166] Technical appendices: Figure 106.
[167] Technical appendices: Figure 107.

Figure 17: Views on Using a Specific Framework According to Size of Business, Employees/Potential Employees



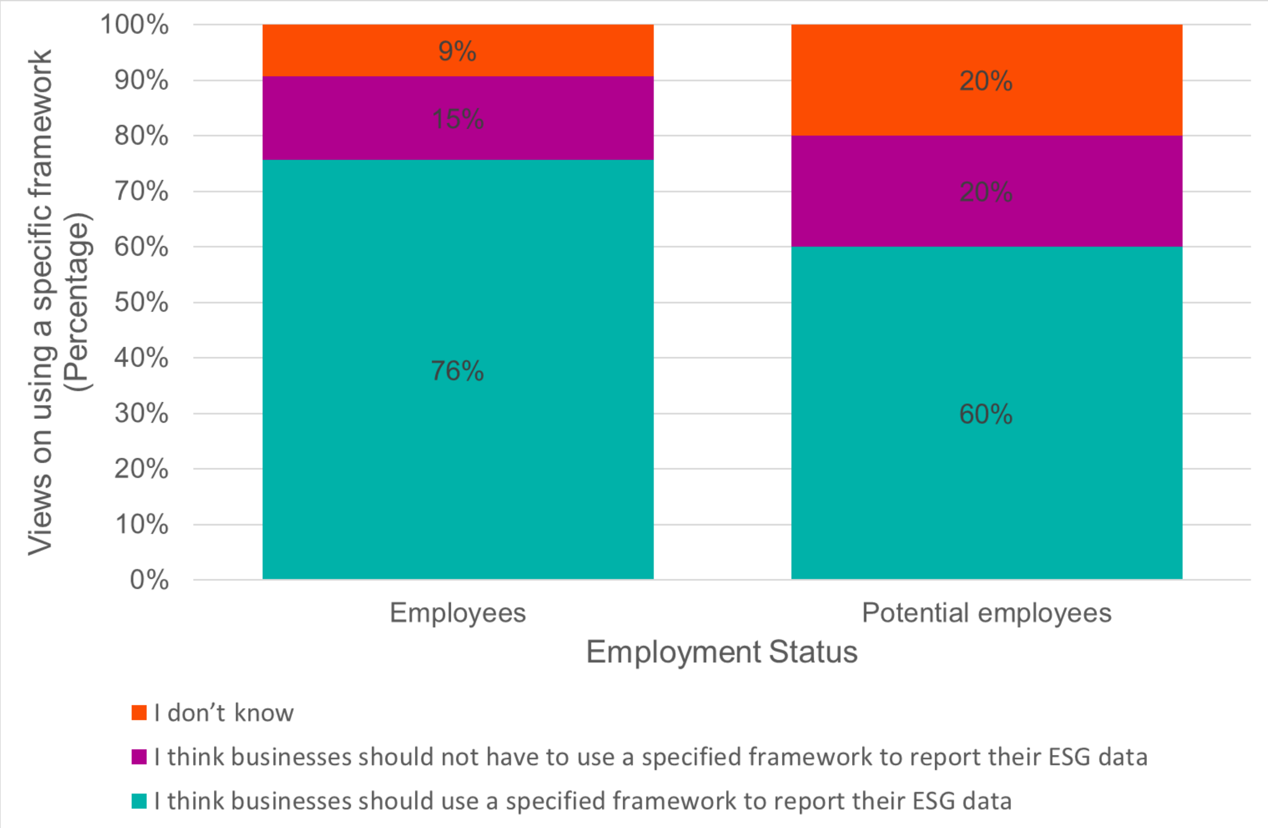
N values	Yes = 86	No = 53	I don't know = 7
Of the 504 employees/potential employees that completed the survey, 146 answered both questions: those who were employed and therefore reported their employer's size and those who reported their views on using a specific framework (i.e. those who were familiar with ESG reporting frameworks).			

Figure 18: Employee Views on Using a Specific Framework According to Location of Organisation



N values	The organisation only operates in the UK = 88	The organisation operates both in and outside of the UK = 57
Of the 504 employees/potential employees that completed the survey, 145 answered both questions: those who were employed and reported their employer’s location and those who reported their views on using a specific ESG framework (i.e. those who were familiar with ESG reporting frameworks).		

Figure 19: Views on Using a Specific Framework According to Employment Status



N values	Employees = 86	Potential employees = 60
Of the 504 employees/potential employees that completed the survey, 146 answered both questions: those that reported their employment status and those that reported views on using a specific framework (i.e. those who were familiar with ESG reporting frameworks).		

Standardisation of Content in Non-Financial Reports

Comparability of reporting was highlighted as a key issue for stakeholders in the workshops and was therefore explored further in the stakeholder surveys. One way for NFR to become more standardised is to make it mandatory for preparers to use a specific framework for their reporting.

The survey asked preparers about how this might benefit them, by ranking several options: '*If business were required to follow a UK-level standardised framework for their environmental, social and governance reporting, which aspects of your organisation's operations do you think this would benefit?*'

Respondents were given seven potential benefits and ranked these one to seven, the results were then reverse-ranked so that the items with the greater perceived benefits have the highest number. Figure 43 and Table 4 shows the resultant ranking. 'Embedding sustainability within the organisation' and 'improving the quality of ESG reporting' were both seen as the biggest gains of standardisation from the point of view of preparers. It is interesting to note that 'contributing to organisational growth' came the lowest, despite frameworks investing a lot of effort in trying to help preparers realise the potential growth value of incorporating a specific reporting approach. This is particularly the case for <IR> though most frameworks adopt a similar approach.

Table 4: Ranking of Potential Benefits to Mandating Use of a Specific Framework, Preparers

Potential Benefit of Mandating for the Use of a Specific Framework	Ranking Score
Embedding environmental, social and governance value in the organisation	7.5
Improving the quality of environmental, social and governance reporting produced	7.5
Improving the reputation of the organisation	6.4
Making environmental, social and governance reporting more efficient	6.3
Improving the efficiency of operations	5.1
Improving employee satisfaction	4.8
Contributing to organisational growth	4.4

As there is no widely agreed NFR standard ready for UK preparers to adopt, the survey also explored views on the desirability of standardising the content of NFR and asked, if there were to be wider standardisation, which themes should be prioritised in this.

The survey asked all respondents from the three stakeholder groups their views of different approaches to defining the content that preparers are required to report on. Three statements were offered:

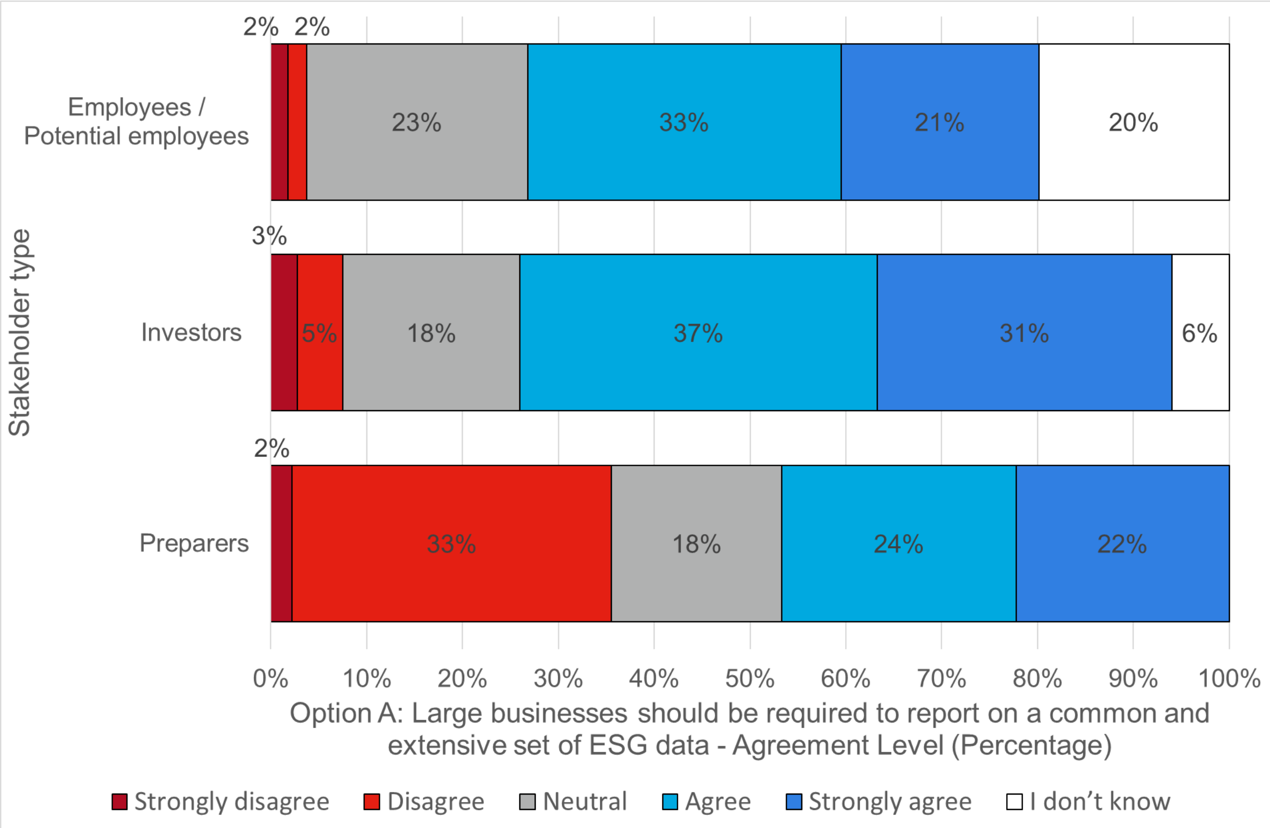
- *'Option A. Large organisations should be required to report on a common and extensive set of ESG data.'*
- *'Option B. Large organisations should have the option to decide which ESG data they report on.'*
- *'Option C. All large organisations should be required to report on a common but limited set of ESG data, and then be able to choose which additional data they report on.'*

The first option presents the greatest degree of standardisation, by requiring all large businesses to report on the same extensive set of ESG data. The second option is the least restrictive to businesses, allowing them to decide the full range of ESG data that they report on. The final option follows the 'Core and More' idea, that a limited set of ESG data is required for all large businesses with additional data at their discretion.

The responses across the retail investor group and the employee/potential employee group were broadly similar, and contrast with preparers' views. Retail investors and employees/potential employees prefer more regulated reporting requirements (Option A) over the more flexible options that give preparers greater choice in how they report. This contrasts with the preparer respondents' clear preference for Option C.

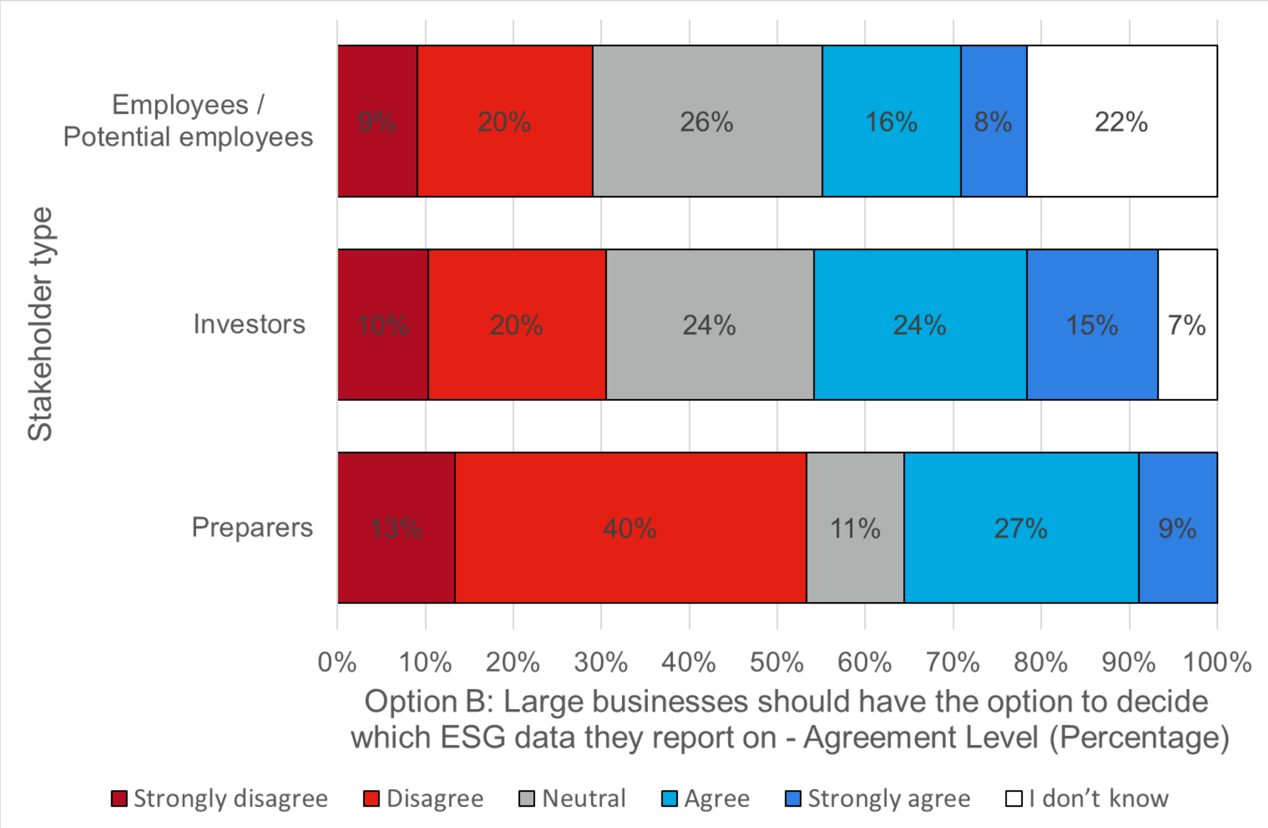
- Option A, which can be read as the option for increased mandatory reporting, was met with support from all stakeholder groups, but of different strengths: 46% of preparers 'agreed' or 'strongly agreed' with this idea, as did 68% of retail investors and 54% of employees/potential employees (Figure 20).
- Resistance to increased mandatory reporting is greatest among preparers (35%) and is very low among wider stakeholders (8% of retail investors and 4% of employees/potential employees) (Figure 20).
- Discussions in the workshops had shown strong support from the preparers that preparers should be able to choose the NFR data that they report on (Option B). The survey revealed less support for this idea than anticipated, with only 36% of preparers agreeing with this, along with 39% of retail investors and 24% of employees/potential employees (Figure 21).
- There was overwhelming support from preparer respondents for a 'Core and More' model with 93% 'agreeing' or 'strongly agreeing' with Option C. This idea was also supported by 53% of retail investors and 38% of employees/potential employees (Figure 22).
- A fifth (20-22%) of employees/potential employees answered 'I don't know' to all the questions probing into what preparers should be required to report on. For retail investors, this was only 6-7%, which is not surprising given that earlier survey questions showed this group to be both better informed and more interested in NFR (see Figure 20, Figure 21 and Figure 22).

Figure 20: Views on Option A Across the Three Stakeholder Groups



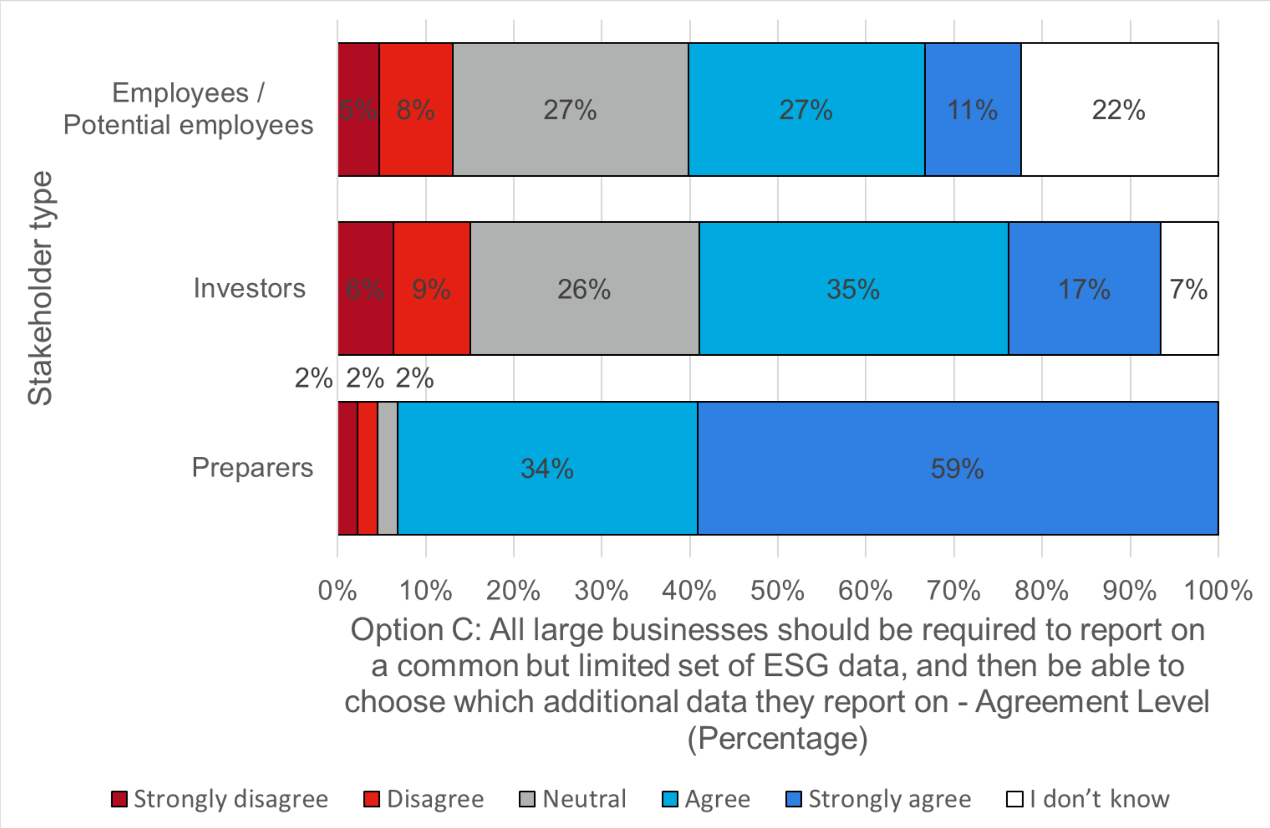
N values	Employees / Potential employees = 504	Investors = 504	Preparers= 45
Of the employees/potential employees, retail investors and preparers that completed the survey, all answered this question.			

Figure 21: Views on Option B across the Three Stakeholder Groups



N values	Employees/Potential employees = 504	Investors = 504	Preparers= 45
Of the employees/potential employees, retail investors and preparers that completed the survey, all answered this question.			

Figure 22: Views on Option C Across the Three Stakeholder Groups



N values	Employees/Potential employees = 504	Investors = 504	Preparers = 44
Of the employees and investors that completed the survey, all answered this question. 44 of the 45 preparers that completed the survey answered this question.			

Top Themes to Report On

Following questions on the potential for standardisation, the survey then asked all respondents if this reporting method were to be required, which themes should be included. The question was phrased in the following way:

'If preparers were required to report on a common but limited set of ESG data, which themes do you think should they report on?'

Five themes were supported by over 78% of the preparer respondents. These top five are shown in Table 5 along with the top five themes selected by retail investors and employees/potential employees.[168]

[168] Technical appendices: Figure 38, Figure 74 and Figure 102.

Table 5: Comparison of Top 5 Themes that Preparers Should be Required to Report On

Greenhouse gas emissions (93%)	Waste (63%)	Waste (60%)
Resource usage (water, energy, etc.) (87%)	Pollution (63%)	Pollution (55%)
Diversity (82%)	Climate change measures (58%)	Health and safety (54%)
Waste (78%)	Greenhouse Gas emissions (55%)	Climate change measures (51%)
Health and safety (78%)	Health and Safety (50%)	Greenhouse Gas emissions (50%)
N value = 45	N value = 504	N value = 504

The user groups identify the same top five themes (although ordering them slightly differently), these differ slightly from preparers prioritising pollution over diversity. In fact diversity was in the least important themes identified by the user groups.

It is possible that preparer respondents identify greenhouse gas emissions and resource use because they are already familiar with reporting on these. Resource use also has a clear financial bearing on companies' operations. Diversity is another current reporting requirement in the preparers' top five, and along with health and safety as a social issue.

Ensuring a Balanced Report

The literature review and the workshops both highlighted concerns that ESG reporting is currently used as a form of impression management, where businesses selectively present material that casts them in a good light. In one report this was a concern raised by 90% of the practitioners who gave their views.[169] The workshop with preparers provided deeper insight into this issue, as participants revealed that the content of reports is heavily influenced by the fears of upper management whose primary concern is to maintain a positive reputation for the business. It was noted that there could be privacy issues with disclosing certain data, but

[169] Diouf, D., and Boiral, O. (2017) The quality of sustainability reports and impression management: A stakeholder perspective, Accounting, Auditing & Accountability Journal, Vol.30, No.3, pp.643–667

overall there was a feeling amongst preparers that a move to more balanced reporting would serve the needs of all stakeholders.

This survey explored these ideas by asking those retail investors[170] and employees/potential employees[171] who were familiar with ESG reporting frameworks (i.e. 55% of retail investors and 35% of employees/potential employees) how helpful certain reporting changes might be. The results for familiar retail investors were:

- 81% thought that having the report externally assured by a third party would be ‘helpful’ or ‘very helpful’.
- 78% thought that it would be ‘helpful’ or ‘very helpful’ for businesses to engage with stakeholders to identify ESG themes relevant to their activity.
- 82% thought that reporting on business’ positive and negative impacts would be ‘helpful’ or ‘very helpful’.
- 81% thought that reporting on how data is collated would be ‘helpful’ or ‘very helpful’.

Further data exploration revealed that the retail investor respondents who rated these ideas as ‘unhelpful’ or ‘very unhelpful’ were all those who had classed themselves as only ‘vaguely familiar’ with ESG reporting. There was no opposition to these ideas from retail investors who classed themselves as ‘very familiar’ with ESG reporting. This relationship was not, however, true of the employee/potential employee sample, where the corresponding figures for these four statements were 71%, 70%, 76% and 73%.

The final idea identified in the workshops, but considered only in the survey of preparers, was that metrics (i.e. measures of quantitative assessment) for reporting on ESG data should be standardised. It was met with strong support, with 80% of preparers stating that this would be ‘helpful’ or ‘very helpful’ and only 3% opposing the idea.[172] This idea had been considered more contentious in the workshops, with the improvement in comparability being tempered by the limitations of providing data without context or a slide towards reporting becoming a ‘box-ticking’ exercise.

External Assurance

This section goes into detail on external assurance, since there was an interesting difference in the responses between retail investors and employees/potential employees regarding this topic. The question was indicated as follows:

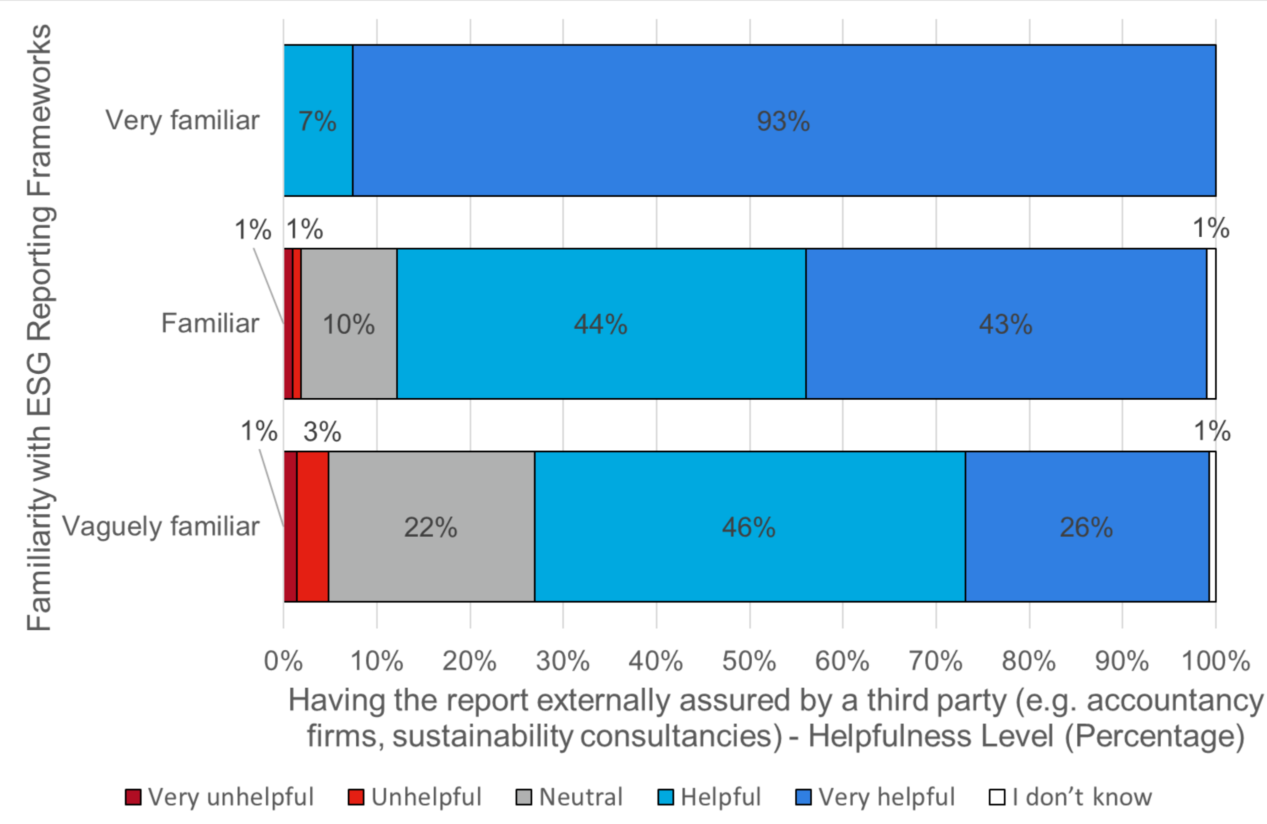
‘To what extent do you believe that the following ways listed below would help improve your trust in ESG reports: Having the report externally assured by a third party (e.g. accountancy firms, sustainability consultancies)’

External assurance may improve the credibility and robustness of data that preparers present in their non-financial reports. As Figure 23 shows, all retail investors who are ‘very familiar’ with ESG reporting frameworks indicated that external assurance would be ‘helpful’ or ‘very helpful’ in improving trust in NFR (93%). In comparison, 87% of retail investors who were ‘familiar’ with

[170] Technical appendices: Figure 83.
[171] Technical appendices: Figure 111.
[172] Technical appendices: Figure 58.

NFR agreed, and 72% of those who were 'vaguely familiar'. Retail investors with greater familiarity with NFR frameworks appear to value external assurance of NFR more strongly.

Figure 23: Opinions on External Assurance VS Level of Familiarity with NFR Frameworks, Retail Investors



N values	Very familiar = 27	Familiar = 107	Vaguely familiar = 145
Of the 504 retail investors that completed the survey, 279 answered both questions: those who had reported on the helpfulness of external assurance (i.e. those who were familiar with ESG reporting frameworks) and those who had reported their familiarity of ESG reporting frameworks.			

A similar comparison for the employee/potential employee survey did not show a difference in the value of external assurance across different levels of familiarity with NFR frameworks. This may be because external assurance is less relevant to the needs of employees and potential employees.

When analysing the response rates across the user surveys regarding external assurance, this showed a significant difference between the proportion of 'helpful' and very helpful' responses to this question across retail investors, employees, and potential employees (Table 6).

Table 6: Percentage of Helpful/Very Helpful for External Assurance in Improving Trust in NFR

% that responded as helpful/very helpful	81%	77%	64%
N values	279	86	90

Literature covering the preferences of users – including NGOs, shareholders, and preparers' clients – supports the strong preferences revealed by the surveys towards external assurance or verification of NFR (see section on '*Views on External Verification of NFR*'). This is particularly aligned with a very high level of agreement from retail investors, where external assurance is a more useful tool for the purpose of their investment decisions versus the other stakeholder groups. Retail investors can be expected to hold preparers to a higher standard since their investments could be impacted by the reliability and credibility of preparers' non-financial data. While retail investors may find this more useful than employees and potential employees, this should not necessarily discount the role of external assurance in providing credibility to non-financial reports to a range of stakeholders.

Process of Reporting

UK Specific versus International Framework

The survey results suggest that there is a strong preference across preparers and those users familiar with ESG frameworks for an internationally standardised framework. Amongst users, support for an international framework increases with the degree of familiarity with ESG frameworks; and for retail investors, the importance of ESG reporting in making investment decisions.

In the absence of an international framework, the vast majority of users familiar with frameworks would support a UK framework. Support amongst preparers is significantly lower though still a small majority.

SDGs

Preparers are considerably more familiar with the SDGs than users. Amongst users familiarity is higher amongst the under 40s.

An identical proportion of preparers state that they use the SDGs in ESG reporting (49%) as that do not (49%). Businesses with a global reach are more likely to use the SDGs. Of the companies that operate only in the UK, only 18% report on the SDGs compared with 56% of those that operate more widely.

The survey explored stakeholder views on how the SDGs could be best used in reporting by asking for views on three alternative propositions. Among users who are familiar with the SDGs, there is a strong level of support for all ways of reporting that connect to the SDGs. Amongst preparers there is stronger support for reporting on the SDGs and much less support for reporting against specific SDG targets or indicators.

Over half of preparer respondents (51%) and retail investors (56%) and 39% of employees/potential employees ‘agree’ or ‘strongly agree’ that the SDGs are problematic as a tool for reporting.

Barriers to Better Reporting

Five major barriers are clearly experienced across all preparers, regardless of business size, which inhibits preparers from producing better non-financial reports. These include the following barriers: lack of data availability (78%); cost of in-house data analysis and reporting (75%); cost of external data collection/verification, such as cost of hiring consultants (75%); cost of data collection, such as extra resource (67%); and a lack of consistency in terminologies used by different ESG reporting frameworks (59%).

Comparability of NFR

Retail investors with a limited familiarity of NFR frameworks are less likely to agree that definitions and indicators used in NFR are clear and consistent compared to those with greater familiarity. Respondents more familiar with NFR frameworks believe that the data found in ESG reports are easily comparable across preparers.

Preparers, on the other hand, were asked how helpful certain tools would be in improving their NFR process. There is a strong consensus among preparers that indicators/metrics should be standardised (80%) and that there needs to be greater consistency in definitions used in NFR reports (92%).

Costs Involved in Using or Changing ESG Frameworks

According to preparers, the following are considered to be ‘significant’ or ‘very significant’ costs to them in the NFR process: data collection software/development of internal databases (76%); external assurance and verification of report (76%); internal dedicated resource (76%); training staff on reporting frameworks and processes (67%), and external consultancy support in preparing reports (57%).

For preparers new to NFR frameworks, 50% ‘agree’ or ‘strongly agree’ that adopting a new framework would introduce ‘sufficient but reasonable cost’, compared to 61% who believe it would introduce a ‘significant cost’.

In terms of preparers switching from one framework to another, 47% ‘agree’ or ‘strongly agree’ that adopting a new framework would introduce ‘sufficient but reasonable cost’, while 32% believe it would introduce a ‘significant cost’.

Presentation of Reports

Users of NFR appear to have a stronger preference for stand-alone reporting of NFR issues compared to preparers. For example, of those retail investors and employees/potential employees who were familiar with ESG reporting frameworks, 71% of retail investors and 67% of employees/potential employees ‘agreed’ or ‘strongly agreed’, while there was a lower level of agreement from preparers at 37%.

Preparers appear to look more favourably on integrated reporting as opposed to stand-alone reporting. 51% of preparers, 66% of retail investors, and 49% of employees/potential employees ‘agreed’ or ‘strongly agreed’ to this option.

Overall retail investors seem relatively relaxed about reporting format with high approval scores for all options.

Frequency of Reporting

94% of preparer respondents preferred NFR on an annual basis, while retail investors and employees/potential employees who were familiar with ESG reporting frameworks were open to more frequent reporting than preparers. 41% of retail investors and 25% of employees/potential employees supported reporting every six months. 21% of retail investors and 23% of employees/potential employees supported quarterly reporting.

Timeframe of Reporting

Preparers are far more opposed to separate publication of financial and non-financial reporting (94% for similar publication periods) compared to those NFR users who are familiar with ESG reporting frameworks. Preparers also have a much stronger preference towards publishing both sets of results at the same time (60%) as do retail investors (72%).

UK Specific versus International Framework

We asked all three stakeholder groups whether they would prefer a UK framework or an internationally standardised framework for ESG reporting. Evidence from previous studies has shown that most NFR frameworks are global in scope to enable flexibility across different geographies; however, others are deliberately narrower in coverage to encourage a more context-specific approach.

- All preparers and all users who were familiar with ESG reporting frameworks were asked to what extent they agreed or disagreed with the following statement: ‘*ESG reports would be more valuable if reports were developed using and international framework rather than a UK specific one.*’
- Respondents familiar with frameworks and who preferred an international framework were asked a follow-up question: *‘In the absence of an internationally standardised framework, a UK-level framework would be sufficient in making environmental, social and governance reports more valuable.’*

The results from a statistical comparison show that all stakeholders have a strong preference towards an international framework and that there is no significant difference between the proportion of positive responses to the idea of an international framework (Table 7). From those who were asked whether a UK-level framework would be sufficient in the absence of an internationally standardised framework, there was a statistically significant difference with preparers reporting lower rates of agreement (52%), compared to retail investors (85%) and employees/future employees (82%). A third of preparers were unsure of their opinion on this matter.[173]

Table 7: Percentage of Agree/Strongly Agree to UK or International Framework

International Framework	63%	70%	68%
National Framework	52%	85%	82%
N values	43	279	176

The strong preparer preference for an international framework did not appear to vary according to whether a business had UK-only operations or were part of a multinational group. This generally supports the results of the workshop where half of the preparer workshop participants supported an international framework.

Comments from respondents provide additional context to these results. One preparer survey respondent said that "*[m]ost companies have peers or competitors across the world, so UK specific reporting is not as valuable*." A similar interest in being able to compare NFR data internationally was raised by employee/potential employee and retail investor respondents as well. It was felt that an international framework would improve the ability to compare data since preparers would theoretically be following similar guidelines on terminology, the scope of the data, etc. In doing so, preparers would be able to use NFR to compare their performance against their peers or competitors beyond the UK geographical context. Comparability is further discussed in the section '*Comparability of NFR'.*

As some respondents across the stakeholder groups have noted, larger preparers tend to operate in different regions around the world. Many of the NFR frameworks most used by large preparers (such as GRI, DJSI, <IR> and TCFD) have been designed with a global approach, or without bias to any specific geographical area. Within these frameworks, some have processes which allow flexibility to consider context-specific NFR themes.

The strong retail investor preference for an international framework was similarly explored to see whether it was affected by how familiar retail investors were with NFR frameworks (i.e. whether they were answering from an informed position), and how important they regard ESG information in their investment decisions.

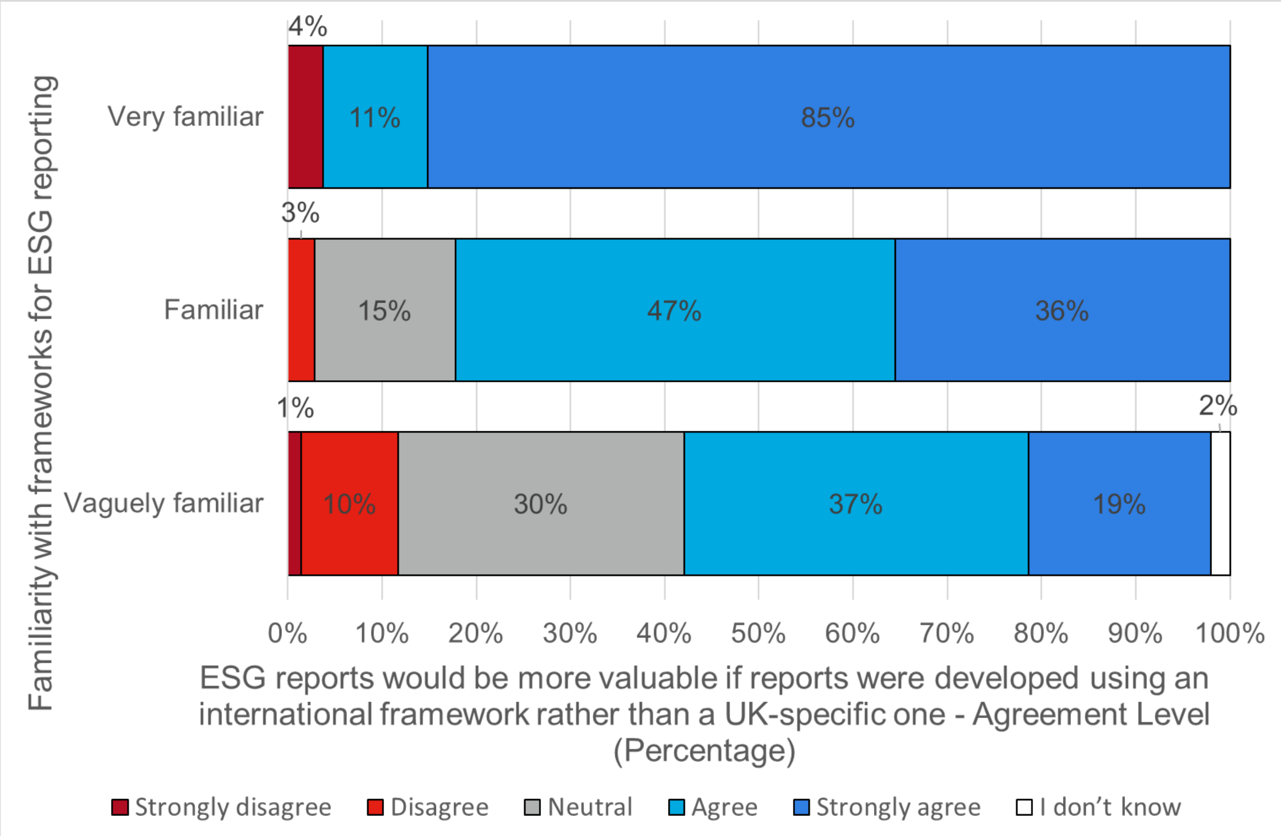
Support for an internationally agreed framework amongst retail investors increases with familiarity with NFR frameworks (Figure 24):

- 96% of retail investors who are very familiar with NFR frameworks agreed or strongly agreed with the idea of an internationally standardised framework.

[173] Technical appendices: Figure 42.

- 83% of those who are familiar with NFR frameworks agreed or strongly agreed.
- Only 56% of those who are vaguely familiar with NFR frameworks agreed or strongly agreed with the statement.

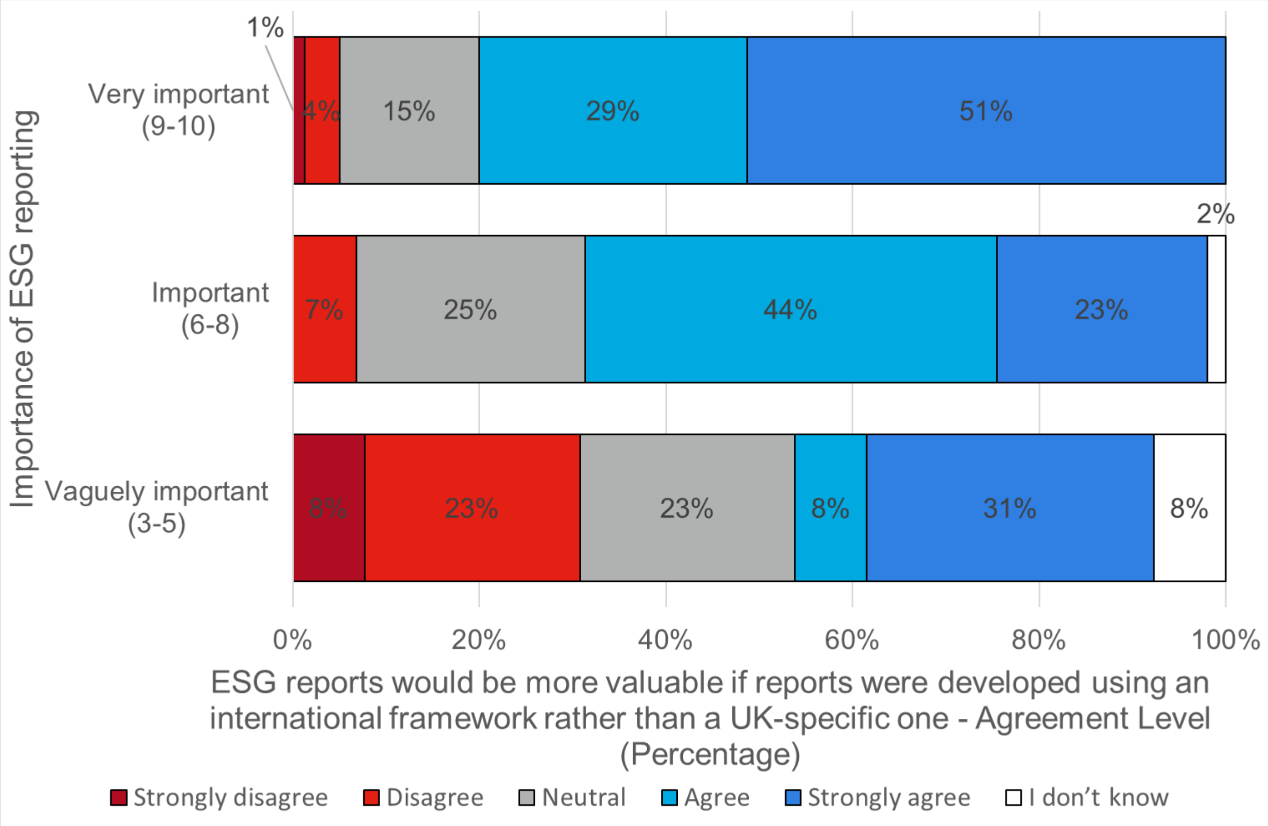
Figure 24: Opinions on an Internationally Standardised Framework VS Level of Familiarity with NFR Frameworks, Retail Investors



N values	Very familiar = 27	Familiar = 107	Vaguely familiar = 145
Of the 504 retail investors that completed the survey, 279 answered both questions: those who reported that ESG reports would be more valuable with an international framework (i.e. those familiar with ESG reporting frameworks) and those who reported familiarity with ESG frameworks.			

Support for an international framework also increases with the importance that a retail investor places on NFR when deciding on their investments (Figure 25).

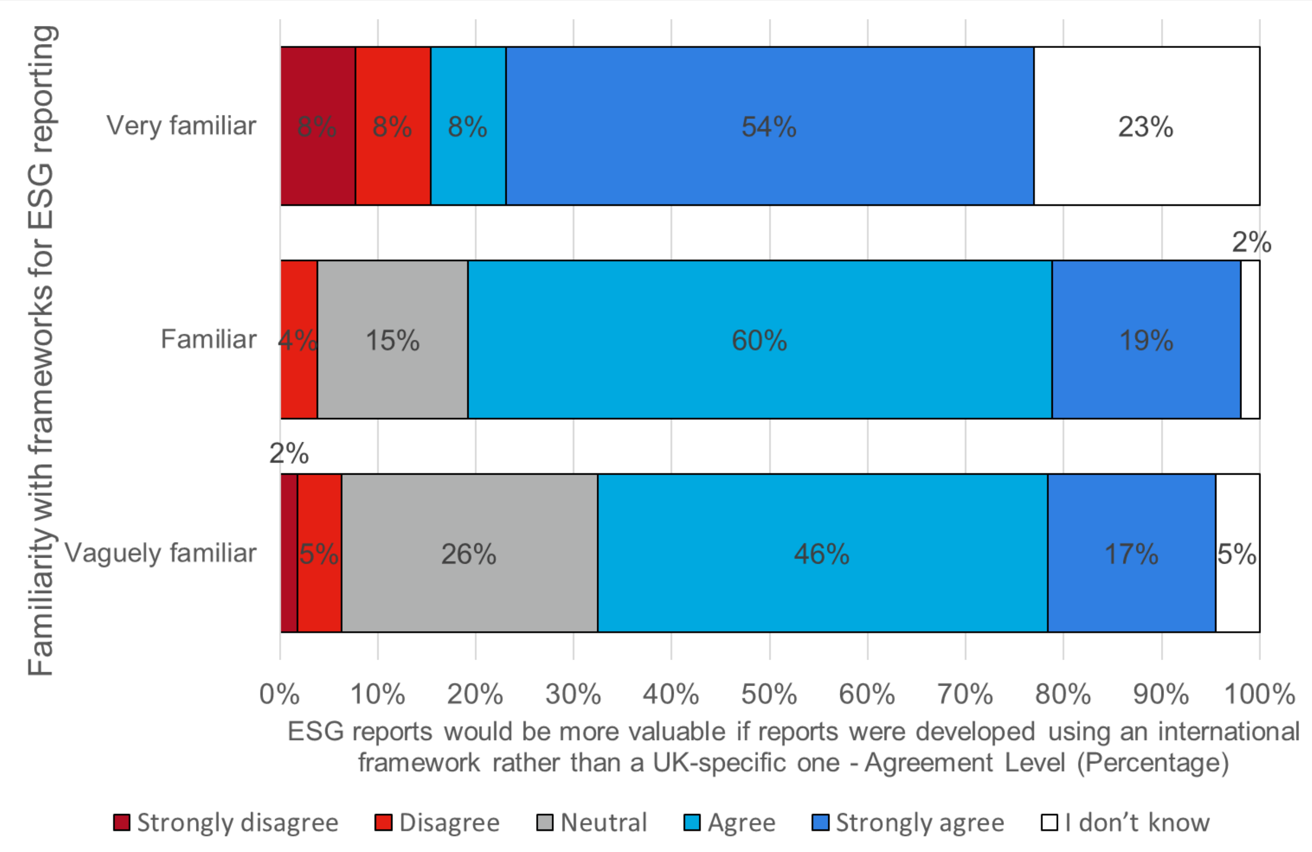
Figure 25: Opinions on an Internationally Standardised Framework VS Level of Importance of Non-Financial Reports in Investment Decisions, Retail Investors



N values	Very important = 80	Important = 102	Vaguely important = 13
Of the 504 retail investors that completed the survey, 195 answered both questions: those who reported answers to whether ESG reports would be more valuable with an international framework (i.e. those familiar with ESG reporting frameworks), and those who reported the importance of ESG reporting for their investment decisions (i.e. those who has read ESG reports).			

For employees/potential employees, there is general agreement towards an internationally standardised framework across different levels of familiarity with ESG reporting frameworks (Figure 26).

Figure 26: Opinions on an Internationally Standardised Framework VS Level of Familiarity with NFR Frameworks, Employees/Potential Employees



N values	Very familiar = 13	Familiar = 52	Vaguely familiar = 111
Of the 504 employees/potential employees that completed the survey, 279 answered both questions: those who reported answers to whether ESG reports would be more valuable with an international framework (i.e. those who were familiar with ESG reporting frameworks), and those who reported familiarity with ESG reporting frameworks.			

SDGs

The SDGs are a globally agreed set of indicators for measuring societal progress on several ESG issues. Although primarily a political instrument, they have been increasingly adopted as a reporting framework, particularly for reporting impact on wider issues. In the surveys, respondents were asked about the use of the SDGs.

Familiarity with SDGs

All respondents were asked to self-report their familiarity with the SDGs. Figure 27 shows that preparers are considerably more familiar with the SDGs than retail investors and employees/potential employees are and familiarity with SDGs follows a broadly similar pattern to that for ESG reporting frameworks (see section '*Familiarity with ESG Reporting Frameworks*'). The main difference is that only 26% of retail investors classed themselves as 'familiar' or 'very familiar' with ESG reporting, while 36% considered themselves familiar or very familiar with the SDGs.

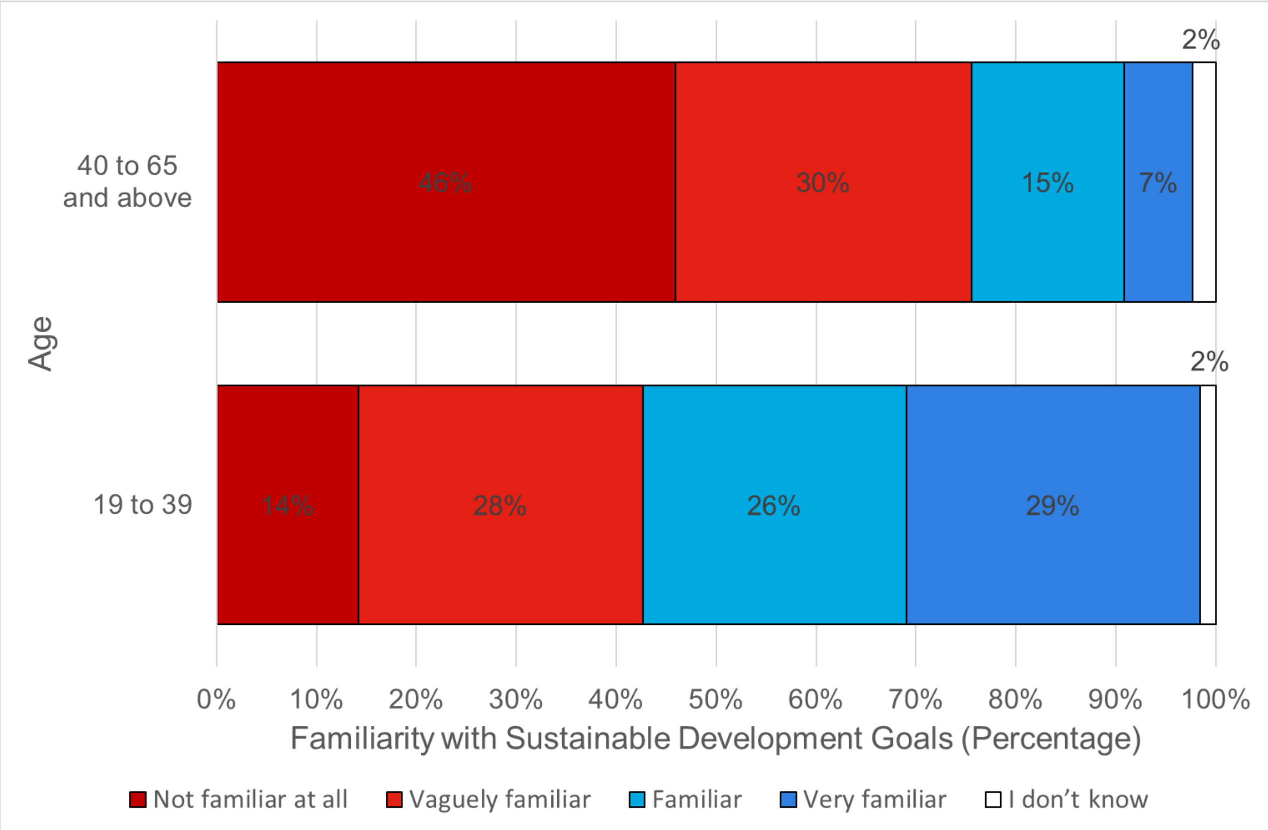
Figure 27: Comparing Familiarity with SDGs Across the Stakeholder Groups

N values	Employees/potential employees = 504	Investors = 504	Preparers = 37
Of the 504 survey respondents of both employees/potential employees and retail investors, all answered this question. 37 of the 45 preparers that completed the survey answered this question.			

Closer analysis of the data from within each of the surveys reveals an age skew within both the retail investor group and the employees/potential employees. In the younger group of retail investors (under 40s), 55% report that they are ‘familiar’ or ‘very familiar’ with SDGs, though this drops to 22% in the older age group (40 years and above) (Figure 28).

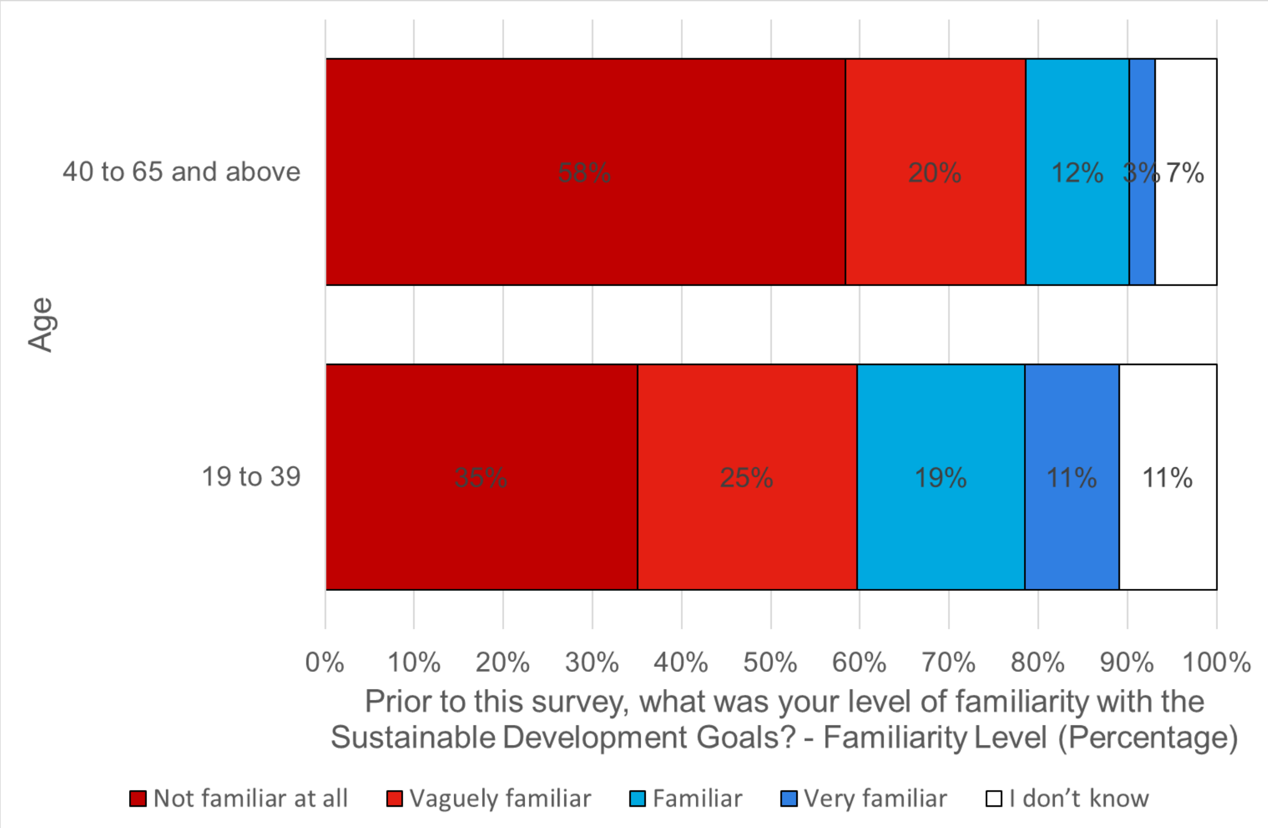
Among employees/potential employees this effect is less strong but still evident (Figure 29). 30% of the younger age group (under 40s) are ‘familiar’ or ‘very familiar’ compared with only 15% of the older age group (40 years and above).

Figure 28: Familiarity with SDGs by Age, Retail Investors



N values	40 to 65 and above = 307	19 to 39 = 197
Of the 504 retail investors that completed the survey, all answered both questions: age and familiarity with the SDGs.		

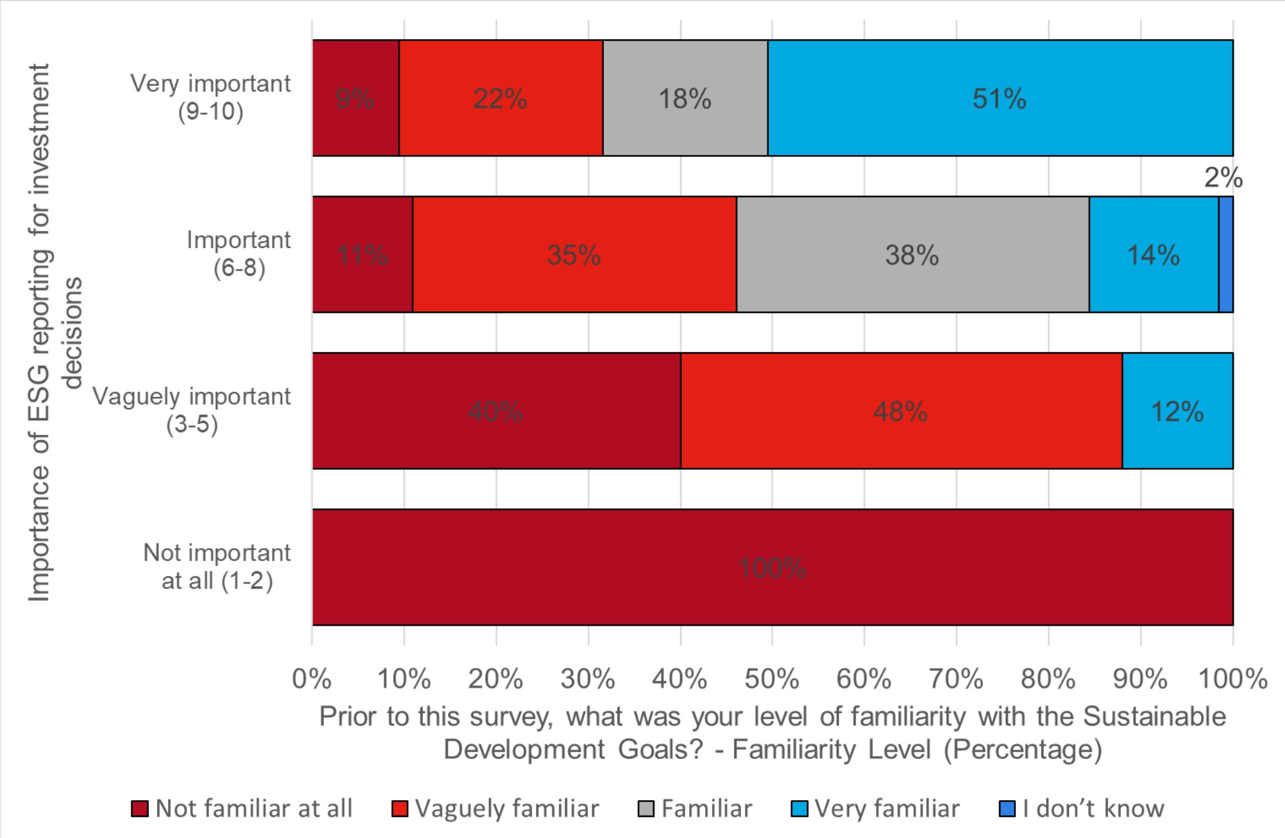
Figure 29: Familiarity with SDGs by Age, Employees/Potential Employees



N values	40 to 65 and above = 276	19 to 39 = 228
Of the 504 employees/potential employees that completed the survey, all answered both questions: age and familiarity with the SDGs.		

A clear correlation exists between the degree of importance retail investors place on ESG for investment decisions and familiarity with the SDGs (Figure 30).

Figure 30: Familiarity with SDGs and the Importance of ESG for Retail Investors



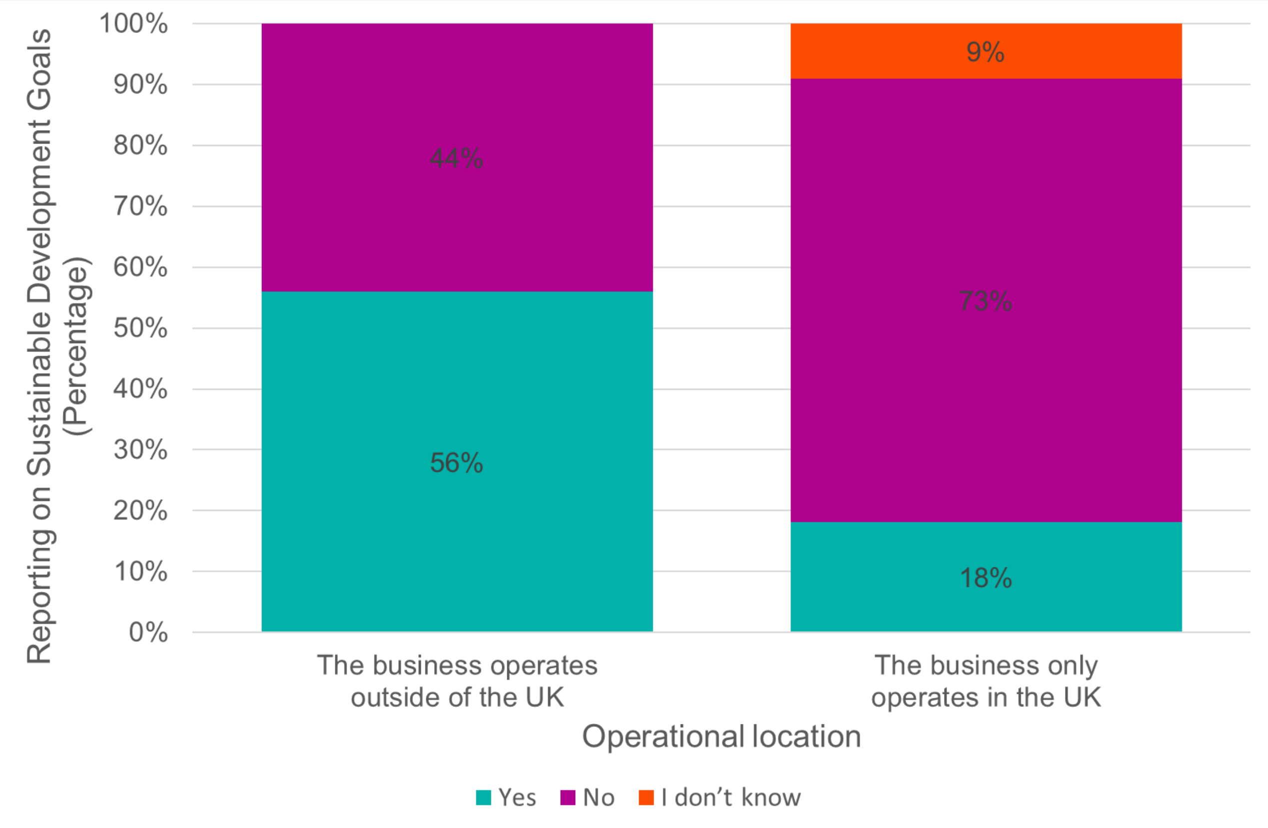
N values	Very important = 95	Important = 128	Vaguely important = 25	Not important at all = 4
Of the 504 retail investors that completed the survey, 252 answered both questions: importance of ESG reporting for investment decisions (i.e. those who has read ESG reports) and familiarity with the SDGs.				

Views on SDGs in Reporting

An identical proportion of preparers state that they use SDGs in ESG reporting (49%) compared to those that do not (49%).[174] However, there is an important distinction between businesses that operate only in the UK and those that also operate outside of the UK (Figure 31). Only 18% of businesses that operate solely in the UK report on the SDGs compared with 56% of those that operate more widely. Given the global focus of SDGs, it is consistent that businesses with a global reach are more likely to use the SDGs.

[174] Technical appendices: Figure 46.

Figure 31: Reporting on SDGs According to Location of Business



N values	The business only operates in the UK = 11	The business operates both in and outside of the UK = 25
Of the 45 preparers that completed the survey, 36 answered both questions: location of their business and whether they report on the SDGs.		

The survey also explored stakeholder views on how the SDGs could be best used in reporting. Three alternative propositions were put forward to which respondents were asked to indicate their level of agreement:

- *'Option A. Organisations should report on impacts of environmental, social, and governance activities using internally developed metrics.'*
- *'Option B. Organisations should report on how their environmental, social, and governance activities support UN Sustainable Development Goals.'*
- *'Option C. Organisations should report against the Sustainable Development Goals' targets and indicators.'*

A large majority of preparers (86%) support the general idea that businesses should report on how their activities support UN Sustainable Development Goals (Option B).[175] Both Option A and Option C also received support from over 50% of the preparer sample. An alternative way to gauge support for these options is to look at the numbers of people opposed to them. 35% of preparers were opposed to using internally developed metrics (Option A) with only 27% opposed to using SDG targets and indicators (Option C). It can be concluded that among

[175] Technical appendices: Figure 47.

preparers there is strong support in principle for using the SDGs but there is less support for reporting against specific SDG targets and indicators. This is further confirmed by the responses to the follow-on question which reveals that 51% feel that SDGs are problematic as a reporting tool.[176]

Among users who are familiar with the SDGs, there is a strong level of support for all ways of reporting that connect to the SDGs. A large majority of retail investors (79%) and 65% of employees/potential employees support businesses reporting on their activities in relation to the SDGs. [177] Nonetheless, over half of retail investors (56%) and 39% of employees/potential employees 'agree' or 'strongly agree' that the SDGs are problematic as a tool for reporting.[178]

The SDGs was the one area where many respondents chose to give more information on their views when given the space in the survey, and a look at some of the more critical comments may help explain these survey results:

"They are vague, subjective, aspirational goals which sit more in the realm of governments than businesses. Loading businesses with these costs which just drive up the price of everything for consumers and reduce company profits." (retail investor)

"Retrospectively aligning them to existing strategies can lead to an inauthentic representation of the organisation's impact on the SDGs, or 'rainbow-wash' (the act of including the SDG wording and logos in your reporting, without actually having the strategy or programmes of work to back it up)." (preparer)

However other respondents were more positive:

"I think using the SDG as a tool may be beneficial to the consumer/reader as it will set a benchmark and something to use for comparison. This may make it easier and provide more clarity into just how much or how little the company is doing." (employee)

Barriers to Better Reporting

Preparers were asked about their perceptions of barriers to better NFR. During the preparer workshop, issues with terminology and the burden of data collection were the two most consistently discussed barriers to better reporting. Results from the preparer survey corroborated concerns over these issues. Respondents were asked to identify whether ten barriers were significant or insignificant to their ESG reporting.[179] Of the ten barriers listed, the following had the largest response categories for 'significant' and 'very significant':

- Lack of data availability (78%).
- Cost of in-house data analysis and reporting (75%).
- Cost of external data collection/verification, such as cost of hiring consultants (75%).
- Cost of data collection, such as extra resource (67%).

[176] Technical appendices: Figure 48.
[177] Technical appendices: Figure 76 and Figure 104.
[178] Technical appendices: Figure 77 and Figure 105.
[179] Technical appendices: Figure 49.

- Lack of consistency in terminologies used by different ESG reporting frameworks (59%).

The most selected barrier – lack of available data – may arise when preparers have not previously gathered data for a specific indicator, or when it is difficult to report against an indicator because the indicator itself is not well-defined. This implies that existing internal processes of a preparer will affect the ease of data collection and therefore availability of data. At the same time, it was evident from the workshops that an improved definition of an indicator (within an NFR framework) can better guide preparers when designing and undertaking data collection to support that indicator.

The three potential barriers relating to cost were each seen as significant by two-thirds of preparers. Departments or individuals dedicated to managing the NFR process often find that they lack the resources to support both the reporting and action/implementation aspects of their sustainability role. According to a preparer participant of the workshop, "*You don't have the time to respond to the data because you're just reporting*." As users continue to request for non-financial data to understand the performance of large businesses, the more time and resources are spent addressing these data requests. Voluntary NFR-related activities by preparers compete with statutory requirements, increasing the cost of reporting above those required by regulations and constraining the amount of resources available to meet these reporting requirements. This can affect the quality of non-financial reports.

Furthermore, terminology continues to be an ongoing issue for preparers. One framework may have a different definition for an indicator compared to another framework, meaning an indicator under the same theme (e.g. energy, employee retention, etc.) may require reporting in different ways. This can be resource-intensive for preparers when they must report on what essentially may be the same indicator under different frameworks but using different calculation methods. Using inconsistent terminology can also affect a preparer's ability to accurately communicate its performance since stakeholder groups can interpret the information in different ways.

Comparability of NFR

As users of non-financial reports, retail investors and employees/potential employees were posed with a similar question to test their ease of engagement with non-financial reports. Preparers were alternatively asked to comment on tools to improve the NFR process, which included (1) standardised metrics and (2) consistency in terminology and definitions.

Table 8 presents the response breakdown for each statement for retail investors and employees/potential employees who were familiar with ESG reporting frameworks.

Table 8: Rate of Responses to 'Agree' and 'Strongly Agree' on Improving the NFR Process

1. I think that the definitions used in ESG reports across businesses are clear and consistent.	67%	57%
2. I think that the indicators used in ESG reports across businesses are clear and consistent.	69%	57%
3. I find it easy to compare the ESG data of business against another business using their ESG reports.	65%	50%
4. I think that it is important to be able to compare the ESG data of different businesses within the same sector.	71%	70%
5. I think that it is important to be able to compare the ESG data of different businesses across different sectors.	77%	68%
N values	279	176

We compared the responses to these statements by the respondents' level of familiarity with ESG reporting frameworks for both retail investors and employees/potential employees. For retail investors we found that agreement increases with familiarity:

- *Current Non-Financial Definitions are Clear and Consistent*: Greater familiarity with NFR frameworks leads to higher rates of agreement on definitions being seen as clear and consistent.
- *Current Non-Financial Indicators are Clear and Consistent:* Greater familiarity with NFR frameworks leads to higher rates of agreement on indicators being seen as clear and consistent.
- *Views on the Ease of Comparing Non-Financial Data:* Respondents who are more familiar with NFR frameworks hold the view that the data found in ESG reports are easily comparable across businesses.
- *Importance of comparing ESG data of different businesses within the same sector:* The more familiar a retail investor is with ESG frameworks, the more they agree that it is important to compare data of a preparer against another using their ESG reports.

The responses reveal that, unsurprisingly, comparability is a feature that is most valued by those who are most familiar with ESG reporting.

Similar analyses were carried out on responses of employees/potential employees. This showed the following:

- *Current Definitions and Indicators are Clear and Consistent*: The comparisons do not suggest any specific pattern as familiarity increases, unlike the retail investors.
- *Views on Ease and Importance of Comparing Non-Financial Data*: There was no clear pattern between levels of familiarity with ESG reporting frameworks and the views on the ease of comparing non-financial data.

In the preparer survey, respondents were asked how helpful certain tools would be in improving their NFR process. The proportions of those who ‘agreed’ and ‘strongly agreed’ with regards to each tool were:

- Consistency in the use of ESG (NFR) terminology and definitions (92%).
- Better guidance on using narratives to support/give context to qualitative data (74%).
- Standard metrics for reporting on a range of ESG (NFR) data (80%).
- An online platform to report each preparer’s ESG data (55%).[180]

There appears to be a strong consensus among preparers that indicators/metrics should be standardised and that there needs to be greater consistency in definitions used in NFR reports.

Costs Involved in Adopting or Switching NFR frameworks

Preparers were asked to identify the significance of different costs of NFR, building on aspects of the NFR process identified in the preparer workshop. This question is only relevant to preparers and was thus not included in the user surveys.

Significance of Cost

Of the seven cost items listed in the preparer survey, the following costs related to ESG reporting were considered to be ‘significant’ or ‘very significant’ by preparers:[181]

- Data collection software/development of internal databases (76%).
- External assurance and verification of report (76%).
- Internal dedicated resource (76%).
- Training staff on reporting frameworks and processes (67%).
- External consultancy support in preparing the report (57%).

‘Marketing support’ and ‘publication’ were only considered to be a ‘significant cost’ by 38% and 14% of preparers, respectively.

In-house data collection and analysis are inherent to the NFR process and therefore cannot be excluded from the overarching costs of NFR to preparers. With external collection or

[180] Technical appendices: Figure 58

[181] Technical appendices: Figure 51.

verification, this is usually optional where, for example, frameworks allow preparers the option to have their NFR externally assured or verified. While preparers may opt-out of external assurance, this may lead to stakeholder distrust in the data reported. There is, therefore, some tension between a strong interest in external assurance from users (see section '*External Assurance'*) and the cost of external assurance to preparers.

The three areas identified as the most significant costs of NFR by preparers were also reflected in the top five barriers to better reporting identified (*see 'Barriers to Better Reporting'*).

Costs of Adopting an NFR Framework

We asked those preparers who were currently not using an NFR framework for reporting to consider the additional costs that might arise from adopting such a framework. The set of questions posed to these preparers were aimed at acquiring preparers' understanding of cost impacts relevant to NFR frameworks, for example, if one were to be mandated by regulation. The following statements covered the extent to which respondents agreed or disagreed:

- '*Adopting an environmental, social and governance reporting framework would add no cost to the preparer in addition to what we are currently spending in this area.*'
- '*Adopting an environmental, social and governance reporting framework would add sufficient but reasonable cost to the preparer in addition to what we are currently spending in this area*.'
- '*Adopting an environmental, social and governance reporting framework would add significant cost to the preparer in addition to what we are currently spending in this area*.'

All preparers disagreed that there would be no additional cost to the preparer if it adopted an NFR framework.[182] 50% of preparers 'agreed' or 'strongly agreed' that adopting a framework would entail 'sufficient but reasonable cost', while 25% 'disagreed' or 'strongly disagreed'.[183] 61% 'agreed' or 'strongly agreed' that 'significant cost' would be introduced, while 23% 'disagreed' or 'strongly disagreed.'[184] For preparers new to NFR frameworks, there is, therefore, a general perception that there will be an additional cost to adopting a framework.

Costs of Switching to a New NFR Framework

Similar questions on costs were raised with preparers that currently use an NFR framework(s) but were instead placed in the context of switching to a new NFR framework (for example if mandated by regulation). The statements covered the extent to which the respondent agreed with the following:

- '*Switching to a new framework would add no cost to the preparer in addition to what we are currently spending for environmental, social and governance reporting.'*
- *'Switching to a new framework would add sufficient but reasonable cost to the preparer in addition to what we are currently spending for environmental, social and governance reporting.'*

[182] Technical appendices: Figure 54.
[183] Technical appendices: Figure 55.
[184] Technical appendices: Figure 56.

- *'Switching to a new framework would add significant cost to the preparer in addition to what we are currently spending for environmental, social and governance reporting.'*

Only 5% of preparers agreed that there would be no additional cost when switching to a new framework.[185] In contrast, 47% 'agreed' or 'strongly agreed' that switching to a new framework would add 'sufficient but reasonable cost', while 32% of preparers 'agreed' or' strongly agreed' that this would introduce a 'significant cost'. It is therefore clear that cost is a concern of preparers in relation to adopting a new NFR framework.

The majority of FTSE 100 businesses report against at least two NFR Frameworks (see section '*FTSE 100 Reporting'* in the *'Technical Appendices').* The previous experiences of these preparers may have proven that switching to or adopting a new framework increased cost for their NFR activities. From additional comments in the survey, a preparer respondent shared:

"*Whilst we have experience in ESG reporting, establishing a new framework across the spectrum of ESG reporting may add costs, though some of these would already be covered by our internal processes and structures.*"

The costs of adopting a new NFR framework will, therefore, depend on whether the new framework will entail similar processes to the one they are currently using.

Presentation of Reports

The concept of integrated reporting in the context of this study is to report non-financial data within the same report as financial data. By and large, standard practice in NFR has involved creating stand-alone reports to present a preparer's non-financial data. However, there have been calls for integrated reporting where non-financial issues are integrated into reporting on business strategy and where non-financial issues are on par with financial ones. In the interest of understanding stakeholder views on the matter, both preparer and user respondents were asked about their preferences on the presentation of non-financial data. The following statements were presented to respondents:

- *'Environmental, social and governance issues are best presented as a separate report to financial reports.'*
- *'Environmental, social and governance issues are best presented as a separate report to financial reports, but there should also be a summary of key themes in the annual financial report.'*
- *'Environmental, social and governance issues are best integrated into annual financial reports.'*

The responses to the three statements (as listed in Table 9) on the presentation of non-financial reports were tested across all the surveys.

- Users of NFR appear to have a stronger preference for stand-alone reporting of NFR issues compared to preparers. For example, of those retail investors and employees/potential employees that were familiar with ESG reporting frameworks, 71% of retail investors and 67% of employees/potential employees 'agreed' or 'strongly

[185] Technical appendices: Figure 57.

agreed', while there was a lower level of agreement from preparers at 37%.

- Preparers appear to look more favourably on integrated reporting as opposed to stand-alone reporting. 51% of preparers, 66% of retail investors, and 49% of employees/potential employees 'agreed' or 'strongly agreed' to integrated reporting.
- Preferences of stakeholders for a stand-alone report with a summary of key themes in the financial reports was positive across the board and appears to not vary significantly according to individual stakeholder groups.

Table 9: Percentage of Agree/Strongly Agree Responses to Presentation of Non-Financial Reports

Stand-Alone Reports	37%	71%	67%
Stand-Alone Reports with a Summary of Key Themes in the Financial Reports	54%	71%	65%
Integrated Reports	51%	66%	49%
N values	35	279	176

When the responses of preparers to these three options were analysed by the size of the business, the results for separate reporting and integrated reporting suggest that the rate of agreement to separate reporting increases as business size increases. This is to the extent that larger businesses may prefer some form of separate reporting, while smaller businesses prefer integrated reporting. However, these results should be interpreted with caution because of the small sample size of the preparer survey and require further exploration with a bigger sample.

Frequency of Reporting

Of the 13 most used NFR frameworks, ten frameworks encourage participating preparers to adhere to an annual reporting cycle. The survey explored stakeholder preferences on the frequency of NFR and whether these preferences aligned between stakeholder groups or not. This question was asked to all stakeholder groups: for users, only those that were familiar with reporting frameworks were asked this question. The following question was posed:

- *'How frequently do you think organisations should publish their environmental, social and governance reports?*
    - *Organisations should publish ESG reports every quarter.*

- *Organisations should publish ESG reports every six months.*
- *Organisations should publish ESG reports on an annual basis.*
- *Organisations should publish ESG reports every two years.*
- *Organisations should have the option to decide how often they want to publish their reports.'*

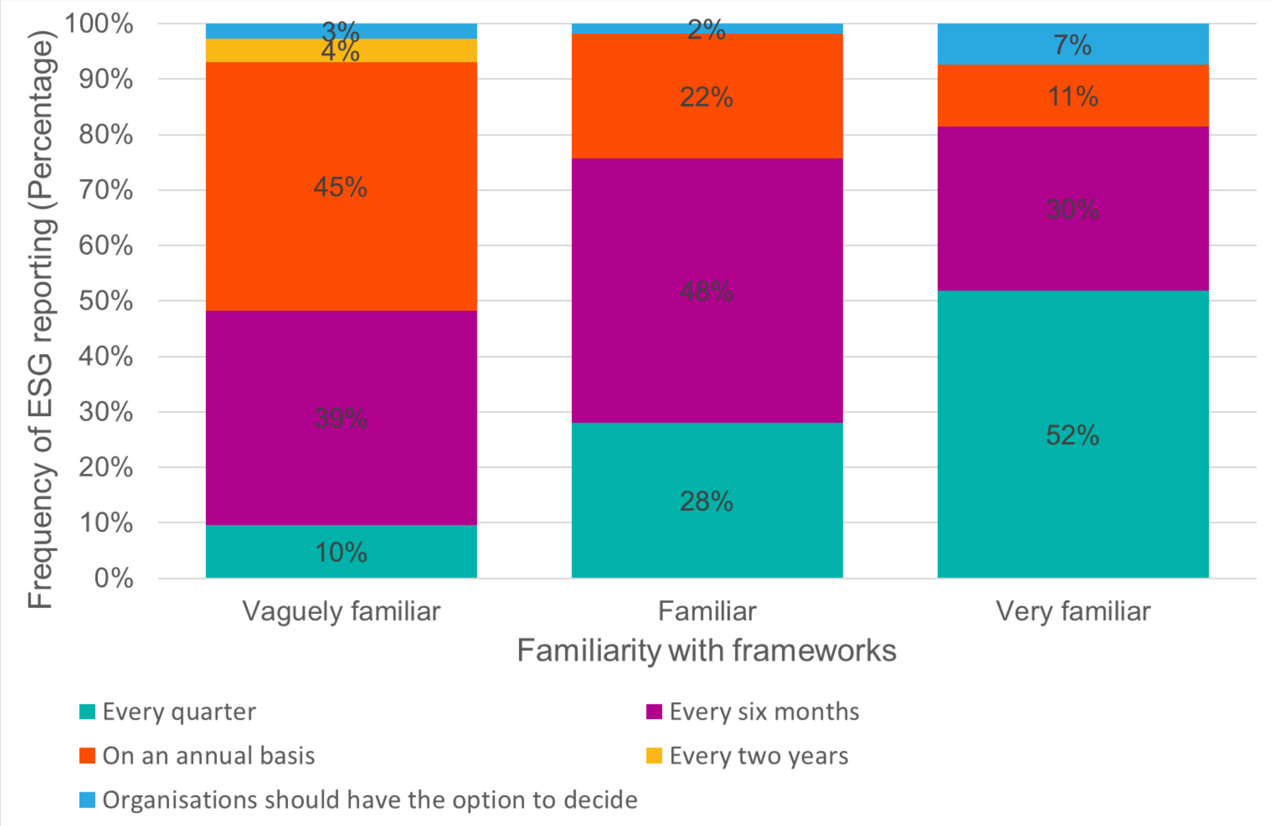
Of the 35 that were familiar with reporting frameworks, an overwhelming 94% of preparer respondents preferred reporting on an annual basis, with the remaining 6% divided between reporting every two years and having the option to decide when to report.[186] This strong preference for annual reporting aligns with the existing reporting guidelines of the most widely used NFR frameworks. On the other hand, only 33% of retail investors and 39% of employees/potential employees prefer annual reporting.[187]

User respondents exhibited more openness to more frequent reporting than preparers. 21% of retail investors and 23% of employees/potential employees supported quarterly reporting.[188] 41% of retail investors and 25% of employees/potential employees supported reporting every six months. In contrast, none of the preparers chose options that would entail reporting every quarter or every six months. Users seem to prefer more regular access to a preparer's performance data.

For retail investors, this could be especially important because of their interest in monitoring how their investments may be affected by a preparer's non-financial performance. Figure 32 shows that retail investors who are 'familiar' and 'very familiar' with ESG frameworks have a stronger preference towards more frequent reporting of non-financial data at a quarterly or bi-annual basis.

[186] Technical appendices: Figure 60.
[187] Technical appendices: Figure 85 and Figure 113.
[188] Technical appendices: Figure 85 and Figure 113.

Figure 32: Level of Familiarity with NFR Frameworks VS Opinions on Frequency of ESG Reporting, Retail Investors



N values	Vaguely familiar = 145	Familiar = 107	Very Familiar = 25
Of the 504 investors that completed the survey, 279 answered both questions: familiarity with frameworks and frequency of ESG reporting.			

More regular reporting would increase the burden of NFR on preparers, especially for those that are reporting against two or more frameworks and experience multiple barriers. The greater the reporting demand is, the more staff effort is needed to meet this demand. An inability to provide this staff effort may limit preparers' ability to act on non-financial issues beyond just reporting (see section '*Barriers to Better Reporting*').

In the preparer workshop, participants suggested that less frequent reporting cycles for certain non-financial data may be sensible because there are some indicators that are likely to change more gradually than others. This could potentially then help preparers to free up resource to act on the data rather than continually reporting the data and not improving performance. Although preparers in the workshop were broadly supportive of collecting data on a monthly basis to give greater accuracy, this did not necessarily imply agreement to manipulating and publishing this data as regularly as this.

Timeframe of Reporting

All stakeholder groups were asked to what extent they agree or disagree with the following statements:

- *'I think that large businesses should publish their ESG reports during a separate period* *from their financial reports.'*

- *'I think that large businesses should publish their ESG reports at the same time as their financial reports.'*
- *'I think that large businesses should have the option to decide when they publish their ESG reports.'*

There is a significant difference in the responses to 'agree' and 'strongly agree' for the separate publication periods option, where preparers are far more opposed to a separate reporting period while retail investor and employees/potential employees see this as much more favourable. [189] Only 6% of preparers 'agreed' or 'strongly agreed' to a separate publication period, unlike a higher agreement rate for retail investors and employees at 60% and 52% respectively (see Table 10). The comparison of stakeholder responses towards giving preparers the option to decide did not reveal a significant difference.

There seems to be general agreement across the groups towards similar publication periods, although there is a significant difference with more retail investors (72%) preferring this option versus slightly lower agreement rates from the preparers (60%)[190] and employees/potential employees (56%).

Table 10: Percentage of Agree/Strongly Agree to Publication Period Options

Separate Publication Periods for NFR and financial reporting	6%	60%	52%
ESG published at same time as financial reports	60%	72%	56%
Business has option to decide when they publish ESG reports	49%	55%	48%
N values	44	504	504

The preference of preparers for similar publication periods in the survey contrasts strongly to those shared in the preparer workshop, where participants were strongly opposed to reporting during the same period. Rather, flexibility for preparers was highlighted in the workshop, including flexibility to decide on whether to align reporting periods or not.

[189] Technical appendices: Figure 61, Figure 86 and Figure 114.

[190] Comparisons were undertaken to test differences in responses for the three options depending on the size of the business; however, no clear pattern surfaced across the different business sizes and their opinions.

Conclusions

The research aimed to identify existing NFR frameworks – 13 frameworks were identified as the most common – and to explore the commonalities and tensions between the views of different groups of stakeholders regarding NFR. This project sought to gather views of both users of NFR reports and preparers of these reports on a range of issues, which are grouped into aspects relating to the content of reports and the processes of reporting. In this section, we present the conclusions from the research, and the key areas of consensus and discord between stakeholders are highlighted. For each theme, the research question it addresses are indicated below, for example ‘RQ2’, ‘RQ3’, etc.

Areas of Consensus Between Stakeholder Groups

- **Language (RQ3).** The study reveals that comparability is important to stakeholders but is not fully enabled by current NFR frameworks. All stakeholders find the language surrounding NFR complex, and in particular preparers are concerned that NFR language can be quite negative.
- **Comparing Metrics and Terminologies (RQ4).** Users generally agree that it is important to compare metrics and terminologies, but comparability is not fully enabled by current NFR frameworks. Not all users have the same level of familiarity with NFR frameworks, and as retail investors are more familiar with NFR frameworks, they find reports to be comparable in terms of the metrics and language used. Those who are less familiar find consistency and comparability to be an issue. This agrees with preparers’ opinions that inconsistent terminologies (definitions, indicators, and metrics) in NFR frameworks act as a barrier to better reporting. Any work towards refining terminologies and indicators with the aim of having clearer definitions and guidelines on how to collect, process and present NFR data would be beneficial. Not only will this promote and enable improved NFR in the UK, but developing a common language for NFR could improve global coherence in this area.
- **Universality versus Materiality (RQ3c).** In terms of consensus on the issue of universality versus materiality, there is widespread support for the ‘Core and More’ model, i.e. having a core set of mandatory reporting requirements with scope for individuality and optional selection beyond this. The mandatory ‘Core’ element would include priority NFR issues from government and would therefore allow direct comparison between preparers. The ‘More’ element of reporting could then be tailored to be sector-specific. However, the definition of the core would still need different concepts of materiality to be reconciled (see below).
- **Impact Reporting and the SDGs (RQ3b).** Institutional investors agreed with preparers that ‘telling the story’ was a key element to investment decisions and greater consistency/standardisation in NFR should retain the ability of preparers to communicate this. This is both at a broad level, in how businesses describe their value-creation process, and also at a micro-level in contextualising specific non-financial data as needed. Impact reporting is a growing area of NFR, and all stakeholders expressed some confusion about how businesses report on impact. The SDGs are seen as a

potentially valuable tool in this, given their global audience, but the difficulties of reporting against the SDGs were recognised by all. This is partly because the SDGs were designed with governments in mind rather than private businesses. This also touches on the issue of how to turn the qualitative aspects of impact into quantitative metrics which can then be reported against.

- **National versus International Framework (RQ3a).** All stakeholders value an internationally standardised framework to guide the development of non-financial reports and are also flexible to the idea of a nationally standardised framework in the absence of an international one. A framework with a global approach provides opportunities for preparers to benchmark their non-financial performance against their competitors and peers around the world. Users who are familiar with NFR frameworks recognise that large businesses operate in different regions and that an international framework may address the needs in a flexible manner for reporting according to contextual or geographical differences in the areas that businesses operate in. This may enable preparers to account for context-specific themes that maybe relevant in one area but may not be as relevant in another.
- **Barriers to Better Reporting (RQ5).** Most preparers experience similar barriers towards improving the NFR process, which in turn impacts the quality of their non-financial reports. These barriers relate to lack of available data, NFR costs, and inconsistent terminologies. The costs for data collection, external assurance and verification of reports, and internal dedicated resources (e.g. staff) were also reflected as the most significant costs of NFR to preparers.

Areas of Discord Between Stakeholder Groups

- **Materiality (RQ3, RQ5 & RQ6).** Discussions around standardisation in relation to materiality are complex, and perceptions of materiality are different across stakeholder groups. Users are putting increasing pressure on preparers to consider two forms of materiality: firstly, issues that directly affect business profitability, and secondly, issues where the activities of their business have a wider impact on the environment or society. Although reporting on environmental themes is more extensive across current NFR, coverage of social themes is less. Industry sector-based working groups could define issues that are material at a sectoral level.
- **Objective and Audience of NFR (RQ3 & RQ5).** There is a need to clarify the objective and the audience of NFR for it to be successful. Issues with the content of NFR arise when preparers are trying to cater to the demands of different stakeholders. Although the range of topics that interest both retail and institutional investors increasingly overlap with topics of concern to wider stakeholders, the level of detail and messaging required can be quite different. On the one hand, preparers are trying to provide data by which their financial viability can be evaluated. On the other, they are engaging in an ‘impression management process’ when reporting non-financial information. Balancing these two goals within one single report can become problematic. As the range of stakeholders interested in scrutinising business impacts widens, there is a need to map out what needs should be prioritised and how such needs can be addressed. Improved guidance around mandatory reporting requirements and their purpose could help to

bring greater clarity of the objectives of NFR, and how these objectives should best be met.

- **Business Case for NFR (RQ3).** Despite a clear demand from some users, from a preparer perspective there is a lack of appreciation for the business case of NFR and how this may interact with both reputational risk and financial-related risks. Results from the survey indicate that many preparers still see the primary value of NFR as satisfying the needs of stakeholders. The more that businesses value NFR for their own business development/improvement/de-risking processes, the stronger the drive to improve reporting (and the process leading to this) will be. Whether firms embrace NFR requirements enthusiastically depends on the value and requirement and how these are communicated to businesses.

- **Balanced Reporting (RQ3 & RQ4a).** The ‘plasticity’ of data was recognised by all, meaning that numbers can be presented or manipulated in different ways to emphasise different concerns or move the spotlight away from negative non-financial performance. This research has shown a strong demand for preparers to report on both their positive impacts and negative impacts in order to minimise the potential for ‘greenwashing’. There is agreement that business transparency should be rewarded, but preparers need reassurance that transparency may not result in unwanted consequences for them. The strong demand for more ‘balanced’ reporting, which also supports comparisons across preparers, led many stakeholders to support the move to greater standardisation of data and metrics. However, preparers, and some users, raise concerns that this would bring a new set of problems, and may dilute the value of the reporting process, leading to increased ‘box ticking’.

- **Questioning the ‘Maturing’ of a Report Process (RQ2 & RQ4).** This research highlights a potential difference in the thinking between policy makers, framework developers/managers, and NFR users. Many of the reports from framework organisations, accountancy bodies and think tanks that emerged in 2019 talked in terms of a ‘maturing’ of the reporting process, assuming a strong appetite from preparers to improve their NFR in line with changing expectations on the role of a business in society. The surveys revealed that the complex nature of NFR content and processes, and the challenges this poses to stakeholder engagement, do not indicate a ‘maturing’ of the reporting process. Furthermore, it revealed that currently there is a reluctance amongst preparers to move away from their own bespoke reporting approach. Board buy-in to NFR and the extent to which they champion NFR is a key determinant for ensuring that NFR activity is sufficiently resourced.

- **External Assurance (RQ5 & RQ6).** There is a tension between the role of external assurance in increasing trust in non-financial reports for readers, and the perceived cost which acts as a barrier to preparers. Preferences evident from the surveys support what has been found in the literature, especially for those investors who put emphasis on external assurance when judging the reliability of a preparer’s non-financial data. Although there are other tools that can increase trust in non-financial reports, there is clearly strong demand for external assurance amongst those users who are familiar with ESG frameworks.

- **Presentation of Reports (RQ4b).** Users who are familiar with NFR frameworks agree on presenting non-financial data in a stand-alone report while preparers seem to prefer integrated reporting. However, preference for a stand-alone report with a summary of key themes in the financial report was generally positive across the board. Although this research shows a general preference for presenting non-financial data in a separate report from the financial report, there are benefits to presenting financial data and non-financial data together. Including both data in the same report could help to significantly increase the standing of non-financial data as compared to financial data and start to embed non-financial data within investment and business decisions.

- **Frequency of Reporting (RQ4a).** There is a conflict of preferences between preparers, who prefer yearly reporting, and users in relation to the frequency of reporting. While users who are familiar with ESG frameworks prefer more regular access to updated non-financial data (especially retail investors), preparers see data and costs as a barrier to better reporting which can only improve if NFR is reported more regularly than once a year. Overly frequent reporting may further limit preparers' abilities to act on the data, which is seen as the ultimate end-point that NFR is meant to illicit from preparers.

- **Publication Periods (RQ4c).** Users and preparers are inclined towards publishing non-financial and financial reports at the same time. However, opinions from preparers appear to differ with preparer workshop participants who rejected similar publication periods. Workshop participants rejected this for the reason of reporting additional reporting burden in a situation of reporting under similar deadlines. If the 'Core' and 'More' model were to be taken forward, the 'Core' and 'More' elements could have a separate reporting cycle to alleviate concerns of stakeholder over the burden of too much reporting at the same time.

This report provides a sizeable body of evidence around the views of key stakeholders with regards to standards and frameworks for NFR. This evidence base on NFR issues and stakeholder preferences provides a platform for the UK Government's ongoing work streams in sustainability reporting.

Technical Appendices

Summary of Most Used NFR Frameworks

This report identifies 13 widely discussed NFR frameworks used in the UK.

Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) is an industry-led task force that was established in 2015. After a widespread process of stakeholder engagement, the TCFD's recommendations were published in 2017.[191] Its purpose is to provide a clear and efficient voluntary disclosure framework. The TCFD is global in its reach and draws on participants from a variety of different sectors and stakeholders. Although concerned with financial disclosures, the TCFD is of relevance to NFR because it provides a framework for making disclosures of environmental data – one of the key components of NFR.

One of the key drivers of this framework is the need from the financial sector to better understand climate-related risks and support better decision-making. As such, the framework aims to capture both risks and opportunities presented in the context of a transition to a low carbon economy. Furthermore, TCFD strongly recommends that climate-related disclosures are made within a business's main financial report.

TCFD includes four broad recommendations on governance, strategy, risk management and metrics/targets, presented within a framework that integrates existing standards and is widely applicable. As such, its recommendations are fairly broad in scope. TCFD has since published more detailed guidance on how different sectors can implement the recommendations. [192]

A key innovation to note in this framework is the recommendation to make use of scenario modelling when describing the potential impact of climate-related change on business strategy and financial planning. In particular, businesses are encouraged to consider the effects of a 2°C rise in global temperature. This analysis encourages strategy-related discussions within a business as well as highlighting the need for relevant data.

There has been widespread support for the TCFD recommendations with a number of Governments integrating them into their guidance and policy frameworks. Examples include Australia, Canada, Hong Kong, Japan, Singapore and South Africa, as well as some EU Member States.[193] In 2018, the UK Government Green Finance Task Force fully endorsed the use of the TCFD, urging businesses and regulators to implement the recommendations, and appealing to Government to clarify their guidelines accordingly.[194]

Global Reporting Initiative (GRI)

Often referred to as the 'grandparent' of NFR, the Global Reporting Initiative (GRI) was one of the first non-profit organisations to set standards for non-financial information in 1997. [195] The

[191] Bloomberg, M. (2017) Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017, https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf
[192] TCFD (2017) Implementing the Recommendations of the Task Force on Climate related Financial Disclosures
[193] European Commission (2019) Guidelines on reporting climate-related information
[194] Green Finance Taskforce (2018) Accelerating Green Finance
[195] Barker, R., and Eccles, R. (2018) Should FASB and IASB Be Responsible for Setting Standards for Nonfinancial Information?

first guidelines were released in 2000, with updates each few years until the latest set were published in 2016.[196]

The GRI suite of standards aims to be comprehensive in its coverage of non-financial areas, covering the economic, environmental and social impacts of a business. GRI offers a flexible approach to reporting with a menu of standards that businesses can use to suit their needs. There is a core set of Universal Standards that preparers can use to disclose general information and information on their management approach, and a suite of topic specific standards covering economic, environmental and social information (33 in total). This provides preparers that are interested in pursuing greater transparency in their sustainability reporting with the option to report on a greater number of indicators and management approaches. The resulting reports can be stand-alone or incorporated into other business documents.

The GRI claim that its standards are used by 82% of the world's 250 largest businesses.[197] Though perhaps the most widely adopted set of standards, the GRI metrics have faced some criticism in recent years. Some commentators argue that the metrics, which tend to be descriptive and quantitative, do not adequately communicate a business' strategy or ongoing actions, leading to a limited picture overall of the 'sustainability' of a business.[198]

CDP

CDP (formerly known as the Carbon Disclosure Project) was launched in 2002 and seeks greater environmental transparency and accountability from businesses, using corporate engagement to achieve this.[199] CDP sends businesses three questionnaires from its climate change, water, and forest programmes for completion annually.[200] Over 400 of the world's 500 largest businesses respond and report their greenhouse gas emissions, water use, and climate change strategies, including risks and opportunities posed by climate change.[201] The responses form part of the largest global collection of primary data in relation to the aforementioned environmental factors. Responses are scored and grouped onto a scale based on the quality and completeness of their disclosures.[202]

CDP maintains collaboration with the GRI and DJSI to enable reporting firms to refer to the same data points through different reporting channels. In this context, it represents a significant

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[196] GRI Standards (2020) GRI Standards Download Center, accessed 20 August 2019, https://www.globalreporting.org/standards/gri-standards-download-center/

[197] GRI Standards (2020) GRI at a Glance, accessed 20 August 2019, https://www.globalreporting.org/information/news-and-press-center/press-resources/Pages/default.aspx

[198] de Cambourg, P. (2019) Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe, May 2019, www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/4.%20Qui%20sommes-nous/Communique_de_presse/Report-de-Cambourg_extra-financial-informations_May2019_EN.pdf

[199] Cotter, J., and Najah, M.M. (2011) Institutional investor influence on global climate change disclosure practices, p.34

[200] CDP (2019) Guidance - CDP, accessed 21 August 2019, https://www.cdp.net/en/guidance

[201] PwC (2020) The Carbon Disclosure Project, accessed 21 August 2019, https://www.pwc.com/gx/en/services/sustainability/publications/carbon-disclosure-project.html

[202] Siew, R. (2015) A review of corporate sustainability reporting tools (SRTs), Journal Of Environmental Management, Vol.164, pp.180–195

step towards the global standardisation in environmental reporting.[203]

Sustainability Accounting Standards Boards (SASB)

The Sustainability Accounting Standards Board (SASB) was founded in 2011, with a structure designed to recreate that of the Financial Accounting Standards Board.[204] SASB is focused on helping businesses and investors focus on the sustainability topics that matter most to them. Although concerned with reporting of financially material sustainability information, the SASB is of relevance to NFR because it provides a framework for making disclosures of social and environmental data.

Its conceptual framework (most recently revised in 2017) describes the principles used to draft the standards. These standards are aimed at giving financial investors and equity providers detailed information for each sector on the risks and opportunities of a business's operations due to social and environmental dimensions. The SASB's definition of 'sustainability' corresponds to the social and environmental responsibility of businesses – governance-related aspects are not specifically covered by these standards.

SASB's definition of materiality (materiality being the concept of relevance to decision-making by users) mirrors that used in the financial accounting sector. Towards the end of 2018, SASB published a set of industry-specific 'private-sector standards' for sustainable development. These standards cover financially-material issues in 77 different sectors across the economy.[205] The material issues for each of these sectors are identified, along with a suggested key performance indicator (KPI), either quantitative or qualitative, for reporting on each.

Dow Jones Sustainability Index (DJSI)

The Dow Jones Sustainability Indices are a family of indices that evaluate the sustainability performance of publicly traded businesses based on various environmental, social, and governance (ESG) criteria. Created in 1999 as an alternative to the stock exchange index of Dow Jones, the main global index of the DJSI family is the DJSI World, which includes the top 10% of businesses world-wide. In addition, there are regional and country-specific sustainability indices which cover the most sustainable 20% and 30% of businesses respectively. The corporate sustainability assessment (CSA) is carried out on a yearly basis by RobecoSAM, an international investment organisation. Using a best-in-class approach to determine which businesses will be included on the index in question, the structure and weighting of each assessment criterion are sector-specific and depend on the '*financial materiality in a given industry*'.[206]

As the DJSI thus measures sustainability in relative and not absolute terms, the best-in-class

[203] Mora-Rodriguez, M., and Preist, C. (2016) The role of interoperability in sustainable decisions: the case of CDP, paper given at ICT for Sustainability 2016, Amsterdam, the Netherlands, 2016, http://www.atlantis-press.com/php/paper-details.php?id=25860386
[204] Barker, R., and Eccles, R.G. (2018) Should FASB and IASB Be Responsible for Setting Standards for Nonfinancial Information?, SSRN Electronic Journal
[205] de Cambourg, P. (2019) Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe, May 2019, www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/4.%20Qui%20sommes-nous/Communique_de_presse/Report-de-Cambourg_extra-financial-informations_May2019_EN.pdf
[206] RobecoSAM AG (2019) SAM's Corporate Sustainability Assessment Companion

approach has received both praise and criticism. On the one hand, it has been described as raising the bar for sustainability performance each year, as businesses are monitored throughout the year and must continuously compete within their industry.[207] However, while businesses might be more sustainable than their direct competitors, they could still be far behind businesses in other industries without this influencing their rating.[208] Furthermore, by inviting businesses to participate in RobecoSAM's CSA based on their market capitalisation from the S&P Global BMI, smaller, non-publicly-listed businesses are automatically excluded from the indices. In addition to this, the collected data are self-reported, which raises the question of their accuracy.

Nevertheless, the DJSI is globally recognised by investors and businesses strongly advertise their inclusion in an index.

Certified B Corporation

Launched in 2006, B Corp certifications are administered by the non-profit organisation B Lab, which created its own ESG impact assessment. In order to qualify, businesses need to score a minimum of 80 points out of 200 on B Lab's assessment, which covers governance, workers, community, environment, customers, and industry-specific impact business models. Businesses must update their impact assessment every three years to ensure benchmarking against the most-up-to-date standards. The assessment itself is reviewed every three years. Today, there are 2,917 Certified 'B Corps' in 64 countries, representing 150 industries, with the assessment weighting taking into account a business' industry of operation.[209] In the UK, there were 62 founding B Corps in 2015. Often referred to as a movement, B Corps aspire to *'[use] business as a force for good*' and certified businesses sign B Lab's Declaration of Interdependence which states that '*businesses should aspire to do no harm and benefit all*.'[210] Above all, this challenges the principle of shareholder primacy, and instead requires those in charge to run their businesses in the interest of all relevant stakeholders.

At present, a large majority of the Certified B Corporations are small-medium enterprises (SMEs), many of which come from the food industry. B Corp certification has marketing benefits, but also gives access to a host of support tools including B Hive, an online networking platform.[211] With growing interest from big brands (such as Danone and Unilever) B Lab has pledged to work towards making certification more accessible for large multinationals as well.[212]

Criticism has been voiced concerning B Lab's relatively low minimum points standard (only 80 out of 200) and its verification practices.[213] For example, while 10% of businesses are selected

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[207] Urdangarin, J., and VanderBeek, B. (2015) 6 reasons to respond to the Dow Jones Sustainability Index survey, accessed 23 July 2019, https://www.greenbiz.com/article/six-reasons-respond-dow-jones-sustainability-index-survey

[208] Gardner, S. (2015) EthicsWatch: DJSI – credible sustainability measurement?, accessed 26 July 2019, http://www.ethicalcorp.com/communications-reporting/ethicswatch-djsi-credible-sustainability-measurement

[209] Bcorporation (2019) Certified B Corporation, https://bcorporation.uk/

[210] Bcorporation (2019) About B Corps, https://bcorporation.uk/about-b-corps

[211] Kim, S., Karlesky, M.J., Myers, C.G., and Schifeling, T. (2016) Why Organisations Are Becoming B Corporations, Harvard Business Review, p.5

[212] Cooper, B. (2018) Why should food organisations consider becoming B Corp?, accessed 30 July 2019, https://www.just-food.com/analysis/why-should-food-organisations-consider-becoming-b-corp_id138994.aspx

[213] Magdaluyo, S. (2012) B Lab is Building a New Sector of the Economy: But Can We Trust Who is Behind the Wheel?

for an on-site inspection each year, B Lab issues an advance warning and also allows for virtual site reviews.

Science-Based Targets Initiative (SBT)

Launched in 2014 in the wake of the Conference of Parties 21, the Science Based Target initiative (SBT or SBTi) is a joint initiative run by CDP, the UN Global Compact, the World Resources Institute (WRI) and WWF.[214] It requires businesses to align their reduction pathways for limiting global temperature rise to 1.5 degrees Celsius, compared to pre-industrial levels. To meet this target, the SBTi comprises four areas of work:[215]

- It showcases businesses that set SBTs to highlight the increased innovation, reduced regulatory uncertainty, strengthened investor confidence, and improved profitability and competitiveness generated by SBTs.
- It defines and promotes best practice in SBT setting with the support of a Technical Advisory Group.
- It offers resources, workshops, and guidance to reduce barriers to adoption.
- It independently assesses and approves businesses' targets.

More than 190 businesses have set an SBT and approximately 350 have committed to set one in the future. A credible SBT includes coverage of emissions from internal operations (scope 1 and 2 emissions) and value chains (scope 3 emissions). Three target setting options are available: a sector based approach, an absolute emissions reductions based approach, and an economic based approach. There are also various methodologies available that prepares can choose between based on factors such as their size and growth.[216]

Assessments of the SBTs method indicate that businesses encounter problems identifying the correct data.[217] Whilst it is stringent in its assessment of a business's application of the method, there are notable exceptions in the SBT scope. Firstly, the agricultural sector, which contributes 33% of global emissions, is not included in the SBTi's manual. Secondly, only businesses with scope 3 emissions that make up 40% or more of their total emissions are required to consider scope 3.[218]

World Benchmarking Alliance (WBA)

The World Benchmarking Alliance (WBA) is an open-source sustainability data and ranking project recently launched in September 2017. It was founded by the UN Foundation; the Business and Sustainable Development Commission; the Index Initiative; and Aviva, who are also the primary financiers. The initiative has received the backing of national governments including the UK, Denmark, and the Netherlands, as well as support from NGOs such as

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[214] Science Based Targets (2018) About the Science Based Targets initiative
[215] Climate Action in Financial Institutions (2018) Science based targets initiative (SBTi) – Climate Action in Financial Institutions, accessed 21 August 2019, https://www.mainstreamingclimate.org/sbti/
[216] Science Based Targets (2019) Science-Based Target Setting Manual,
[217] Schulte, U. (2018) Science based targets - What is it all about?, https://www.conference-board.org/blog/postdetail.cfm?post=6783
[218] Janzwood, A., and Scott, C. (2019) Will Science-Based Targets Save Us? Insights from the Global Food Industry | Global Policy Journal

Oxfam and the WWF.[219]

The aim of the WBA is to publicly rank businesses using sustainability criteria and the Sustainable Development Goals (SDGs) as a framework. The benchmarks enable measurement and comparison of corporations, creating league tables which rank 2,000 of the world's largest businesses on their contribution towards the SDGs.

The WBA has published one fully developed benchmark so far, assessing the performance of 25 automotive companies on their contributions towards limiting global warming.[220] Further publications are planned, to cover the areas of: gender equality and empowerment; food and agriculture; climate and energy; seafood; and digital inclusion. The recently published Seafood Stewardship Index (SSI), proposes a methodology which includes 60 indicators, a weighted approach to measurement and a rationale for the scope of SDGs and businesses included. Progress on the development of the Gender Equality and Empowerment Benchmark and the Food and Agriculture Benchmark has been reported. The objective is to publish all benchmarks by 2023.

Prior to launching, the Alliance hosted multi-sector workshops around the world and conducted an extensive public consultation. Some 10,000 people from 140 countries provided feedback in the development process.[221]

Social Value UK

Founded in 2007 and previously called the SROI (Social Return on Investment Network), this organisation has since changed its name to Social Value UK. Initially, it was formed with the mission to "*change the way society accounts for value*" by expanding the economic concept of value to include wider social and environmental impacts.[222] It uses a cost-benefit analysis to compare the net present value of benefits with resources invested, resulting in a ratio that can be used to describe how much social value (in £) is created for every £1 of investment. This serves as a metric for comparison to evaluate improvement to societal well-being. Unlike economic return on investment (ROI), SROI was not intended to be a decision-making tool, and is more often used retrospectively as an evaluative measure.

The underlying goal of the SROI analysis is to encourage a participative and qualitative exploration of value, rather than focussing on the metric itself. The main criticism of SROI is that it is resource intensive; it has a six-step methodology which requires participation from stakeholders and the collection of data on outcomes.[223]

Mainly used by not-for-profits and social enterprises, SROI has also been used within the

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[219] World Benchmarking Alliance (2019) About us, accessed 20 August 2019, https://www.worldbenchmarkingalliance.org/about-us/

[220] World Benchmarking Alliance (2020) Measuring the world's 25 most influential auto manufacturers, accessed 28 April 2020, https://climate.worldbenchmarkingalliance.org/

[221] Aviva (2018) World Benchmarking Alliance launches, accessed 20 August 2019, https://www.aviva.com/newsroom/news-releases/2018/09/world-benchmarking-alliance-launches/

[222] SROI network (2012) The Guide to Social Return on Investment 2015, accessed 22 August 2019, http://www.socialvalueuk.org/app/uploads/2016/03/The%20Guide%20to%20Social%20Return%20on%20Investment%202015.pdf

[223] World Health Organization (2017) Social return on investment. Accounting for value in the context of implementing Health 2020 and the 2030 Agenda for Sustainable Development, accessed 22 August 2019, http://www.euro.who.int/__data/assets/pdf_file/0009/347976/20170828-h0930-SROI-report-final-web.pdf?ua=1

health and construction sectors.[224] It has yet to be adopted more widely within the corporate sector, though there are parallels with the principles behind Integrated Reporting.

Impact Management Project (IMP)

Launched in 2016 by the UN General Assembly, the Impact Management Project (IMP) is a forum for building global consensus on how to measure, compare, and report environmental, social, and governance (ESG) data. The forum is steered by a collaborative group of nine global businesses: the UNDP; International Finance Corporation; The Organisation for Economic Co-operation and Development (OECD); Social Value International (SVI); the GRI; the Global Impact Investing Network (GIIN); the Principles for Responsible Investment (PRI); the World Benchmarking Alliance (WBA); and the Global Steering Group for Impact Investment (GSG).

The IMP provides guidelines for impact investors to efficiently align their portfolios with their intentions, ensuring investments return high ESG impacts. The IMP framework includes guidelines to ensure that the indicators used by a businesses are valid and can assess progress against specific outcomes.[225] It presents five ‘dimensions of impact’:

- What impacts the asset is contributing to.
- Who experiences the impact, and how underserved they previously were.
- How many people experience the impact, and the degree of change they experience.
- The specific contributions made to impact.
- Potential risks to communities or the environment is the expected impacts are not realised.

Moreover, IMP helps investors classify investments by using a set of impact classes, which group investments with similar impact characteristics based on performance data or goals. The classes match desired investor contributions (signalling that the impact matters, engaging actively, growing new/undersupplied capital markets, and providing flexible capital) with impact performance/goals of the preparer to be invested in (acting to avoid harm, benefiting stakeholders, and contributing to solutions). So, for example, ethical bond funds fall into a class characterised as signalling that impact matters on the investor side and acting to avoid harm on the business side. This impact classification system enables asset owners to find suitable investments and identifies a shared definition of impact.[226]

Despite IMP’s efforts to create a universal methodology through its five dimensions of impact and set of impact classes, it is common for investors to customise the IMP methodology, or create their own methodologies, to fit their unique priorities and needs, suggesting that IMP

[224] World Health Organization (2017) *Social return on investment Accounting for value in the context of implementing Health 2020 and the 2030 Agenda for Sustainable Development*, accessed 22 August 2019, http://www.euro.who.int/__data/assets/pdf_file/0009/347976/20170828-h0930-SROI-report-final-web.pdf?ua=1
[225] Impact Management Project (2019) What, accessed 22 August 2019, https://impactmanagementproject.com/impact-management/what-is-impact/what/
[226] IMP (2019) Author at Impact Management Project, accessed 21 August 2019, https://impactmanagementproject.com/author/imp_admin/

has not succeeded in offering a truly universal methodology.[227]

International Integrated Reporting Council (<IR>)

Integrated Reporting (<IR>) is a framework that was launched in 2013 following a three-year development process involving 100 businesses in pilot schemes. <IR> is backed by the International Integrated Reporting Council (IIRC) – a global coalition of regulators, investors, businesses, standard setters, the accounting profession, and non-government organisations. During the 2014 World Economic Forum, <IR> was heralded as an innovative way for businesses to better articulate their strategy and business model, with a focus on long-term value creation in order to build investor trust.

<IR> was novel in promoting a collaborative thinking process within a business combined with a ‘meaningful dialogue’ with external stakeholders. In this way, more collaborative thinking is developed to support value creation in the short, medium, and long term for both the businesses and its wider stakeholders. A fundamental concept in this framework is in the stock and flow of capitals, which include financial, intellectual, human, social and relationship, and natural capital. Using these concepts in corporate strategic thinking facilitates a natural incorporation of external factors into the business model. In addition, the <IR> framework encourages businesses to consider the *outcomes* of business activities rather than the just the *outputs*.

<IR> presents a new approach to thinking about the operation and wider impacts of a business’s activities, rather than providing a blueprint for disclosure. The aspiration is that businesses adopting an <IR> approach should end up more robust and resilient than others, ultimately outperforming businesses that have not adopted <IR>. [228] Participants in the pilot project reported ‘*real value in sitting stakeholders and decision makers at the same table-break down silos, integrate understanding fostering buy in for strategic objectives*.’[229]

Innovative in many respects, the <IR> framework is unique for encouraging businesses to look beyond ‘information’ provision in its reporting recommendations. As a result of this, the content of corporate reports following the <IR> framework is more likely to be coherently aligned with business and stakeholder goals. This enables businesses to clearly articulate how the business model is tailored to respond to the risks and opportunities that ESG reporting (NFR) brings, and to communicate this to stakeholders in a transparent and connected manner.

Adoption of the <IR> approach has been less widespread than initially anticipated, and it has been criticised for being data intensive, somewhat ‘vague’ and hard to implement. Some authors suggest that the type of joined-up thinking that <IR> encourages requires a substantive re-framing of how a business views its relationship to the environment, and this

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[227] Franklin Templeton (2019) Five Building Blocks for Impact Management, accessed 21 August 2019, https://www.ftinstitutionalemea.com/content-common/topic-paper/en_GB/five-building-blocks-for-impact-management-tideline-0319.pdf

[228] de Cambourg, P. (2019) Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe, May 2019, www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/4.%20Qui%20sommes-nous/Communique_de_presse/Report-de-Cambourg_extra-financial-informations_May2019_EN.pdf

[229] Deloitte (2015) Directors guide to Integrated Reporting., accessed 13 August 2019, https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/audit/deloitte-uk-directors-guide-to-integrated-reporting.pdf

can present a barrier to implementing this process.[230]

Climate Disclosure Standards Board (CDSB)

The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs with CDP hosting the secretariat. It was developed at the World Economic Forum's annual meeting in 2007 to help standardise environmental information reporting and enable conditions for material climate change and natural capital information to be integrated into mainstream reporting. This involved collaborating, identifying, and coalescing around tested and shared worldwide reporting approaches. The CDSB cross references its requirements against other frameworks, such as CDP, to assist preparers of reports and inform wider stakeholders when requirements are similar.[231]

In 2010, CDSB released the Climate Change Reporting Framework. The framework acted as a guide for businesses to recognise the risks and opportunities that climate change presents to a business's strategy, financial performance, and value. In 2013, CDSB expanded the scope of the framework to include environmental information and natural capital. CDSB highlights the purpose of the framework as a means to deliver on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.[232]

In May 2019, in partnership with the Sustainability Accounting Standards Board (SASB), the CDSB released further guidance on effective implementation of the TCFD.[233] The SASB provides an additional layer of guidance that is broader in scope, addressing social and human capital as well as environmental issues, and drills down into issues that are financially material and specific to targeted industries.[234] However, due to the recent nature of its publication its effectiveness is not yet clear.

Sustainable Development Goals (SDGs)

The 2030 Agenda for Sustainable Development aims to unite all countries to work together to eradicate poverty and hunger and create a world that will develop and prosper sustainably. Adopted by all United Nations Member States in 2015, it is based on the five core principles of People, Planet, Prosperity, Peace, and Partnership, and consists of 17 Sustainable Development Goals (SDGs) supported by 169 more actionable targets, each with at least one indicator. These goals and targets are designed to capture the economic, social, and environmental aspects of sustainable development, while the indicators provide suggestions on how to measure impacts and progress, providing a method for tracking, and therefore reporting on, sustainable development.

The SDGs were not originally conceived of as a reporting framework, but rather were

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[230] ICAEW (2018) Three challenges for integrated reporting, accessed 22 August 2019, https://ion.icaew.com/moorgateplace/b/weblog/posts/three-challenges-for-integrated-reporting
[231] CDSB (2018) CDSB Framework, accessed 21 August 2019, https://www.cdsb.net/sites/default/files/cdsb_framework_2.1.pdf
[232] CDSB (2018) CDSB Framework, accessed 21 August 2019, https://www.cdsb.net/sites/default/files/cdsb_framework_2.1.pdf
[233] CDSB, and SASB (2019) TCFD Implementation Guide, accessed 22 August 2019, https://www.cdsb.net/sites/default/files/sasb_cdsb-tcfd-implementation-guide-a4-size-cdsb.pdf
[234] Latham & Watkins LLP (2019) SASB and CDSB Issue TCFD Implementation Guide | Environment, Land & Resources, accessed 22 August 2019, https://www.globalelr.com/2019/05/tcfd-issues-implementation-guide-incorporating-sasb-and-cdsb-frameworks/

developed to provide a means for consolidating government actions towards shared objectives. However, they have increasingly been adopted by businesses wishing to show their commitment to wider responsibility, and they help to address some of the issues with NFR, such as the separation of inter-linked criteria and the lack of quantitative measures. It should be noted, however, that while the SDGs provide a useful list of goals and indicators, many of them are geared towards countries providing basic rights and social needs for their population (e.g. land ownership) and as such are not applicable to businesses.

There has been increasing global interest in the SDGs in recent years. Many countries and businesses are looking to them as a framework for setting ESG targets and reporting their progress towards their attainment. For example, the EU has a legal SDG indicator set for monitoring SDG attainment at an EU level, while businesses like PricewaterhouseCoopers and the German Development Agency (GIZ) advise corporations and national governments on how they can better report on ESG issues and incorporate the SDGs into their national policies.

FTSE 100 Reporting

Figure 33: FTSE 100 Businesses Reporting Against Major Non-Financial Disclosure Frameworks (as of August 2019)

3i		✓	✓	✓	
Admiral Group			✓	✓	
Anglo American plc	✓	✓	✓	✓	
Antofagasta		✓	✓	✓	
Ashtead Group			✓	✓	
Associated British Foods		✓	✓	✓	
AstraZeneca		✓	✓	✓	✓
Auto Trader Group		✓	✓	✓	

Frameworks for standards for non-financial reporting

Aviva		✓	✓		
Aviva	✓	✓	✓	✓	
BAE Systems		✓	✓	✓	
Barclays	✓	✓	✓	✓	
Barratt Developments		✓	✓	✓	✓
Berkeley Group Holdings		✓		✓	
BHP			✓		
BP		✓	✓	✓	
British American Tobacco		✓	✓	✓	✓

Frameworks for standards for non-financial reporting

British Land		✓	✓	✓	
BT Group		✓	✓	✓	✓
Bunzl				✓	
Burberry	✓		✓	✓	✓
Carnival Corporation & plc					
Centrica		✓	✓	✓	
Coca-Cola HBC		✓	✓		✓
Compass Group		✓		✓	✓
CRH plc					
Croda International		✓	✓	✓	✓

Frameworks for standards for non-financial reporting

DCC plc					
Diageo	✓	✓	✓	✓	✓
Direct Line Group			✓	✓	
Evraz		✓	✓		
Experian		✓		✓	
Ferguson plc				✓	
Flutter Entertainment					
Fresnillo plc		✓		✓	
GlaxoSmithKline		✓	✓	✓	✓
Glencore	✓			✓	

Frameworks for standards for non-financial reporting

Halma			✓		
Hargreaves Lansdown				✓	
Hiscox	✓		✓		
HSBC	✓	✓	✓	✓	✓
Imperial Brands		✓	✓	✓	
Informa		✓	✓	✓	✓
InterContinental Hotels Group		✓	✓	✓	
International Airlines Group	✓	✓		✓	
Intertek		✓	✓	✓	

Frameworks for standards for non-financial reporting

ITV plc			✓	✓	
JD Sports		✓	✓		
Johnson Matthey		✓	✓	✓	
Just Eat		✓	✓		
Kingfisher plc		✓	✓	✓	✓
Land Securities	✓	✓	✓	✓	✓
Legal & General	✓	✓	✓	✓	
Lloyds Banking Group	✓	✓	✓	✓	
London Stock Exchange Group	✓	✓	✓	✓	✓
Marks & Spencer	✓	✓	✓	✓	✓

Frameworks for standards for non-financial reporting

Melrose Industries		✓			
Micro Focus			✓	✓	
Mondi	✓		✓	✓	✓
Morrisons		✓	✓		
National Grid plc	✓	✓	✓	✓	✓
Next plc		✓	✓	✓	
NMC Health				✓	
Ocado		✓	✓		
Pearson plc			✓	✓	
Persimmon plc		✓	✓	✓	

Frameworks for standards for non-financial reporting

Phoenix Group			✓		
Prudential plc	✓	✓	✓	✓	
Reckitt Benckiser			✓	✓	✓
RELX		✓	✓	✓	
Rentokil Initial		✓	✓	✓	
Rio Tinto Group	✓	✓	✓	✓	
Rightmove		✓			
Rolls-Royce Holdings		✓	✓	✓	
Royal Bank of Scotland Group	✓	✓	✓	✓	
Royal Dutch Shell	✓			✓	

Frameworks for standards for non-financial reporting

RSA Insurance Group		✓	✓	✓	
Sage Group		✓	✓	✓	
Sainsbury's		✓	✓		
Schroders	✓		✓	✓	
Scottish Mortgage Investment Trust					
Segro		✓			
Severn Trent		✓	✓	✓	
Smith & Nephew		✓	✓	✓	
Smith, D.S.		✓			
Smiths Group		✓			

Frameworks for standards for non-financial reporting

Smurfit Kappa					
Spirax-Sarco Engineering		✓			
SSE plc		✓	✓	✓	✓
Standard Chartered	✓	✓	✓	✓	✓
Standard Life Aberdeen	✓	✓	✓	✓	
St. James's Place plc				✓	
Taylor Wimpey			✓	✓	
Tesco	✓	✓	✓	✓	✓
TUI		✓	✓		

Frameworks for standards for non-financial reporting

Unilever	✓		✓		✓
United Utilities	✓	✓	✓		
Vodafone Group		✓	✓	✓	✓
Whitbread		✓	✓	✓	
WPP plc	✓	✓	✓		
Total	**27**	**71**	**77**	**73**	**24**

Methodology

This section of the report gives an overview of the methodology used for this research. The methodology for this study was designed to reflect the exploratory nature of the research, and the different research tools were used sequentially to build upon the outcomes of the previous one. This included a rapid evidence assessment, stakeholder workshops and stakeholder surveys.

Rapid Evidence Assessment (REA)

The first stage of the research was a review of existing reporting frameworks and current developments in both academic and grey literature (i.e. research produced by non-commercial publishers) on NFR. The review firstly sought to identify the most commonly used frameworks and drew mainly on grey literature identified through online searches. Subsequent research was conducted in an inductive manner, pursuing key themes and theory identified as being of concern to stakeholders. Given the wealth of grey literature produced in the past 10 years, this was prioritised over academic literature in order to more deeply engage with the preferences of the kinds of financial stakeholders which are the focus of this report.

A combination of systematic searching using key word strings (identified from the research questions and key documents) and a snowballing technique (i.e. starting with key documents and expanding from the references contained therein) was adopted to identify reports containing existing stakeholder views on NFR. These were analysed with reference to the research questions to identify information on existing stakeholder preferences. The analysis of these helped the design, and informed, the workshops. The analysis also provided context to the findings of the stakeholder surveys.

It was beyond the remit of this project to undertake a full analysis of the coverage of existing reporting frameworks; rather, the project sought to give an understanding of the landscape of NFR and how it is changing. This is a fast-moving area: many new reports came out during the period of the research, requiring a second review of the literature review prior to final analysis.

The findings of the REA are presented in the section entitled ‘*Stakeholder Preferences Evident in the Literature*’.

Workshops

In order to capture more in-depth and current perspectives of stakeholders on NFR, workshops were held in September, October, and November 2019, and involved three separate stakeholder groups:

- **User stakeholders:** Those identified as having an interest in influencing or reviewing non-financial reports (i.e. consumers of reported data).
- **Preparer stakeholders:** Those required to report or gather information (i.e. suppliers/preparers of NFR – this being preparers themselves, and specialist consultancies providing NFR services).
- **Institutional investor stakeholders:** Those who use non-financial information to inform

investment decisions on behalf of clients.

The workshops were led by Eunomia, with BEIS in attendance. This gave stakeholders the opportunity to provide their views on key NFR themes and issues, as identified from the REA conducted in the earlier stages of the study. A brief discussion guide was circulated to attendees in advance of the workshop, each of which lasted for around three hours.

To facilitate an exchange of ideas between participants, activities undertaken in the workshops included pair working, group break-out sessions, and short presentations. This enabled each participant to share their perspectives on the various components of NFR. The activities were structured in a way that would develop deeper insight into sector-specific issues while also generating a cross-fertilisation of ideas throughout different sectors.

The themes were designed to appropriately fit the needs and interests of each stakeholder group. For the preparer and user workshops, each theme from one workshop was developed with a corresponding theme for the other stakeholder group in mind. This enabled a cross-sectional analysis to better understand the opinions of the two stakeholder groups on the areas of NFR that would concern them. The themes for the institutional investor workshop were independently tailored to best accommodate their different perspective on the issues.

The workshop discussions are documented in section '*Workshop Discussions on Key NFR Themes*".

Stakeholder Surveys

Survey Design and Content

Three surveys were developed and designed to capture perspectives of specific stakeholder groups:

- **Preparers** – those who put together NFR data.
- **Retail investors** – one of the user groups of NFR.
- **Employees combined with potential employees of preparers that undertake NFR** – one of the user groups of NFR.

The purpose of the surveys was to further test the themes that surfaced from the literature review and workshops,and to provide a statistical evidence base. The survey questions were built up around these themes and tailored towards each group: user-related questions for readers of non-financial reports, and preparer-related questions for creators of non-financial reports.

Based on the information gathered from the previous stages of the research, the surveys were designed to cover general topics related to the content and processes of NFR. These included:

- Whether standards should be international or UK specific.
- Comparability and standardisation of NFR.
- Existing barriers and issues with NFR.

- The appropriateness of tying standards to new reporting areas, including the UN SDGs.

The themes also reflected the core research questions. Further to these cross-cutting themes, additional questions were included in certain surveys to gain insight into themes that were stakeholder-specific. For example, in the survey of preparers, there was an additional question on the costs associated with NFR and benefits to preparers for using an NFR framework.

Each survey had specific and appropriate screening and demographic questions to understand the spread of respondents across sub-groups (see section '*Data Weighting'* for more detail on the weighting undertaken). It was judged that respondents who were not familiar with reporting frameworks might skip questions relating to NFR processes (e.g. frequency of reporting, combined versus separate reporting) and the SDGs, or that their responses to these questions would not add value to the research. In order to ensure those responding to the questions were doing so from an informed place, all surveys employed survey logic to guide respondents to certain questions as appropriate, and therefore different questions have a different number of respondents. The number of respondents by question is indicated below each figure.

Different question types were selected depending on the nature of the questions, including Likert-scale type questions, categorical questions, and open-ended questions.

Cognitive Testing

Prior to finalising the survey, each survey underwent two rounds of cognitive testing using a qualitative feedback form to explore the understanding of the questions, the logic of the survey and the length of the survey. The first round of cognitive testing produced feedback surrounding the language and structure of the surveys. Since significant language and structural changes were done in consideration of these comments, a second round of cognitive testing was conducted to ensure that the survey questions were simple, clear, logical, and appropriate to the target audience. This was felt to be particularly important because of the complexity of language around NFR and because some respondents would potentially be unfamiliar with the concepts of NFR.

Recruitment and Data Collection

Preparer Survey

UK-based preparers that are subject to the EU Directive on Non-Financial Reporting (i.e. Public Interest Entities – see section '*Terminology Used in This Report*' for further detail) were identified using the BEIS Financial Analysis Made Easy (FAME) database. These are referred to as 'in-scope' businesses. Eunomia directly disseminated the preparer survey, which was uploaded to an online survey portal, and targeted recruitment of individuals in sustainability, communications, or marketing departments of the preparers. Contact details were gathered by scanning through each preparer's website or non-financial/sustainability report, and individuals were contacted by phone in the first instance for time and response rate efficiency. Of 499 in-scope businesses (comprising 372 listed and 127 non-listed businesses), 45 responses were gathered.

The survey of preparers ran from the beginning of November to the end of December 2019.

Retail Investor Survey and Employee/Potential Employee Survey

A third-party research panel was contracted to recruit respondents for the retail investor and employee/potential employee surveys to ensure a robust, representative sample of each group.

Retail investors are those individuals who invest in businesses or in investment indices using their own capital and have a strong influence on where and how that capital gets invested. 504 retail investors completed the survey. Employees are defined as those individuals who work for businesses that are in-scope of the EU Directive on Non-Financial Reporting. Potential employees are defined as those individuals who would be willing to work for an in-scope business in the future; the survey excluded individuals who declared they would never consider working for an in-scope business. For this survey, 203 employees and 301 potential employees completed the survey.

The retail investor and employee/potential employee survey ran from the middle of December to the end of December 2019.

Data Analysis

Data Weighting

The three stakeholder surveys were analysed to explore whether there was a need for any of the data to be weighted by demographic variables:

Preparer Survey:

- Weighting was not recommended for this survey because the population was in-scope businesses rather than a random sample of all UK businesses. This meant there was a logical reason for the sample to be skewed towards certain businesses e.g. financial services businesses, due to the definition of Public Interest Entities. The relatively small number of responses also meant that weighting may have distorted the results, over-representing and under-representing the views of preparers of some sizes or sectors to an unacceptable degree.

Retail investor and employee/potential employee surveys:

- **Gender**. Males formed 55% of respondents to the retail investor survey and 51% of the employee/potential employee survey (in comparison, males form 49.4% of the UK population). Neither skew was deemed large enough to justify weighting the data by this variable, and besides, the actual gender split in the UK of retail investors is unknown.
- **Age**. There was a low number of respondents from the youngest age category (19 years and below) for both the retail investor and employee/potential employee surveys. Since individuals in this age group would not all be of employment-age, nor likely to be active retail investors, the sample was considered likely to be representative of the employee and retail investor population. Those in the highest age category (65 years and above) were not represented due to the demographics of the research panel's sample. Weighting by age was not applied.

Analytical Methods

Following the decision to not weight any of the data, it was used to produce graphs indicating percentage responses to each question. In addition, each stakeholder survey was taken in turn and exploratory data analysis was undertaken to identify potential patterns amongst different groups of respondents (such as age groups, those who are more familiar with NFR etc.), and whether specific answers to certain questions were associated with answers to other questions. The findings are outlined in the '*Analysis of Findings'* section of this report.

A comparative analysis was also conducted across stakeholder surveys where the same questions were asked of the different samples (these questions all used Likert-scale responses). The aim of this analysis was to explore potential differences in how each stakeholder group responded to the same set of questions. Several different approaches to analysing the data were considered, and, in discussion with BEIS, the most suitable option was deemed to be z-tests of the proportion of 'agree' and 'strongly agree' responses (or a suitable equivalent for some questions which used different scales) for each survey. Type 1 error (finding a false positive conclusion) from multiple testing was controlled for by applying a Bonferroni correction which adjusts the p-values reported in the statistical tests according to the number of tests being run. The z-tests were carried out using a significance level of 95%.

Qualitative Analysis

The qualitative responses provided to open-ended questions in the survey were analysed and paired with the findings from the quantitative analysis. The qualitative responses were categorised following a thematic coding approach. Where one response followed a common theme with another, these were placed in the same group in order to outline the key qualitative messages relating to various topics in the survey.

Methodological Considerations

This section outlines several considerations which should be borne in mind when reading this report.

Survey Response Rates

During the early stages of the study, concerns emerged around whether a sufficient response rate to the survey of preparers would be obtained. Based on experience with previous similar studies, engaging businesses in completing surveys proved to be difficult as target audiences are often time pressured. Several steps were taken to maximise the response rate for this survey, including leaving the survey open for an extended period. In addition, many preparers who did complete the survey chose to only answer up until a certain point in the survey before closing it, thus not providing a complete response. The lower response rate for the survey of preparer (and for some questions within it) was taken into account during statistical analysis, for example through using a Bonferroni correction for the z-tests.

The low response rate was explored further through a one-question follow-up survey sent to preparers that had not responded to the survey. Nine preparers responded, reporting that they were not able to complete the survey for the following main reasons:

- The survey topic is relevant to our organisation, but I was not the right person to answer it (22.2%).
- The deadline was too close/I had missed the deadline (22.2%).
- I did not have enough time (11.1%).
- The survey is too long (11.1%).

A broad range of responses were given to businesses to explain the low response rate, including whether the survey topic was irrelevant to the preparer or if the topic was too sensitive to discuss. Neither of these options were chosen. The one-question survey was designed to understand the issue while limiting any barriers to responses, including keeping the survey brief to enable quick responses, yet a low response rate to this survey was similarly experienced.

Stakeholder Survey Populations

Age

As mentioned in the section '*Data Weighting*', those in the highest age category (65 years and above) were not represented in the retail investor survey. Therefore, particular attention was paid in the analysis to understand whether age might be associated with certain responses, and so to determine if this was problematic or not.

Defining Public Interest Entities (PIEs)

Public interest entities (PIEs) are businesses of significant public relevance because of the nature of their business, size or number of employees. The 2014 EU Directive on Non-Financial Reporting (Directive 2014/95/EU) requires all large (those with greater than 500 employees) public interest entities (quoted businesses, banks, insurance businesses) to disclose information on environmental, social and community matters. These are the businesses which were in-scope of the survey of preparers.

The employee/potential employee stakeholder survey was used to capture the preferences of both employees of these in-scope businesses and those who could potentially work for these in-scope businesses in the future. As the same set of questions would be asked of both of these sub-groups, respondents were asked at the outset of the survey which sub-group they fell into. The definition of an in-scope business was likely to be a complex concept for respondents to understand in the short time available to complete the survey, and therefore a balance was struck between achieving a certain degree of confidence of which category the respondent fell into, versus the risk of dissuading the respondent from answering what then might be deemed to be an overly-complex survey.

This meant that although respondents were asked what type of businesses they worked for, these answers were not relied upon to classify respondents, instead the size of the businesses was used for this purpose. It was judged that this was something respondents would more easily and accurately know. For future research, it is worth exploring different ways to reduce the risk of inaccurate classification of employees, such as providing an easily searchable list of PIEs.

Statistical Analyses

Proportional z-tests were considered the most straightforward approach to revealing differences in perceptions amongst stakeholder surveys. The limitation of this method is that it summarises the data and some variation in responses is lost (i.e. it does not take account of how the responses are split between 'disagree', 'strongly disagree' or 'neither agree nor disagree'. In order to assess this risk, the variability of the datasets was explored. The proportions of responses to each of the Likert-scale questions was plotted to identify the degree of variation – Figure 34, Figure 35, and Figure 36 show the spread of answers for all

Likert-scale questions.

Figure 34: Average Responses for each Likert-Scale Question, Employee/Potential Employee Survey

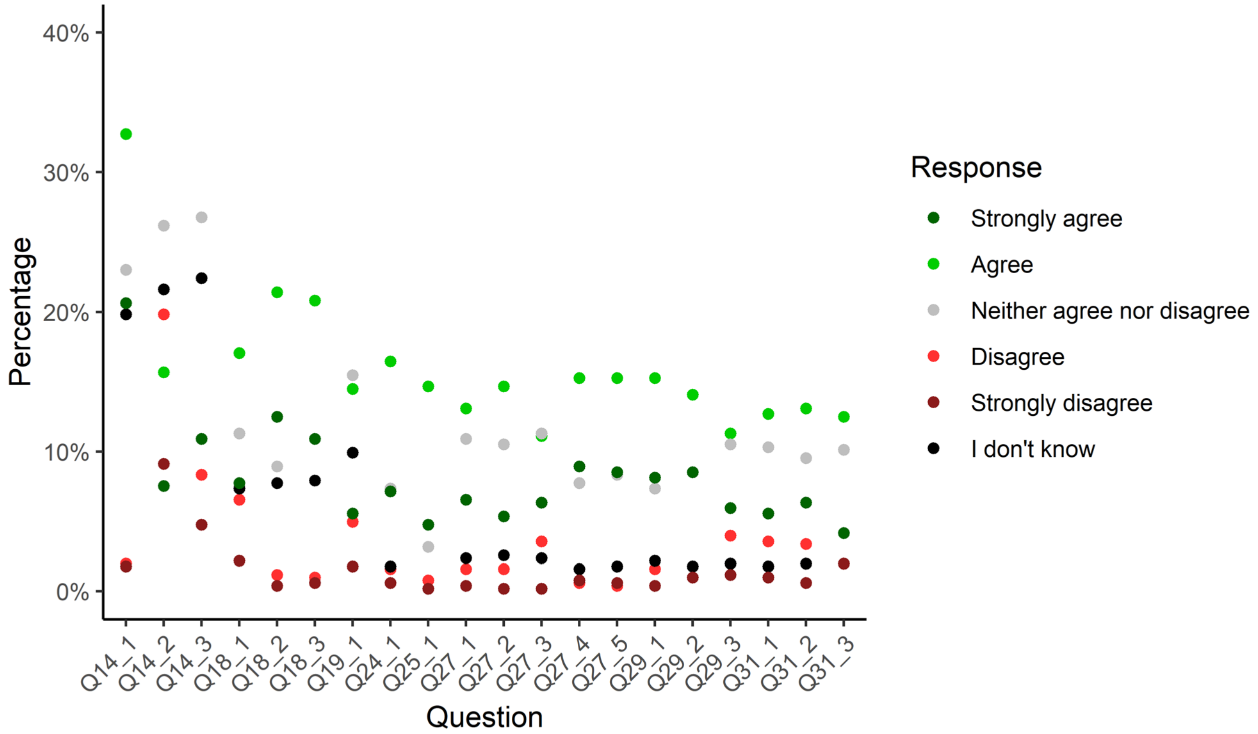


Figure 35: Average Responses for each Likert-Scale Question, Retail Investor Survey

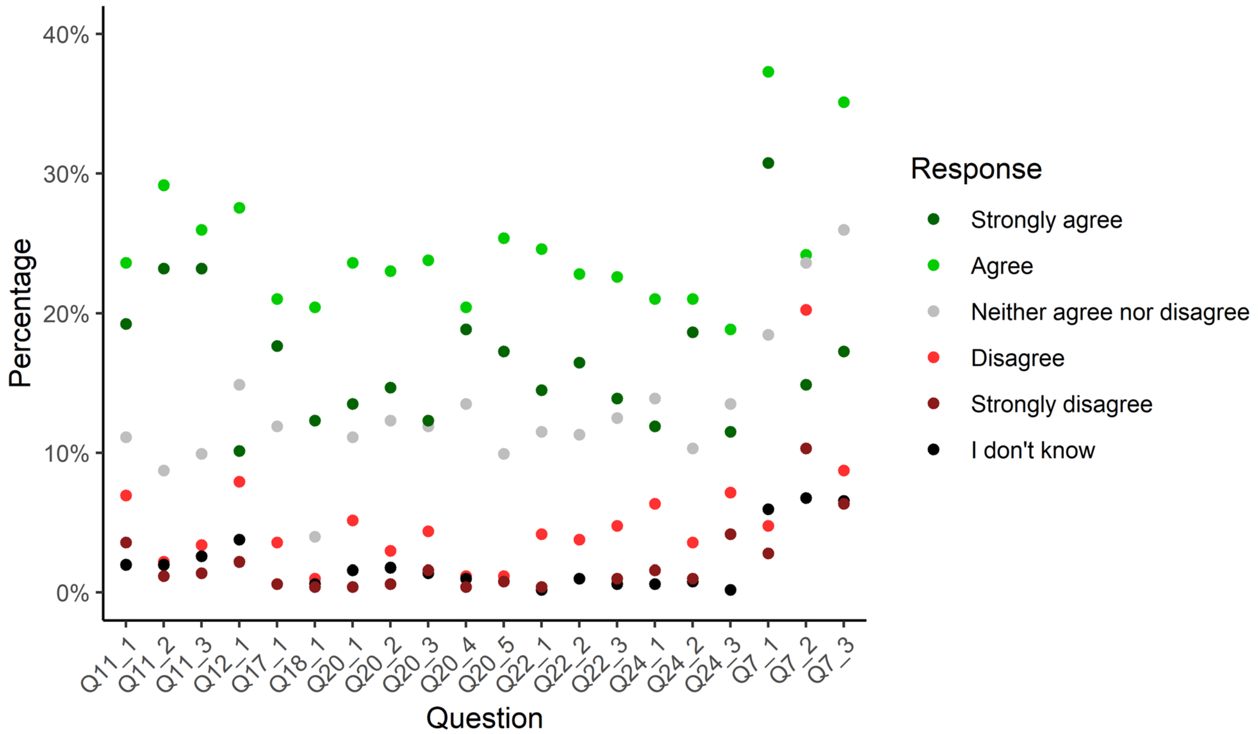
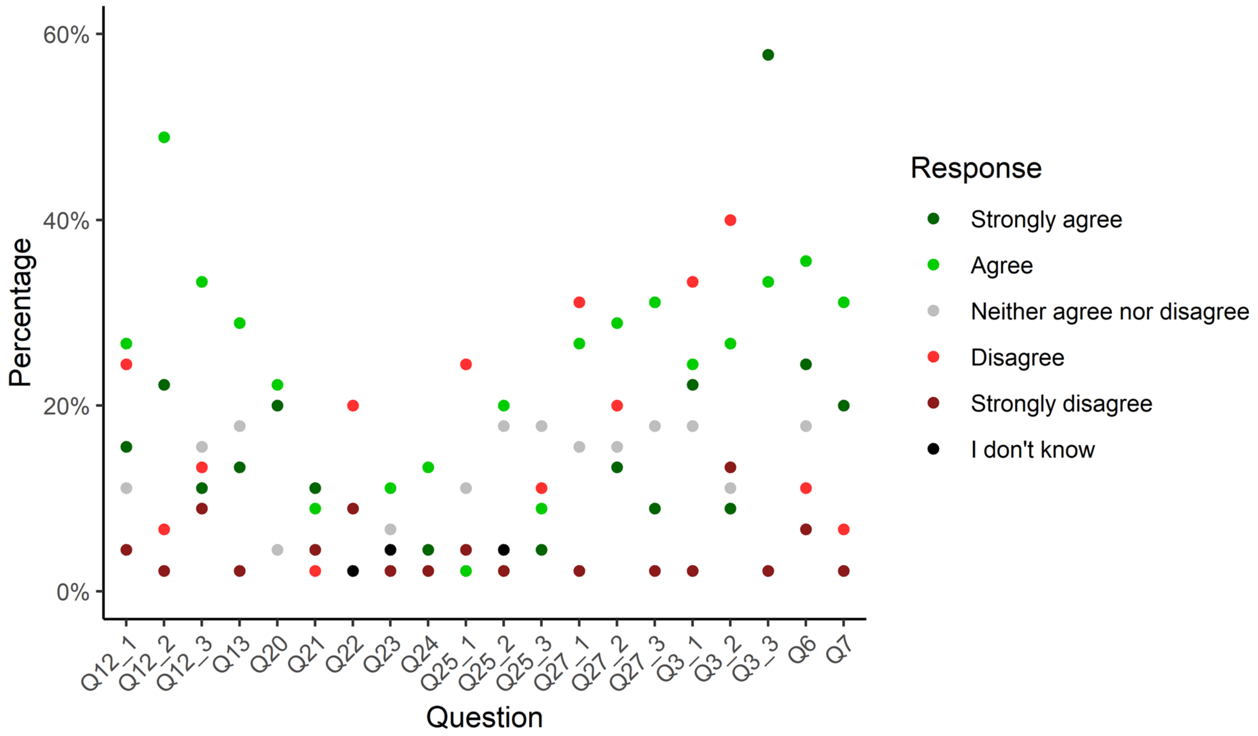


Figure 36: Average Responses for each Likert-Scale Question, Preparer Survey



For the employee/potential survey and retail investor survey there are very few questions where there are both large proportions of positive and negative responses for any question. This suggests that few questions strongly divided opinions. Most questions have low numbers of negative responses (~ 0 – 15%), though positive responses varied more greatly (~15 – 40%).

This supports the use z-tests to compare proportions of positive responses for each question as:

- Most of the variation in responses is captured within positive responses, so it is a meaningful variable and should enable differences between stakeholders to be detected.

- The lack of variation in negative responses means that they are unlikely to have a meaningful effect on analysis of differences.

The preparer survey does show greater variability in responses, though it involves a smaller sample than the employee/potential employee and retail investor surveys. A smaller same size means that conclusions from this survey could be less robust and need to be interpreted with caution.

Workshop Plans

Table 11: Topics Covered in the Stakeholder Workshops

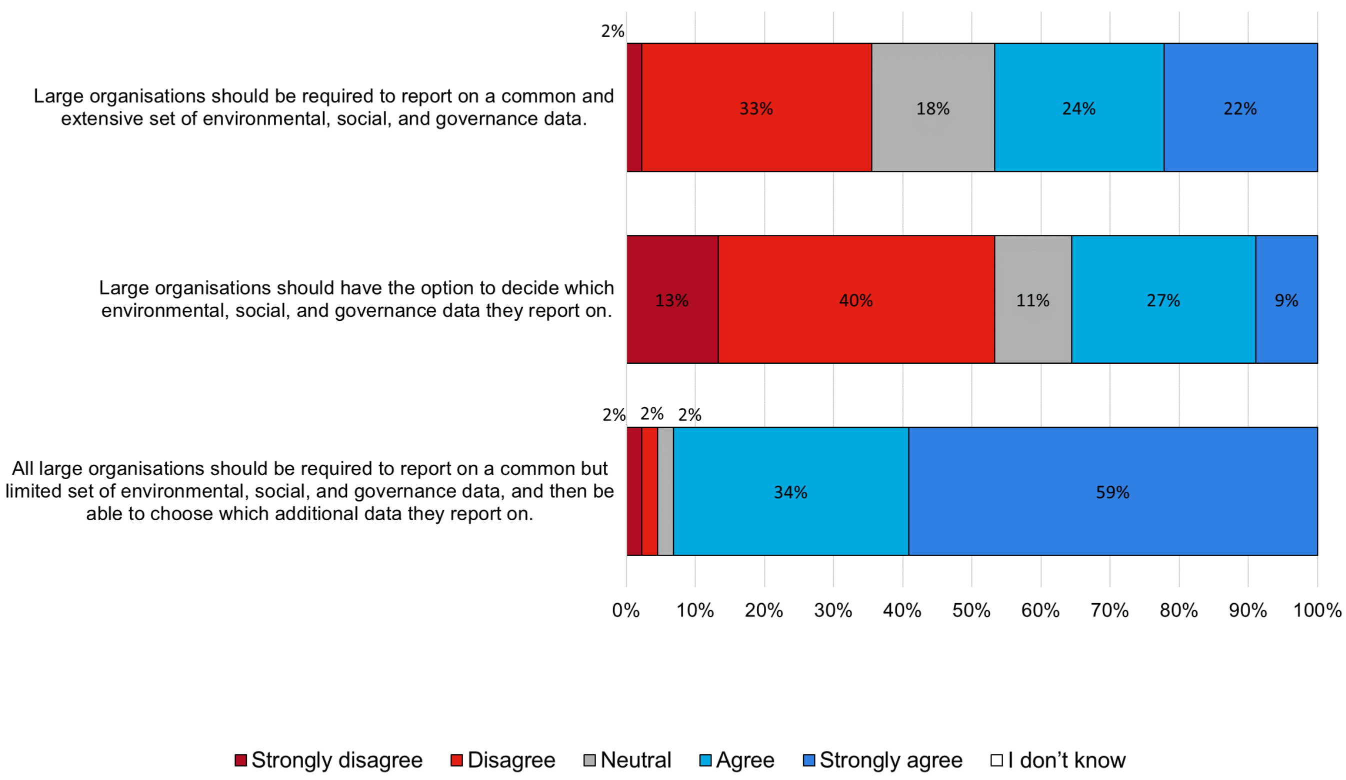
Issues with NFR • Value of non-financial data to stakeholders • Issues with current frameworks	**Barriers for NFR** • Existing NFR frameworks • Barriers faced by businesses in the NFR process	**NFR** • Existing NFR frameworks
Principles of NFR • Universality vs materiality • Metrics or information • Reporting on strategy	**Principles of NFR** • Embedding Sustainability • Reporting vs marketing • Balancing confidentiality with disclosure • Governance of reporting	**Existing Frameworks** • The investment management process • Different approaches to using non-financial information
The SDGs as a Reporting Tool • Use of SDGs in NFR	**The SDGs as a Reporting Tool** • Use of SDGs in NFR	**The SDGs as a Reporting Tool** • Use of SDGs in NFR
Quality of NFR • Reliability and verifiability • Clarity of reporting • Reporting boundaries	**Process/Mechanics of NFR** • Tools for reporting • Consolidation of data (high-level versus granular data) • Reporting on future risks and opportunities	**Content and Quality of NFR** • Improving the Content of Non-Financial Reports • Improving the Quality of Non-Financial Reports

Business Survey Results

While we use the term 'preparer' throughout the main body of the report, the original language of 'organisation' or 'business' is retained in the appendices connected to the surveys to reflect the actual language presented to survey respondents.

Q B3 To what extent do you agree with the following statements?

Figure 37: Requirements for ESG Reporting Data



N value	45
Of the 45 businesses that completed the survey, all 45 gave their opinions on these statements.	

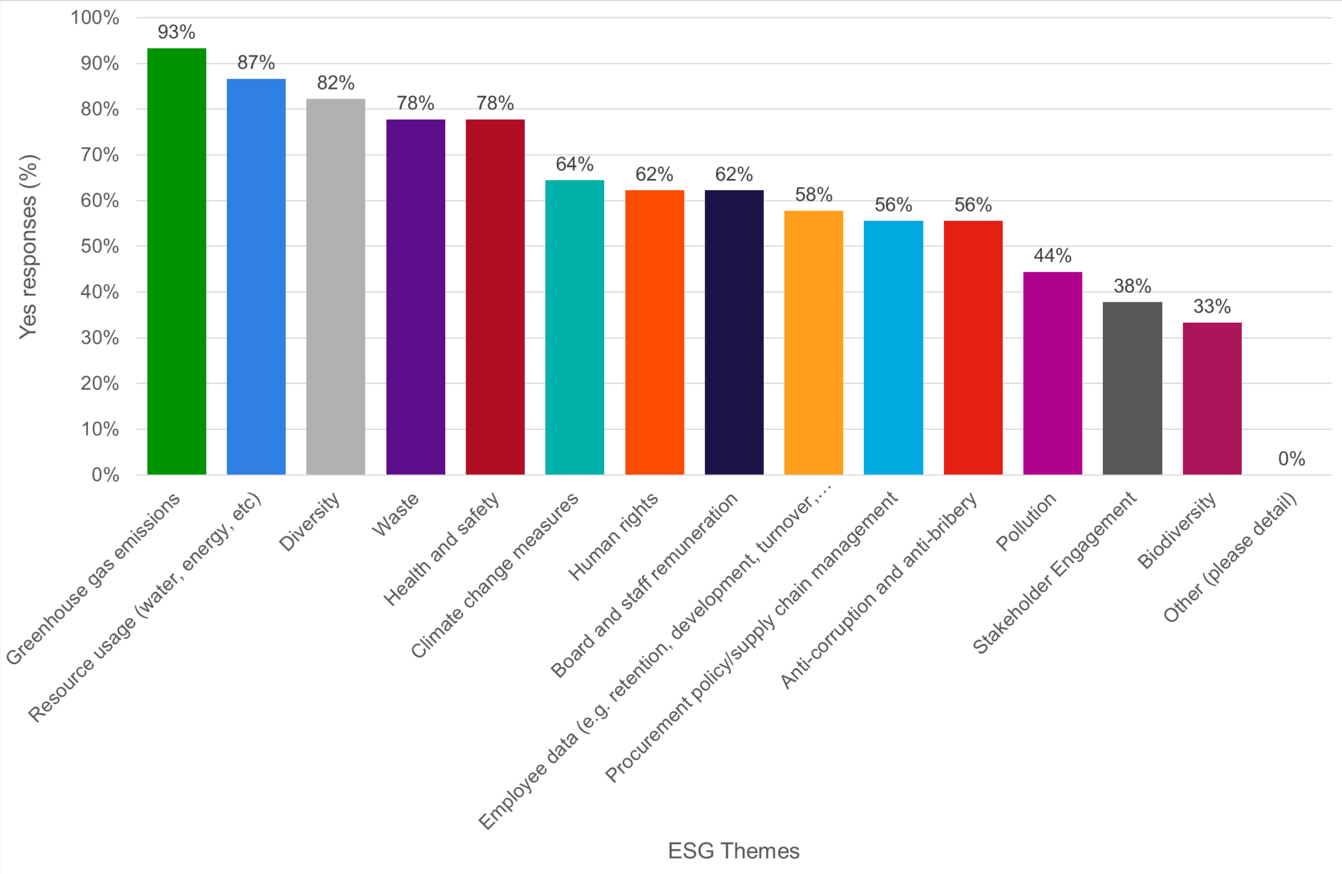
Respondents felt most positive about the statement 'all large organisations should be required to report on a common but limited set of environmental, social, and governance data, and then be able to choose which additional data they report on,' with 59% of respondents strongly agreeing, and 34% agreeing, a combined total of 93%. Only 4% disagreed and strongly disagreed, and 2% felt neutral.

The least positive response was for the statement 'large organisations should have the option to decide which environmental, social and governance data they report on,' with 53% disagreeing or strongly disagreeing, and 38% agreeing or strongly agreeing. 11% were neutral.

44% agreed or strongly agreed that 'large organisations should be required to report on a common and extensive set of environmental, social and governance data,' and 35% disagreed or strongly disagreed. This statement received the highest proportion of neutral responses, at 18%.

Q B4 If organisations were required to report on a common but limited set of environmental, social, and governance data, which themes should they report on? Please select all that you think should apply.

Figure 38: ESG Themes for Reporting

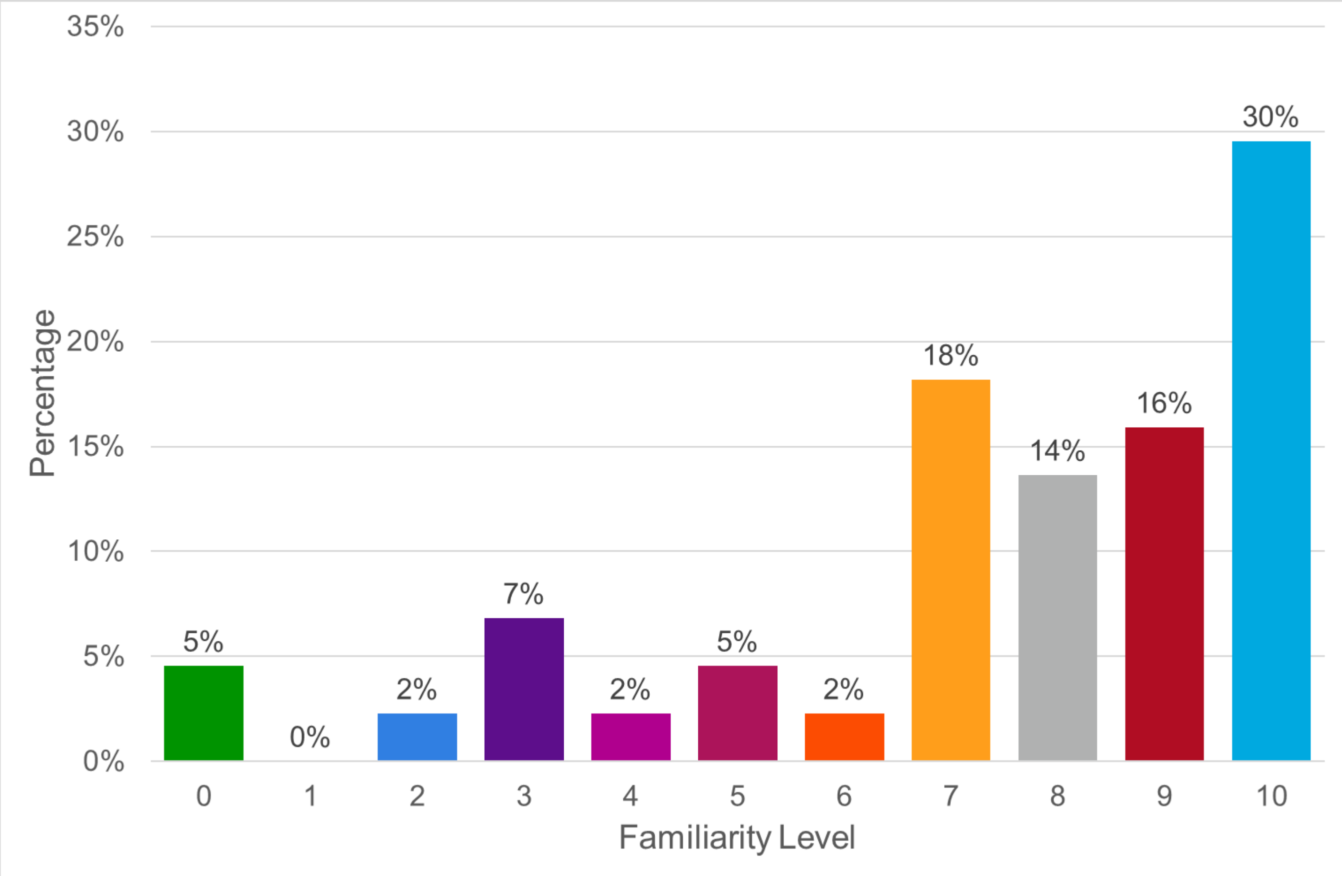


N value	45
Of the 45 businesses that completed the survey, all 45 answered this question.	

Respondents felt that greenhouse gas emissions (93%), resource usage (87%), and diversity (82%) were the three most important themes to be reported on. At the other end of the scale, the three least important themes were biodiversity (33%), stakeholder engagement (38%), and pollution (44%), which were the only three themes that fewer than 50% supported for inclusion in reporting. All other themes received between 56% and 78% support from respondents.

Q B5a Prior to this survey, what was your level of familiarity with these kinds of frameworks for environmental, social, and governance reporting?

Figure 39: Familiarity with Frameworks for ESG Reporting

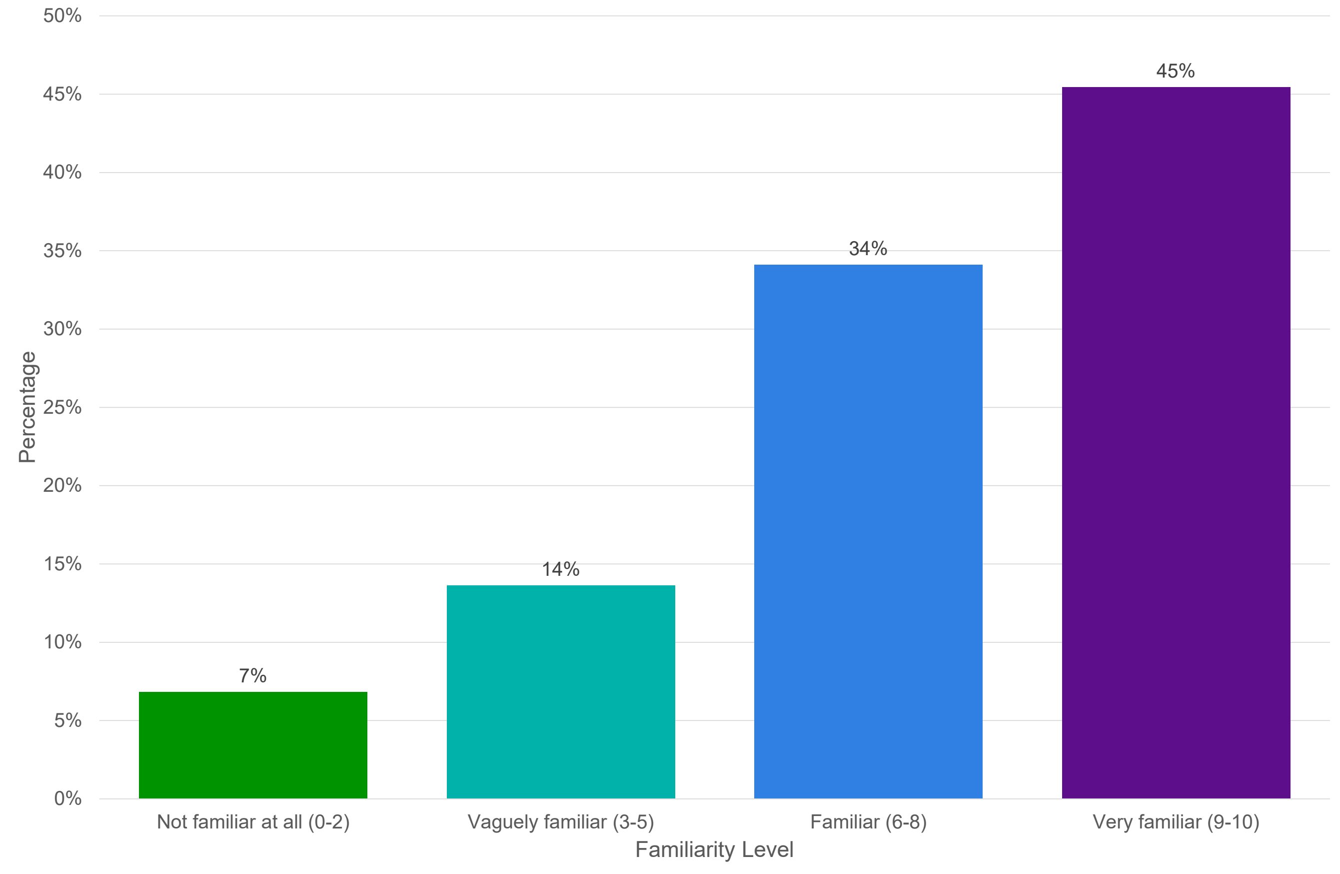


N value	44
Of the 45 businesses that completed the survey, 44 answered this question.	

Most respondents were familiar with these kinds of frameworks. On a scale of 0–10, with 10 being most familiar, 78% considered that their familiarity level was 7 or higher. 5% scored themselves ‘0,’ and 18% scored themselves between ‘2’ and ‘6.’

Q B5b Prior to this survey, what was your level of familiarity with these kinds of frameworks for environmental, social, and governance reporting?

Figure 40: Familiarity with Frameworks for ESG Reporting, Grouped

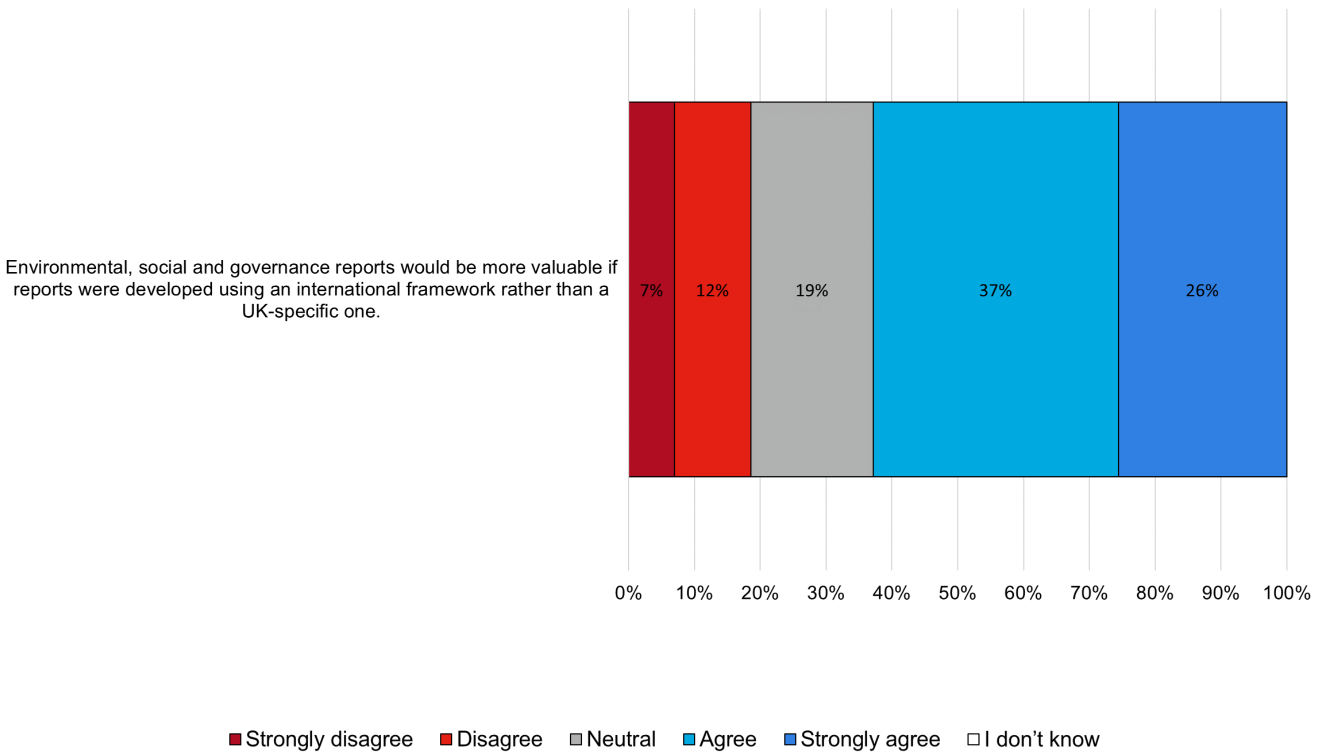


N value	44
Of the 45 businesses that completed the survey, 44 answered this question.	

Most respondents were familiar with these kinds of frameworks. 46% considered themselves ‘very familiar’ and 34% considered themselves ‘familiar,’ a combined total of 80%. Only 7% were not familiar at all, and 14% were vaguely familiar.

Q B6 To what extent do you agree with the following statement? Environmental, social and governance reports would be more valuable if reports were developed using an international framework rather than a UK-specific one.

Figure 41: International Framework VS UK-Specific Framework for ESG Reports

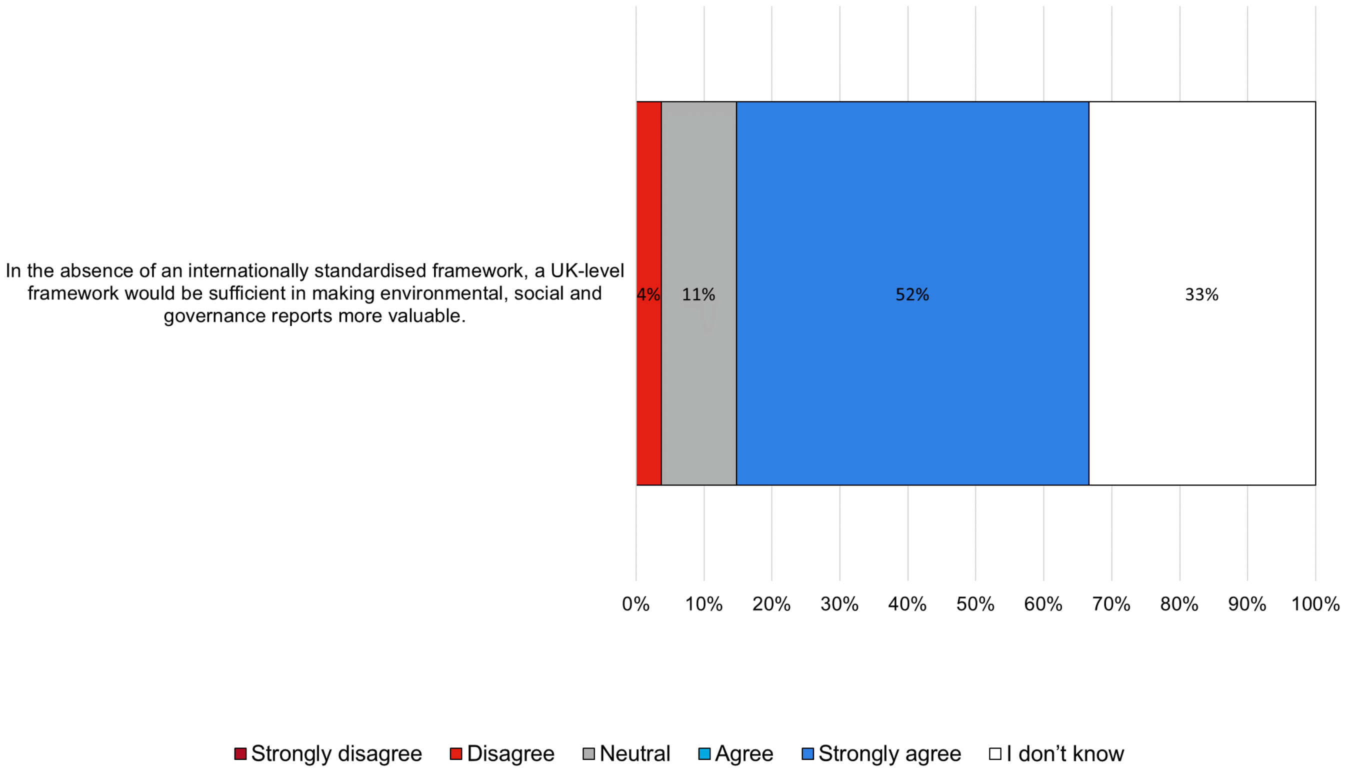


N value	43
Of the 45 businesses that completed the survey, 43 answered this question.	

63% of respondents agreed or strongly agreed that reports should be developed using an international framework rather than a UK-specific one. 19% disagreed or strongly disagreed, and 19% were also neutral.

Q B7 To what extent do you agree with the following statement? In the absence of an internationally standardised framework, a UK-level framework would be sufficient in making environmental, social and governance reports more valuable.

Figure 42: Sufficiency of a UK-Level Reporting Framework for ESG Data



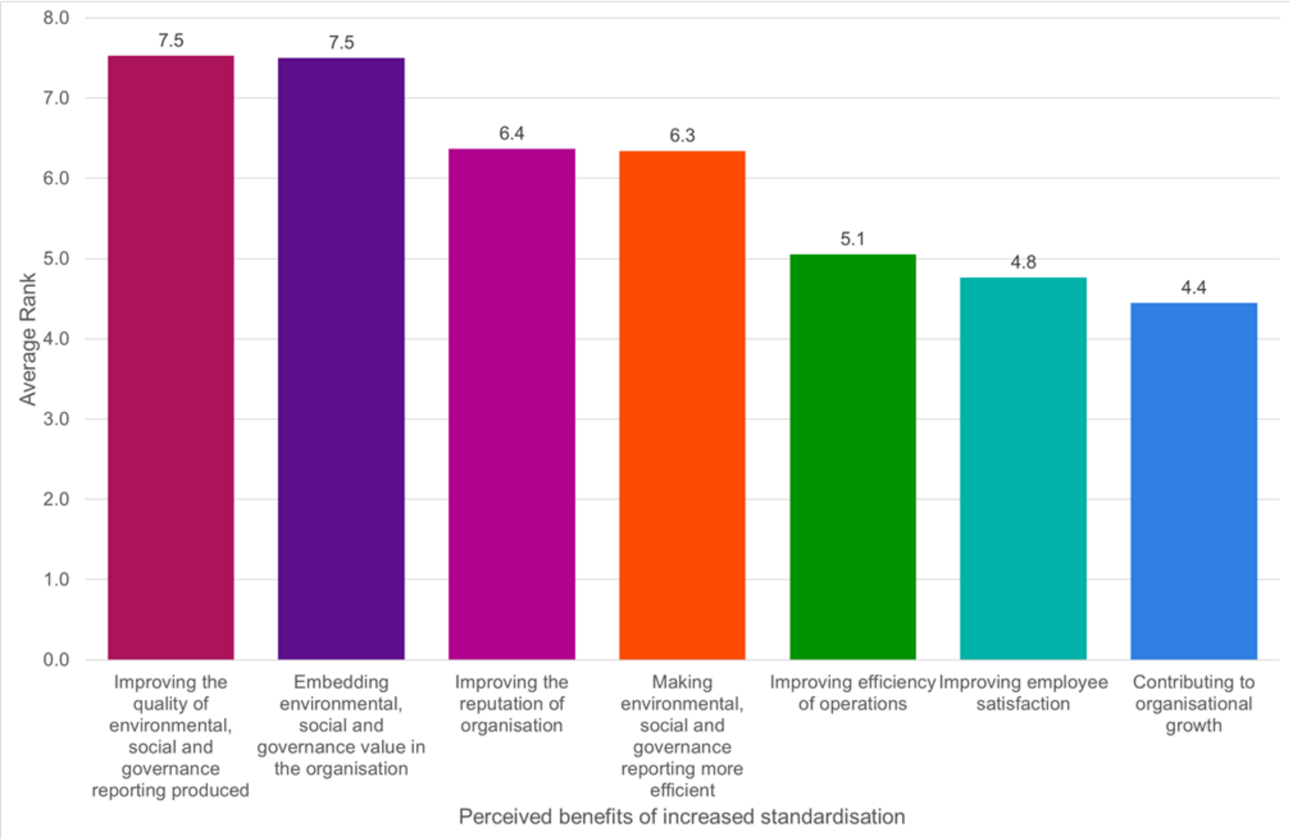
N value	27
Of the 45 businesses that completed the survey, 27 answered this question.	

52% strongly agreed that a UK-level framework would be sufficient in making environmental, social and governance reports more valuable in the absence of an internationally standardised framework. 33% were unsure whether they agreed or not, 11% were neutral, and only 4% disagreed.

Q B9 Currently, organisations are able to choose which framework they use to guide their environmental, social and governance reporting process. If organisations were required to follow a UK-level standardised framework for their environmental, social and governance reporting, which aspects of your organisation's operations do you think this would benefit? Please rank the following ways that you believe standardisation could benefit your organisation, with 1 as the most beneficial.

(The results have been reverse-ranked so that the items with the greater perceived benefits have the highest number.)

Figure 43: Benefits of UK-Level Framework for ESG Reporting on Organisations' Operations

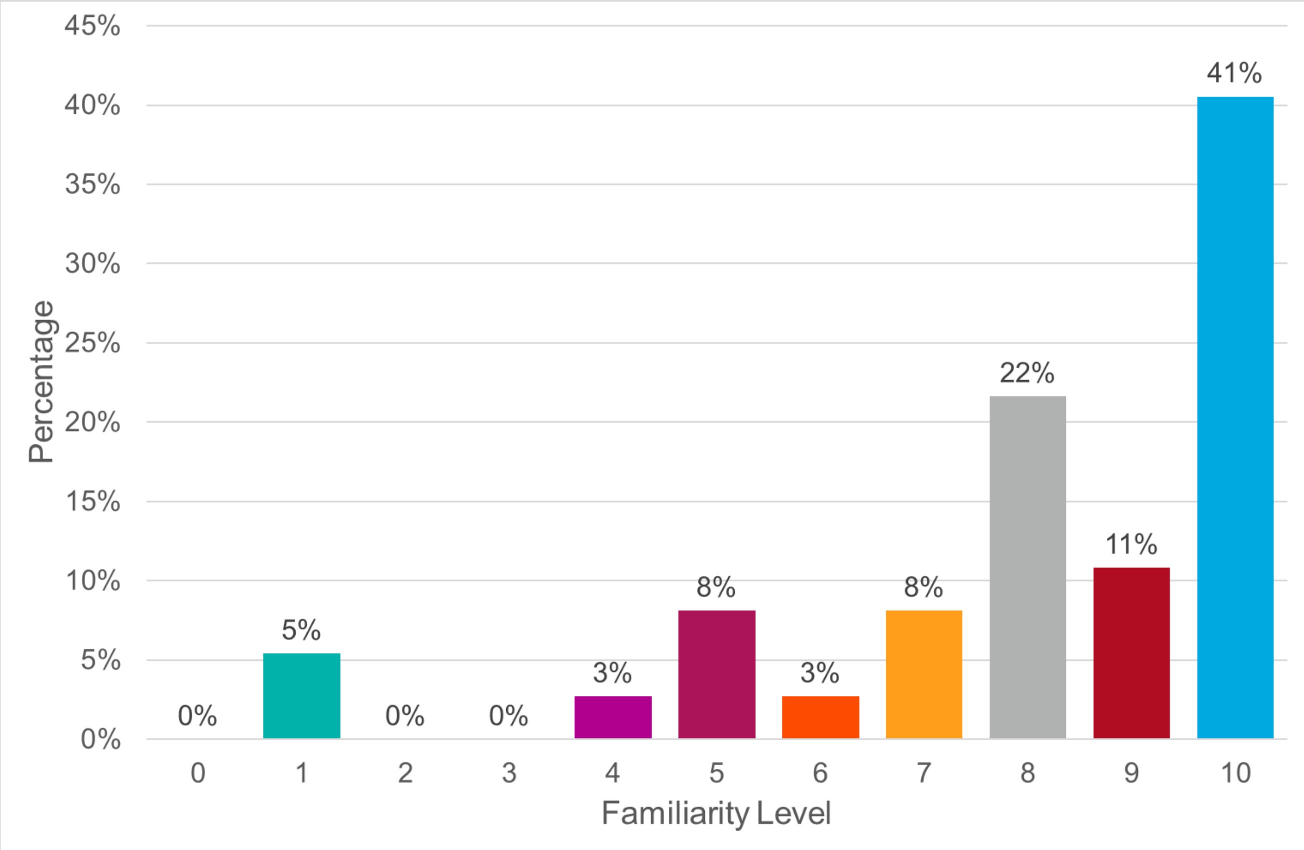


N value	38
Of the 45 businesses that completed the survey, 38 answered this question.	

Two outcomes were perceived as having the greatest benefit from increased standardisation: 'embedding environmental, social and governance value in the organisation,' and 'improving the quality of environmental, social and governance reporting produced,' which both scored the same at 7.5 out of 10 in terms of perceived benefit. 'Contributing to organisational growth' was perceived to have the least benefit as a result of standardisation, with a score of 4.4, followed by 'improving employee satisfaction,' at 4.8, and 'improving efficiency of operations,' at 5.1. 'Making environmental, social and governance reporting more efficient' scored 6.3, and 'improving the reputation of the organisation' scored 6.4. This shows that respondents felt that standardisation would improve the three pillars of sustainability, and not be as beneficial to the organisation's bottom line.

Q B10a Prior to this survey, what was your level of familiarity with the Sustainable Development Goals?

Figure 44: Familiarity with SDGs

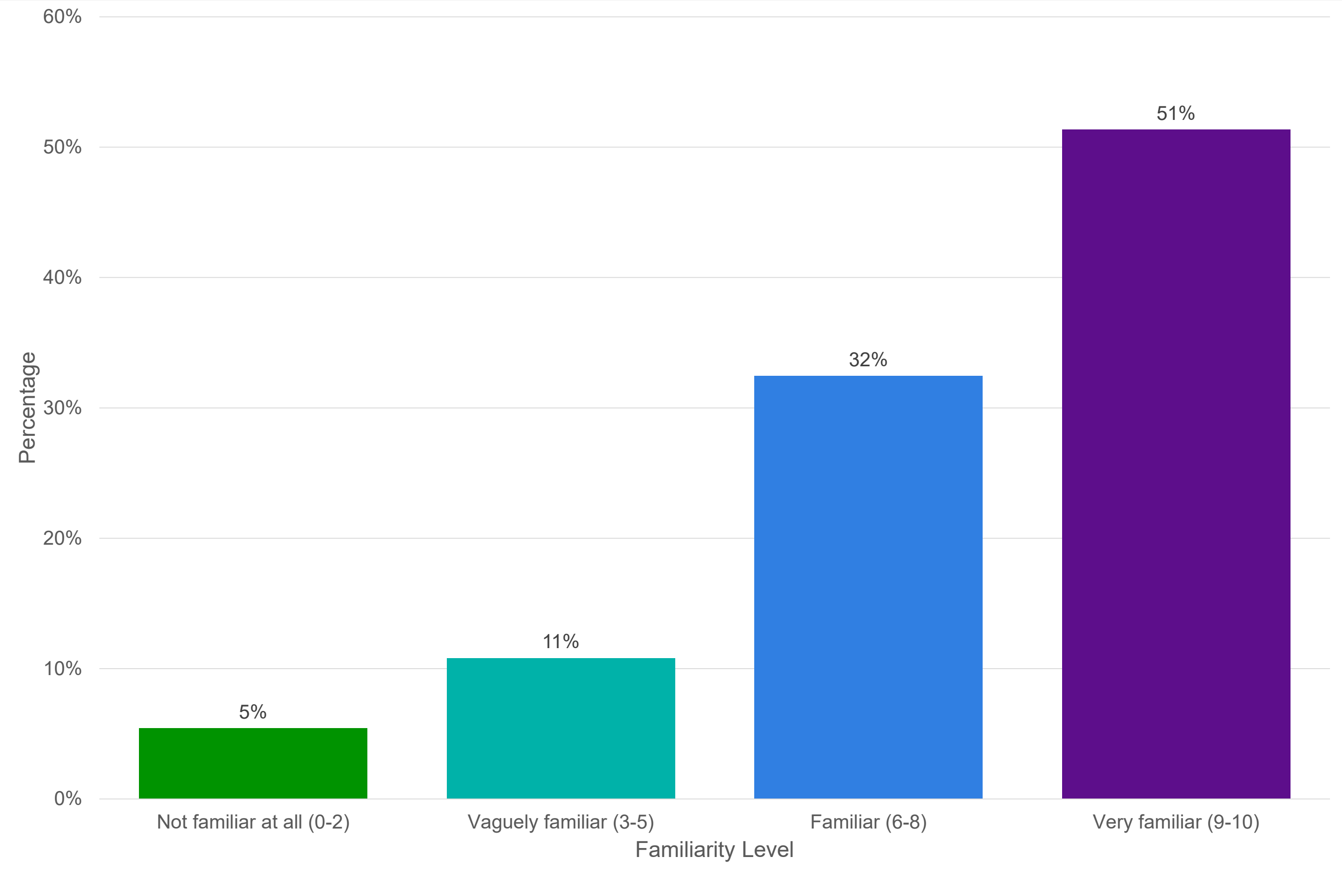


N value	37
Of the 45 businesses that completed the survey, 37 answered this question.	

Most respondents felt that they had a good level of familiarity with the SDGs. On a scale of 0-10, with 10 being the most familiar, 82% responded 7 or higher. 5% scored their familiarity level at 1, and 14% between 4 and 6.

Q B10b Prior to this survey, what was your level of familiarity with these kinds of frameworks for Sustainable Development Goals? [N=37]

Figure 45: Familiarity with SDGs (Grouped)

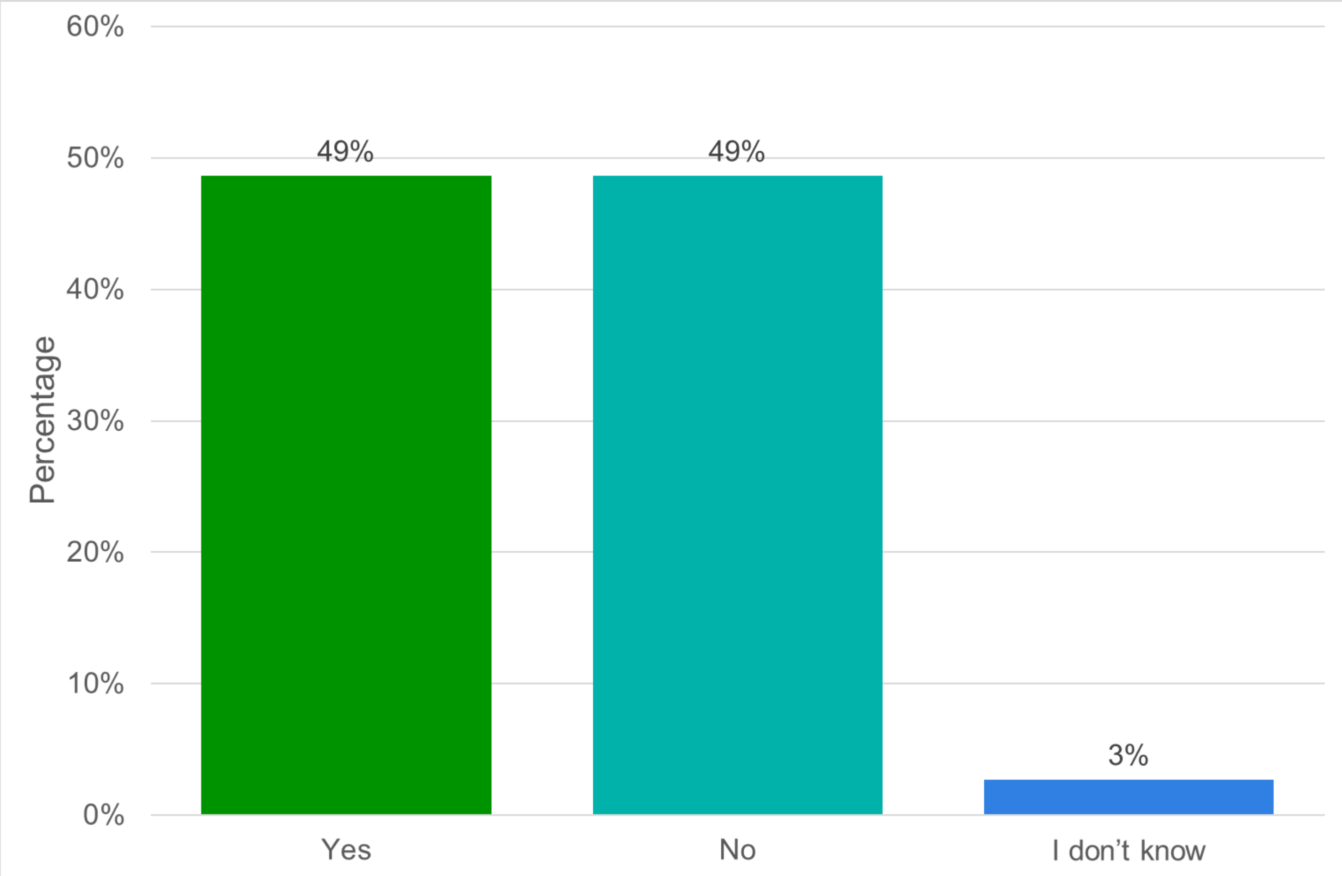


N value	37
Of the 45 businesses that completed the survey, 37 answered this question.	

Most respondents felt that they had a good level of familiarity with the SDGs. 51% were ‘very familiar,’ and 32% were ‘familiar,’ a combined total of 83%. Only 5% were not familiar at all, and 11% were vaguely familiar.

Q B11 Does your organisation currently report against the Sustainable Development Goals?

Figure 46: Reporting Against SDGs

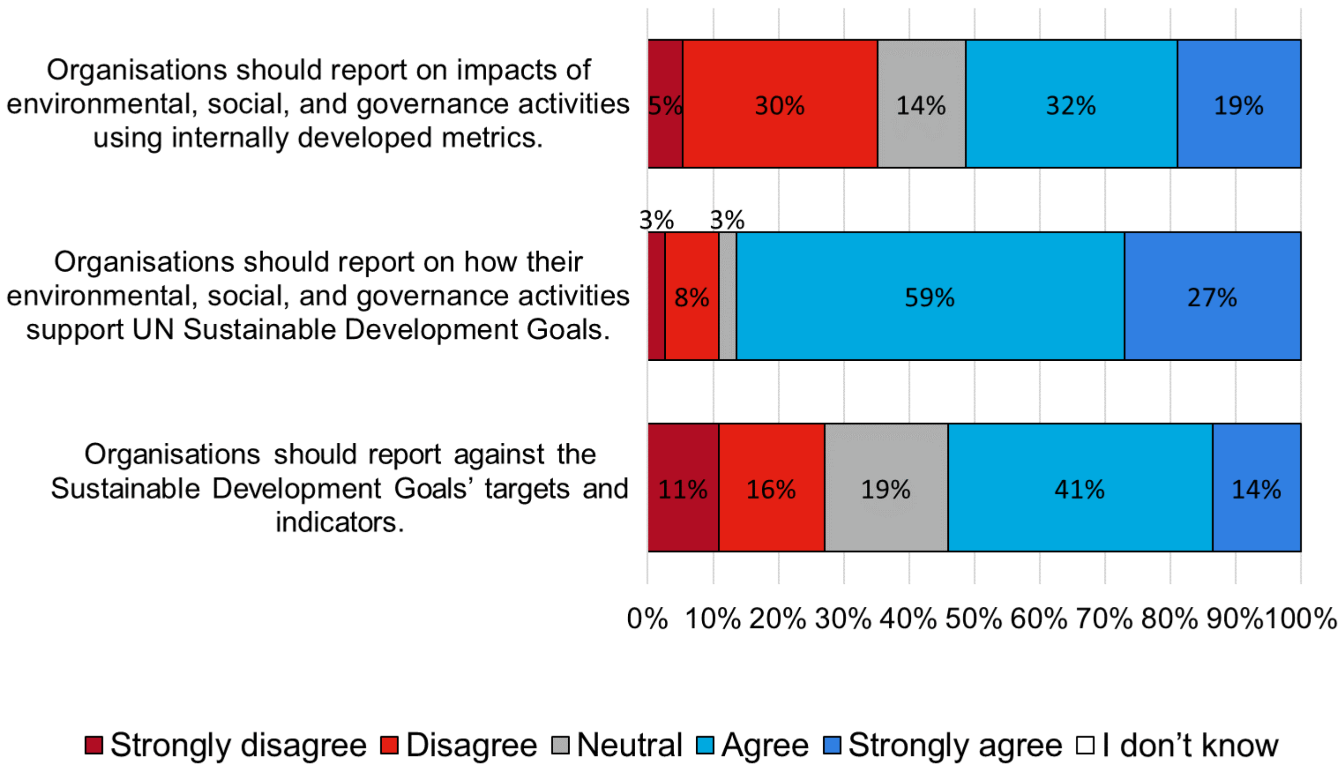


N value	37
Of the 45 businesses that completed the survey, 37 answered this question.	

49% of organisations surveyed currently report against the Sustainable Development Goals. An equal number do not currently report, and 3% were unsure whether they reported or not.

Q B12 To what extent do you agree with the following statements? Your views are sought from the perspective of the organisation you represent.

Figure 47: Use of SDGs in Reporting on ESG Data



N value	37
Of the 45 businesses that completed the survey, 37 answered this question.	

In general, respondents felt that organisations should report on how their ESG activities align with UN SDGs, rather than using their internally developed metrics.

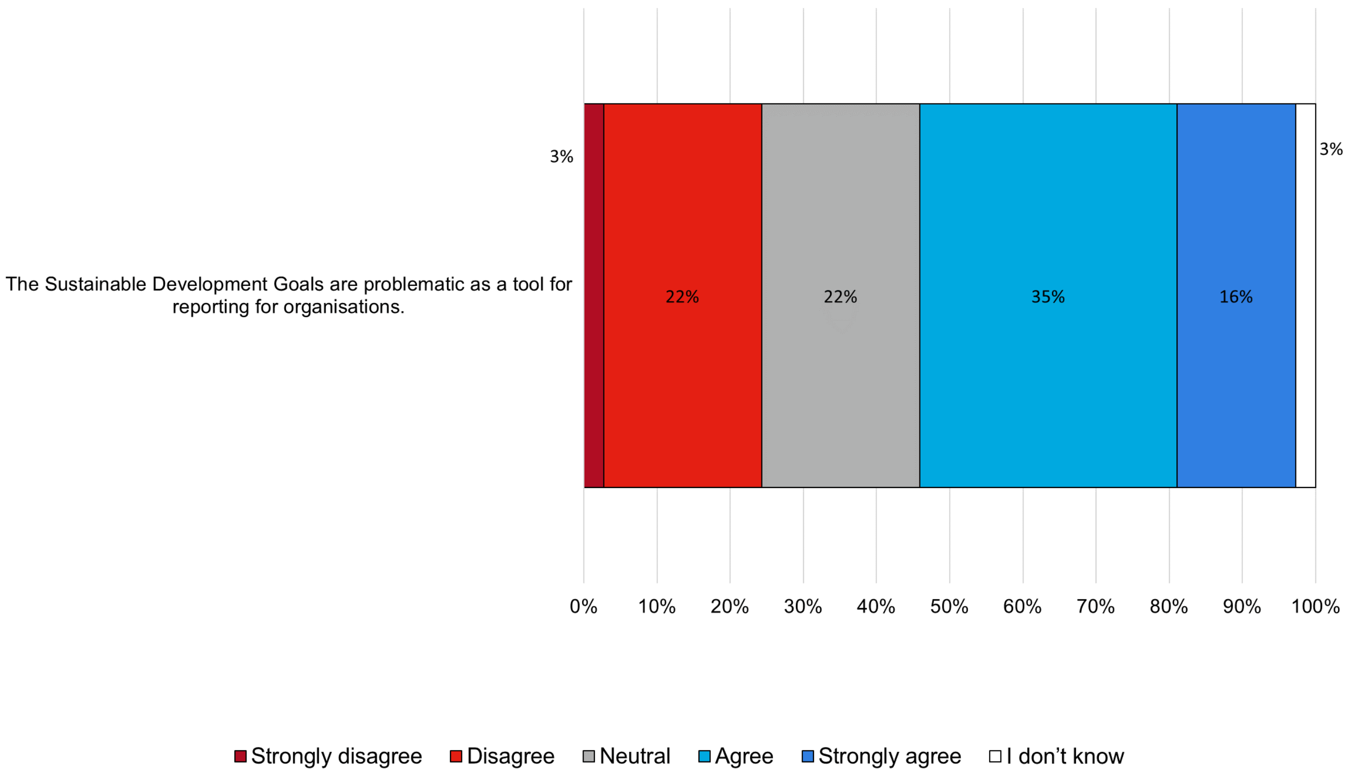
Respondents felt most strongly that 'organisations should report on how their ESG activities support UN SDGs,' with 59% agreeing, and 27% strongly agreeing, a combined total of 86%. This statement also had the fewest negative responses, with only 11% of respondents disagreeing or strongly disagreeing, and the fewest 'neutral' responses, at 3%.

55% agreed or strongly agreed that 'organisations should report against the SDGs' targets and indicators.' 27% disagreed or strongly disagreed, and this statement had the greatest proportion of 'neutral' responses, at 19%.

The least positive response was for 'organisations should report on impacts of ESG activities using internally developed metrics,' with 51% agreeing or strongly agreeing, 35% disagreeing or strongly disagreeing, and 14% neutral.

Q B13 To what extent do you agree with the following statement? Your views are sought from the perspective of the organisation you represent.

Figure 48: Problems in Using SDGs as a Tool for ESG Reporting

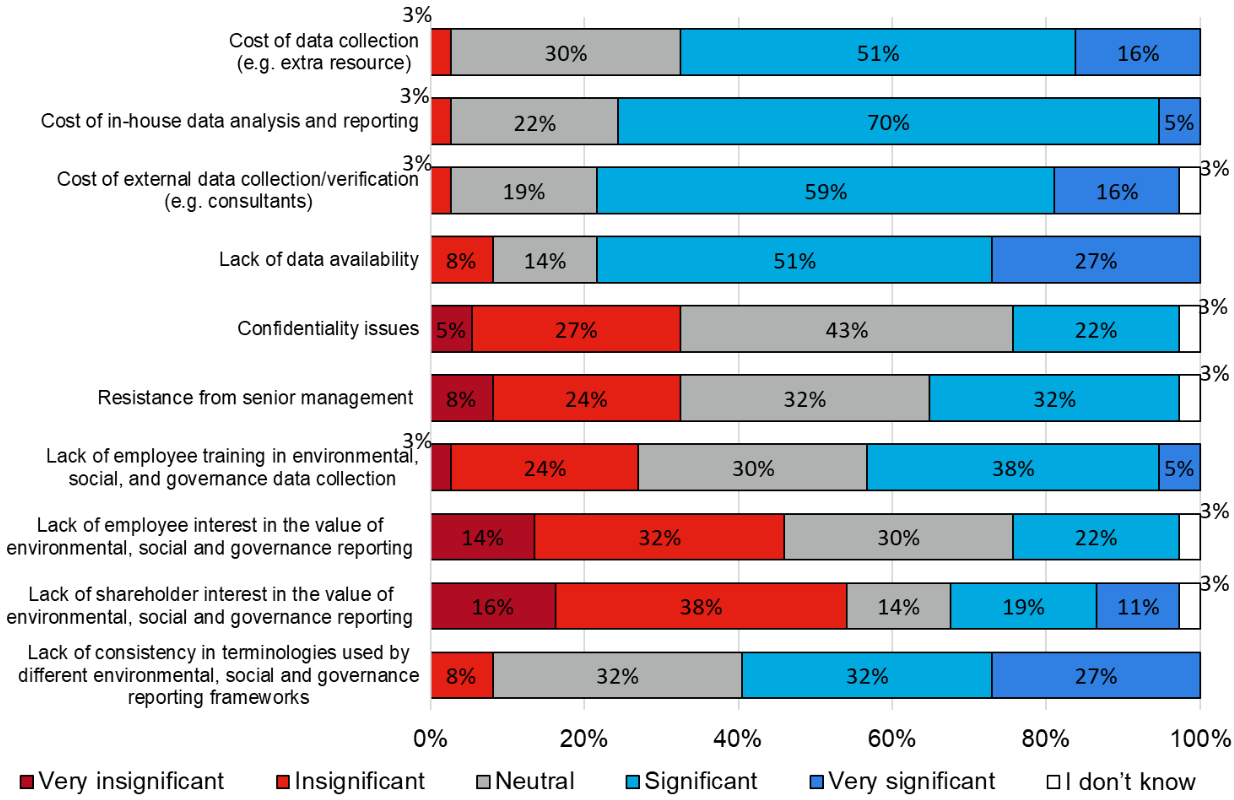


N value	37
Of the 45 businesses that completed the survey, 37 answered this question.	

51% of respondents agreed or strongly agreed that the SDGs are problematic as a tool for reporting for organisations. 25% disagreed or strongly disagreed, 22% were neutral, and 3% were unsure.

Q B16 How significant or insignificant are the following barriers to better reporting of environmental, social, and governance data in your organisation?

Figure 49: Barriers to Better Reporting of ESG Data



N value	37
Of the 45 businesses that completed the survey, 37 answered this question.	

Responses were similar regarding the costs of different elements of NFR.

Most (67%–75%) agreed or strongly agreed that the cost of data collection, analysis & reporting, and external data collection and verification would be a significant barrier to better reporting. Neutral responses were significant, ranging from 19%–30% for each. Only 3% disagreed that these costs were a significant barrier. Regarding lack of data availability, the results showed a similar spread to costs, but more (8%) disagreed that it would be a barrier, and there were fewer neutral responses (14%).

Confidentiality issues received the greatest number of neutral responses (43%), 32% either disagreed or strongly disagreed, and 22% agreed. A small proportion (5%) strongly disagreed that it would be a barrier, whilst no one strongly agreed. The spread of responses for resistance from senior management was more evenly spread from strongly disagree to agree: 32% either strongly disagreed or disagreed, 32% were neutral, and 32% agreed, whilst 3% did not know.

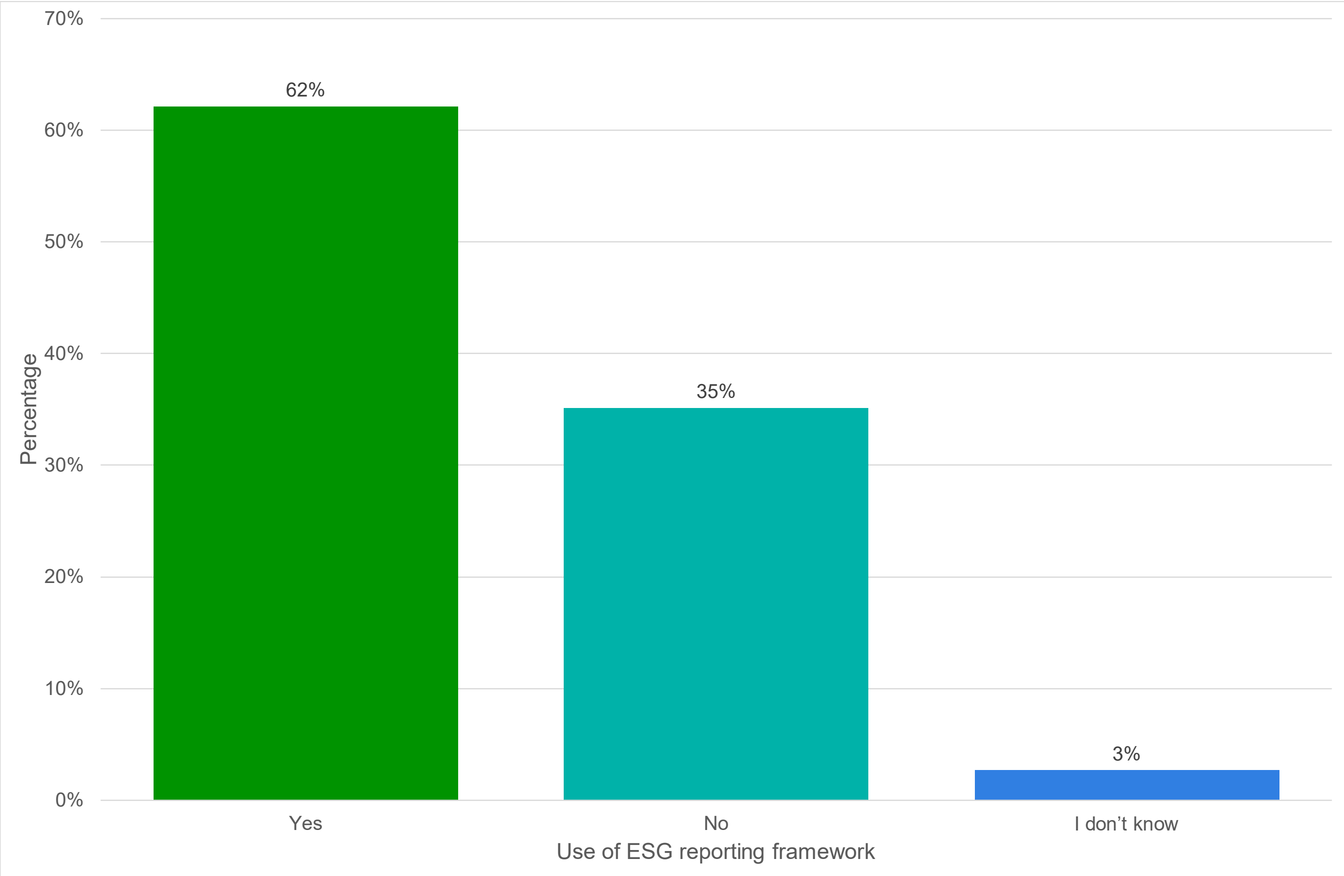
Whilst responses show that lack of employee interest in the value of NFR is seen as less of a barrier (46% disagreed or strongly disagreed with this statement), a similar figure (43%) agreed or strongly agreed that there was a lack of employee training in NFR. Neutral responses were the same (30%) for both statements.

Of least concern was a lack of shareholder interest, with 54% disagreeing or strongly disagreeing that this would be a barrier. 14% were neutral, and 30% agreed or strongly agreed.

59% agreed or strongly agreed that a lack of consistency in terminologies used by different ESG reporting frameworks would be a barrier. The answers were evenly spread between ‘neutral’ (32%), ‘agree’ (32%) and ‘strongly agree’ (27%), whilst a small proportion (8%) disagreed.

Q B17 Does your organisation currently use an environmental, social and governance reporting framework?

Figure 50: Use of ESG Reporting Frameworks

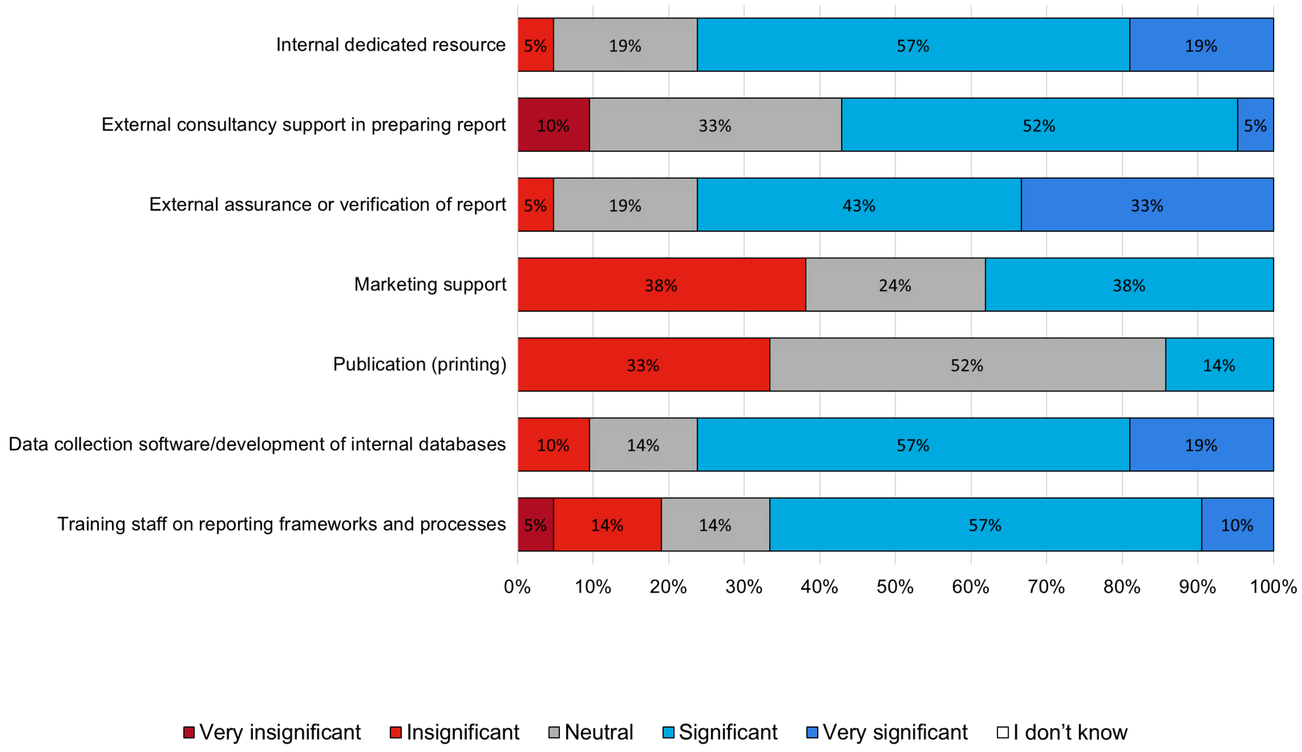


N value	37
Of the 45 businesses that completed the survey, 37 answered this question.	

62% reported using an environmental, social and governance reporting framework in their organisation. 35% reported not using such a framework, whilst 3% were unsure.

Q B18 How significant or insignificant are the following costs of environmental, social and governance reporting in your organisation?

Figure 51: Significance of Costs of ESG Reporting



N value	21
Of the 45 businesses that completed the survey, 21 answered this question.	

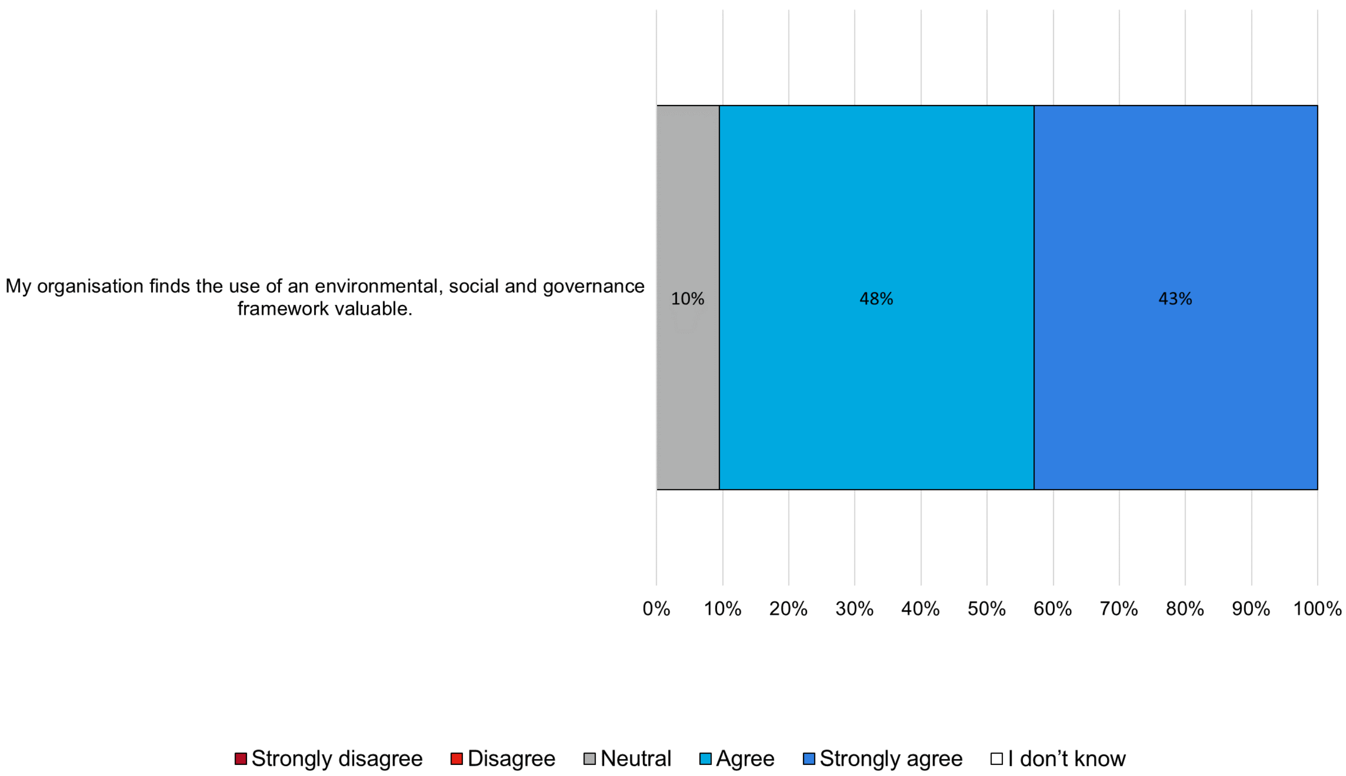
Most costs involved with environmental, social and governance reporting were considered to be significant or very significant, except for marketing support and publication. In terms of marketing support, although fewer people overall felt that it would be as significant as other costs, 38% of respondents still felt that these costs would be 'significant,' which was the same as the proportion for 'insignificant,' whilst 24% were neutral. Publication was considered to have the least significant impact on cost, receiving only 14% of 'significant' responses, whilst 52% were neutral and 33% were insignificant.

The most significant costs were anticipated to come from internal dedicated resource, external assurance of reporting, and data collection software/development of internal databases. For each of these, 76% felt the cost would be either 'significant' or 'very significant.' The greatest concern was external assurance of reporting, which 57% and 33% felt would respectively have 'significant' and 'very significant' impact on costs.

In terms of costs for external consultancy support, 33% of responses were neutral. No ‘insignificant’ responses were recorded, but 10% considered these costs ‘very insignificant.’ Most (52%) felt that these costs would be ‘significant,’ and only 5% ‘very significant.’ In terms of staff training on reporting frameworks and processes, 57% felt that costs would be ‘significant,’ whilst the remaining responses were more evenly spread.

Q B20 To what extent do you agree or disagree with the following statement: My organisation finds the use of an environmental, social and governance framework valuable.

Figure 52: Value of Using an ESG Framework

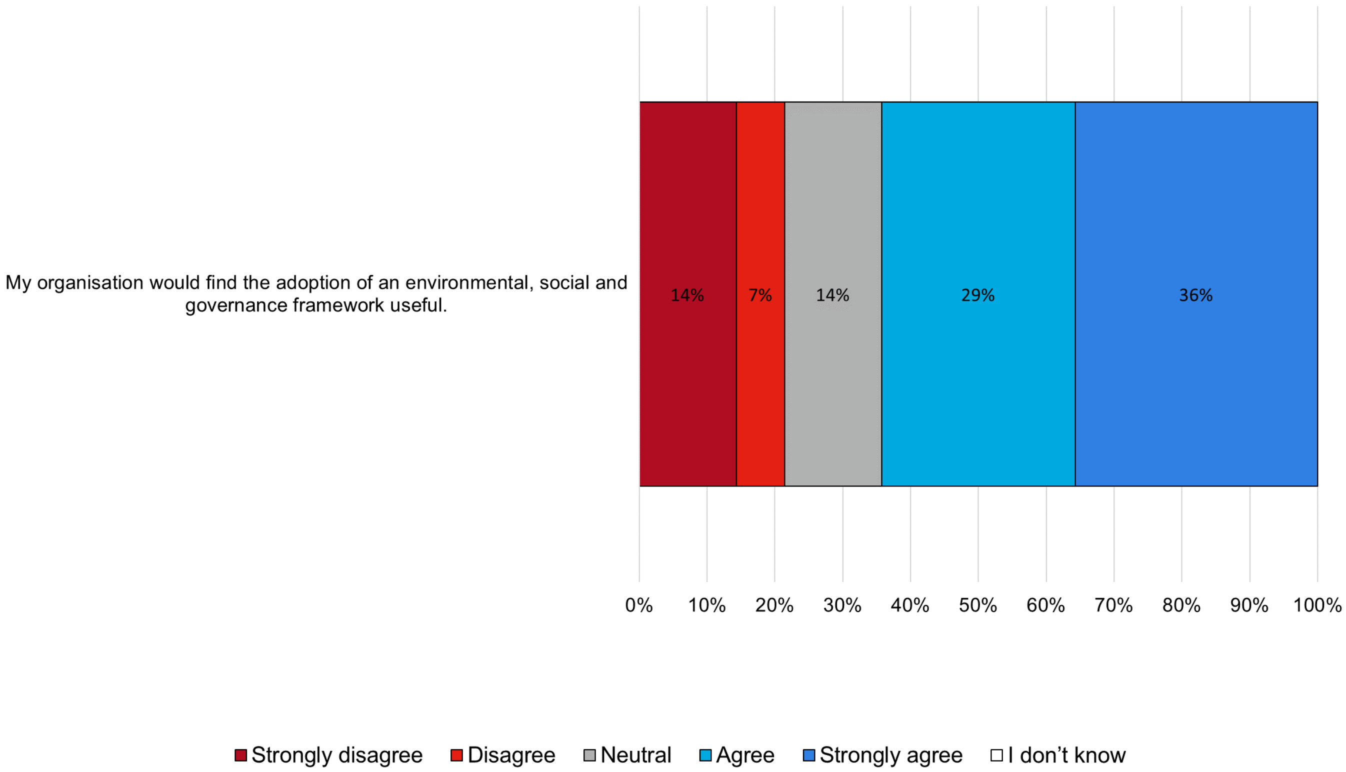


N value	21
Of the 45 businesses that completed the survey, 21 answered this question.	

No respondents disagreed or strongly disagreed that their organisation found the use of an ESG framework valuable; over 90% agreed or strongly agreed, and 10% were neutral.

Q B21 To what extent do you agree or disagree with the following statement: My organisation would find the adoption of an environmental, social and governance framework useful.

Figure 53: Usefulness of Adopting an ESG Framework

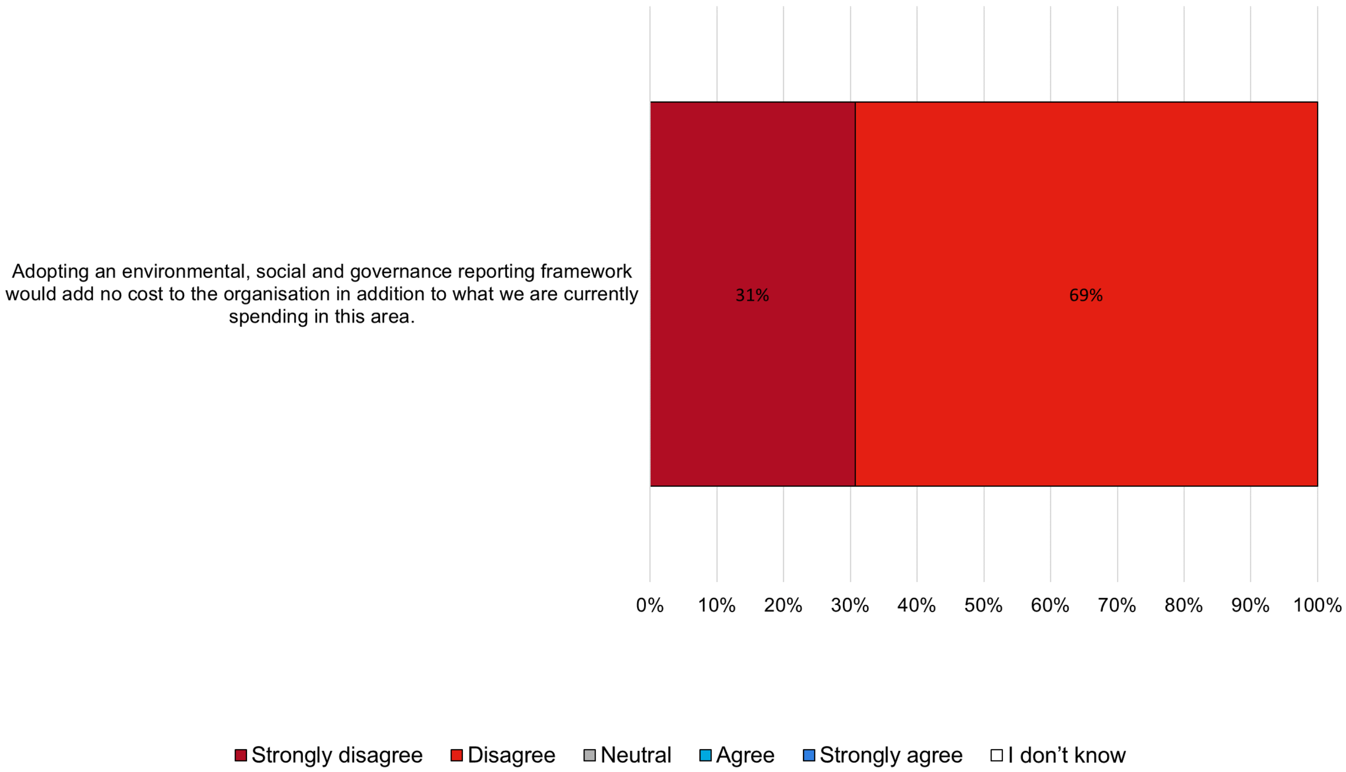


N value	14
Of the 45 businesses that completed the survey, 14 answered this question.	

36% strongly agreed and 29% agreed that their organisation would find the adoption of an ESG framework useful, a total of 65%. 21% disagreed or strongly disagreed, whilst 14% were neutral.

Q B22 To what extent do you agree or disagree with the following statement: Adopting an environmental, social and governance reporting framework would add no cost to the organisation in addition to what we are currently spending in this area.

Figure 54: Additional Cost of Adopting an ESG Reporting Framework

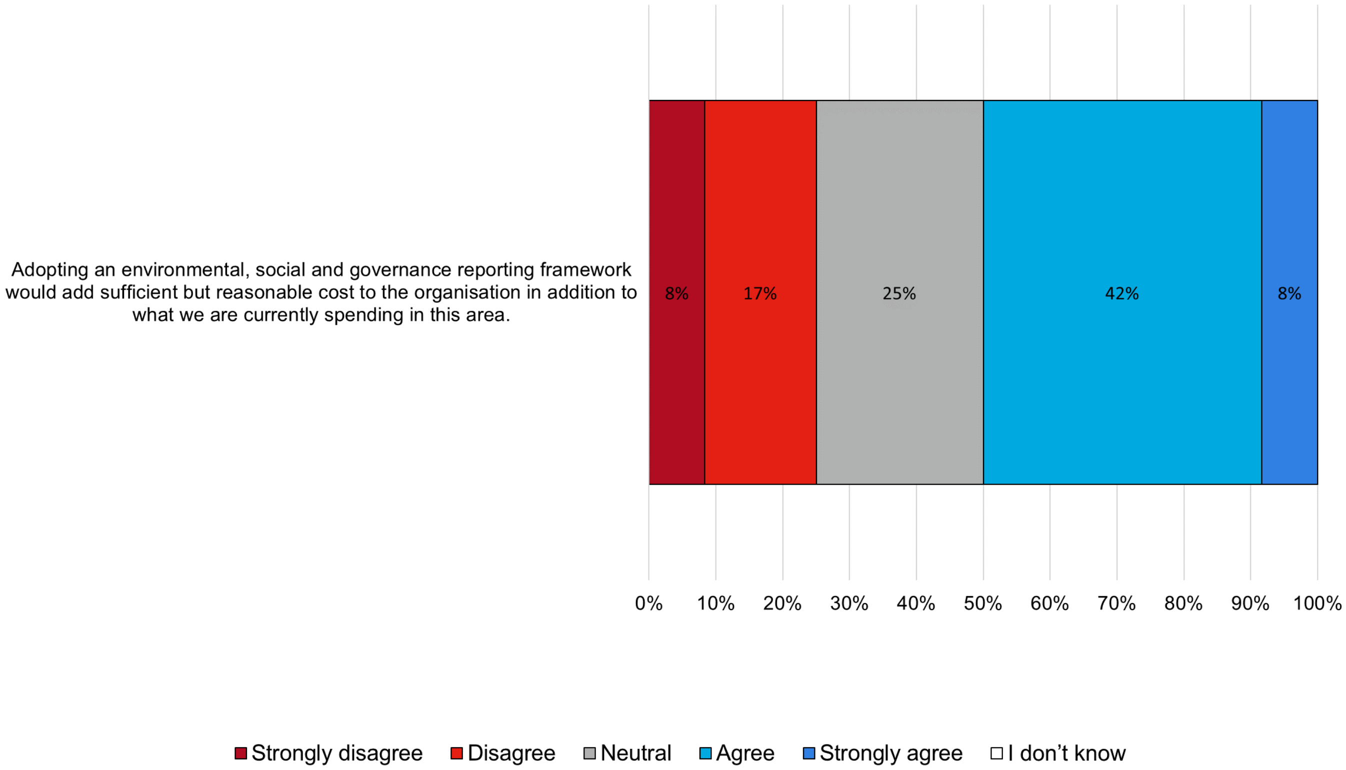


N value	13
Of the 45 businesses that completed the survey, 13 answered this question.	

31% disagreed and 69% strongly disagreed that there would be no additional costs involved in adopting an environmental, social and governance reporting framework.

Q B22 To what extent do you agree or disagree with the following statement: Adopting an environmental, social and governance reporting framework would add sufficient but reasonable cost to the organisation in addition to what we are currently spending in this area.

Figure 55: Reponses to the Statement 'Adopting an ESG Reporting Framework Would Add Sufficient but Reasonable Additional Costs'

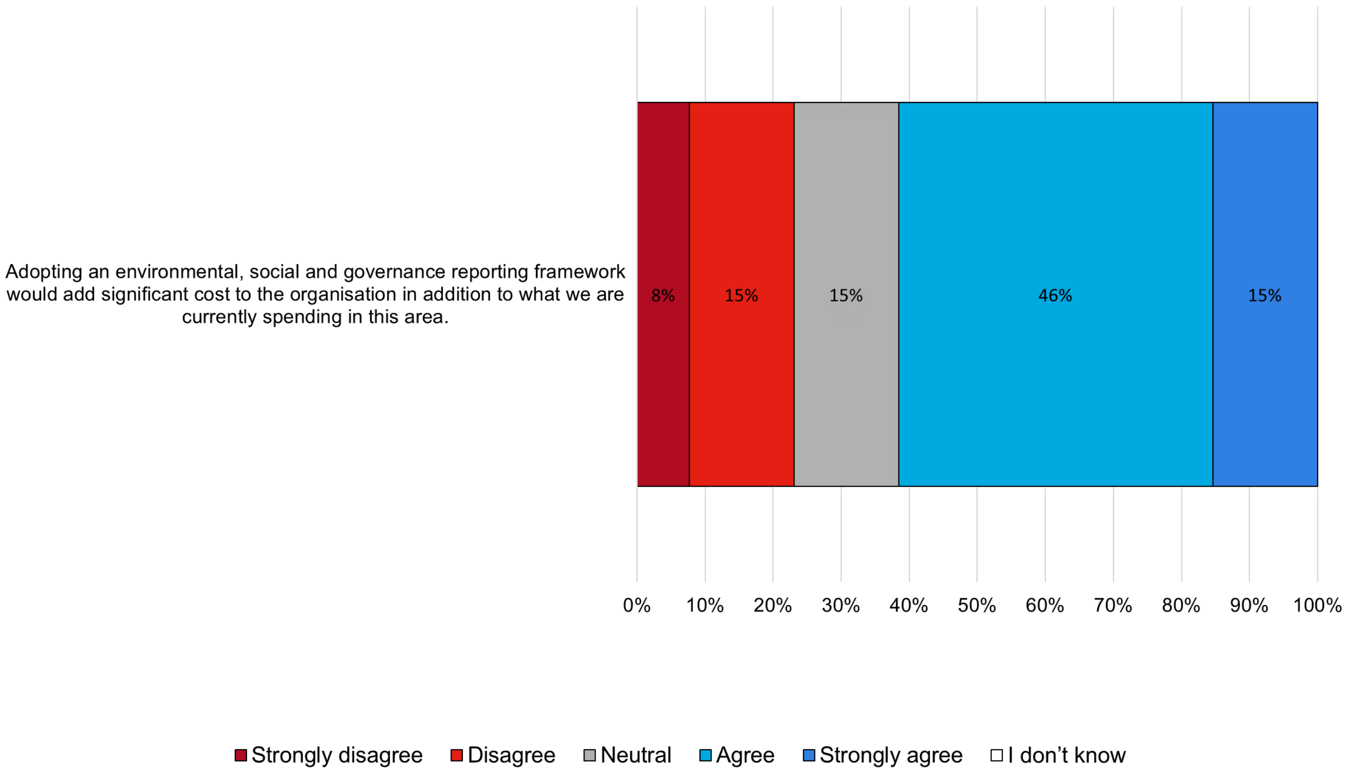


N value	12
Of the 45 businesses that completed the survey, 12 answered this question.	

42% of respondents agreed and 8% strongly agreed that the adoption of an ESG reporting framework would add sufficient but reasonable cost to the organisation's current expenditure in this area, a total of 50%. 25% felt neutral, and the remaining 25% disagreed or strongly disagreed.

Q B24 To what extent do you agree or disagree with the following statement: Adopting an environmental, social and governance reporting framework would add significant cost to the organisation in addition to what we are currently spending in this area.

Figure 56: Reponses to the Statement 'Adopting an ESG Reporting Framework Would Add Significant Additional Costs'

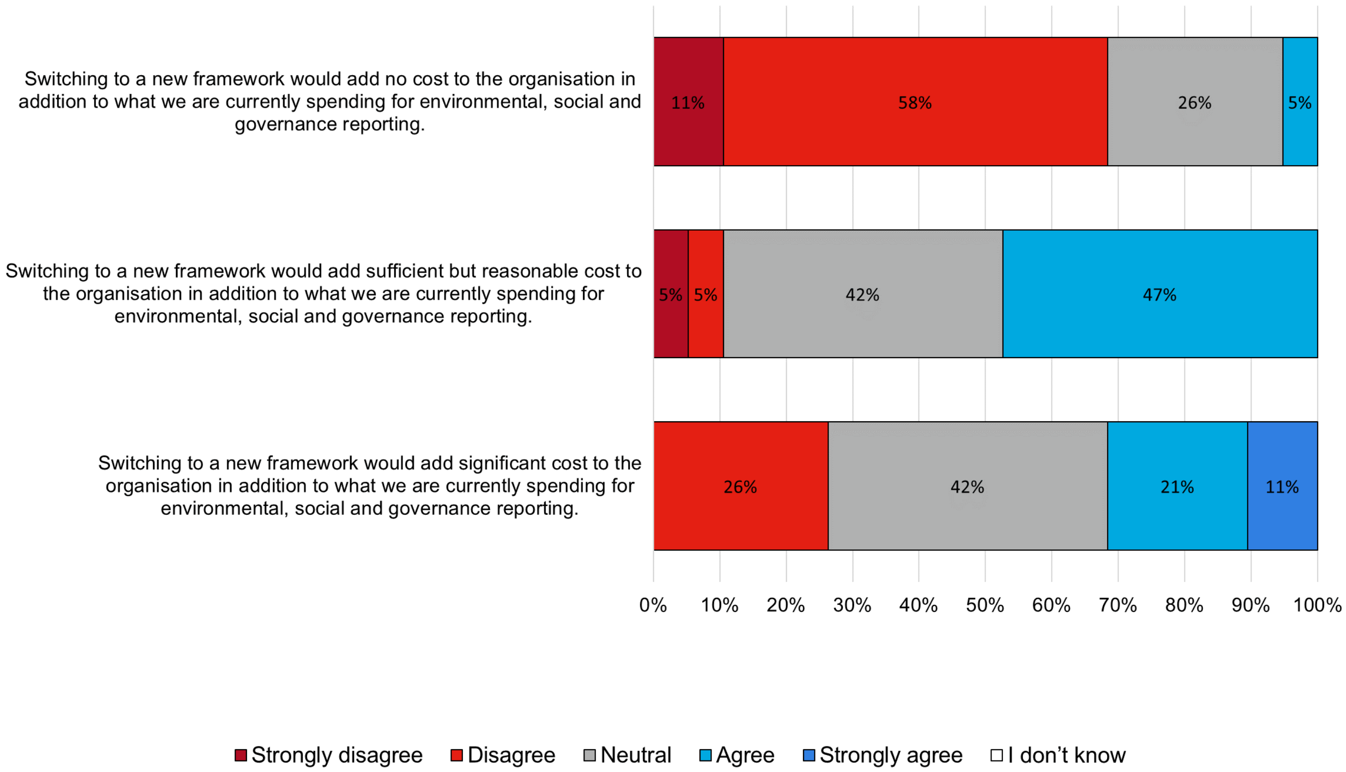


N value	13
Of the 45 businesses that completed the survey, 13 answered this question.	

46% agreed and 15% strongly agreed that adopting an ESG reporting framework would add significant cost to the organisation's current spend, a total of 61%. 23% disagreed or strongly disagreed, and 15% felt neutral.

Q B25 To what extent do you agree with the following statements.

Figure 57: Additional Costs of Switching to a New Framework



N value	19
Of the 45 businesses that completed the survey, 19 answered this question.	

Although most respondents felt that there would be additional costs associated with switching to a new framework, most did not agree that these costs would be significant.

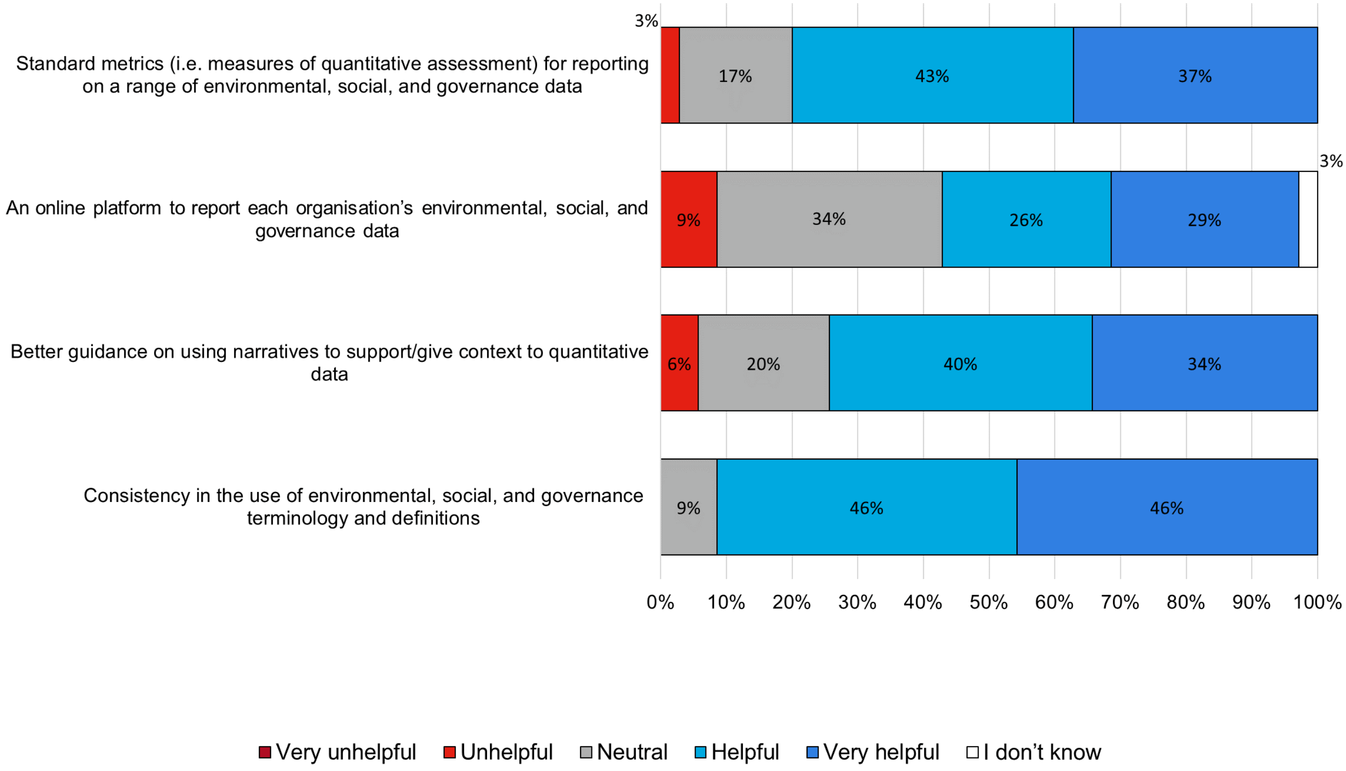
58% disagreed and 11% strongly disagreed that there would be no additional cost to the organisation when switching to a new framework, a total of 69%. 26% felt neutral, whilst only 5% agreed.

10% disagreed or strongly disagreed that switching to a new framework would add sufficient but reasonable cost. 42% felt neutral, whilst 47% agreed.

Only 26% disagreed that switching to a new framework would add significant cost to the organisation in addition to what they are currently spending for ESG reporting, but 42% were neutral, and only 32% agreed or strongly agreed.

Q B26 How helpful do you believe the following would be for improving the environmental, social and governance reporting process within your organisation?

Figure 58: Tools to Improve the ESG Reporting Process



N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

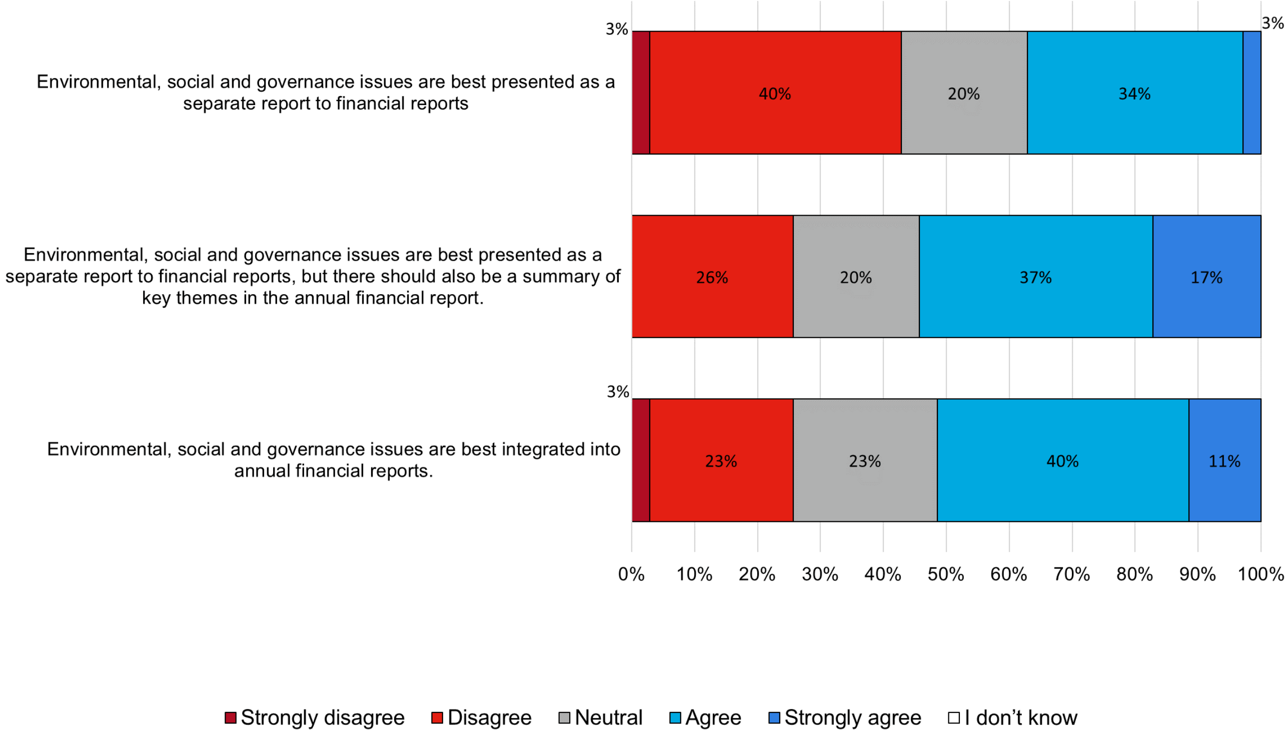
Respondents generally felt that each mechanism would help improve the reporting process within their organisation. Consistency in the use of ESG terminology and definitions was considered to be the most helpful, with 92% of responses considering it would be 'helpful' or 'very helpful,' and no responses considering it would be unhelpful.

The least helpful was considered to be an online platform for reporting data, with 55% believing it would be 'helpful' or 'very helpful,' and more respondents felt that it would be 'unhelpful' than any other mechanism, at 9%. It also had the greatest proportion of 'neutral' responses, at 34%, and was the only one to receive any 'I don't know' responses, at 3%.

Responses for standard metrics and better guidance were similar, although responses were slightly more positive for standard metrics, with 81% agreeing or strongly agreeing, 17% feeling neutral, and 3% disagreeing. 74% agreed or strongly agreed that 'better guidance on using narratives to support/give context to quantitative data,' 20% felt 'neutral,' and 6% disagreed.

Q B27 To what extent do you agree with the following statements?

Figure 59: Presentation of ESG Reports Relative to Financial Reports



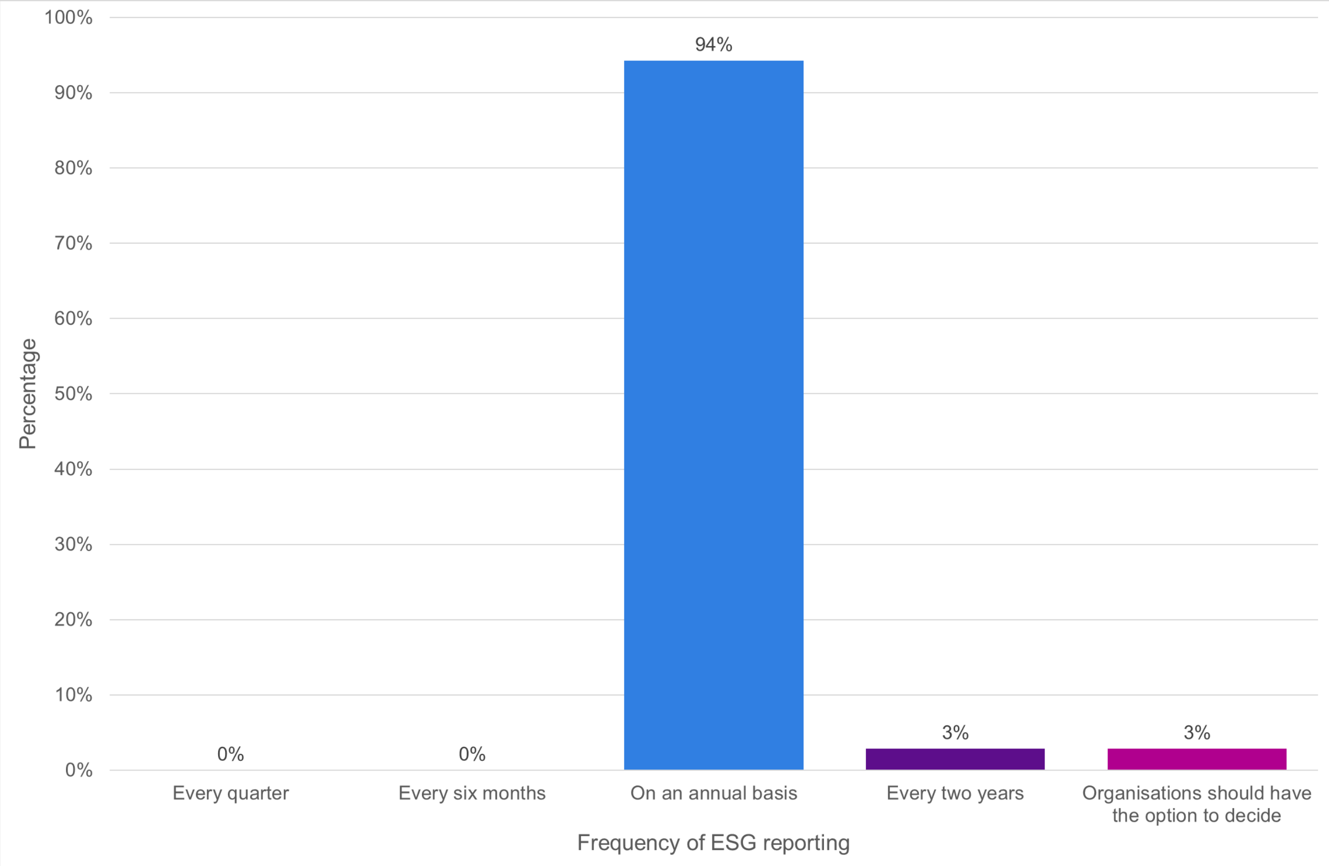
N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

Responses were varied as to whether ESG reports are best presented as a separate report to financial reports. Whilst 43% disagreed or strongly disagreed that they should be presented separately, only 37% agreed or strongly agreed, and 20% were neutral.

54% agreed or strongly agreed, 26% disagreed, and 20% were neutral regarding whether there should be a summary of non-financial reports in financial reports, but that there should also be a summary of key themes in the financial report. 51% agreed or strongly agreed that non-financial reports should be integrated into financial reports, 26% disagreed or strongly disagreed, and 23% were neutral, the greatest proportion of neutral respondents of all of the three statements.

Q B28 How frequently do you think organisations should publish their environmental, social and governance reports?

Figure 60: Frequency of Publication of ESG Reports

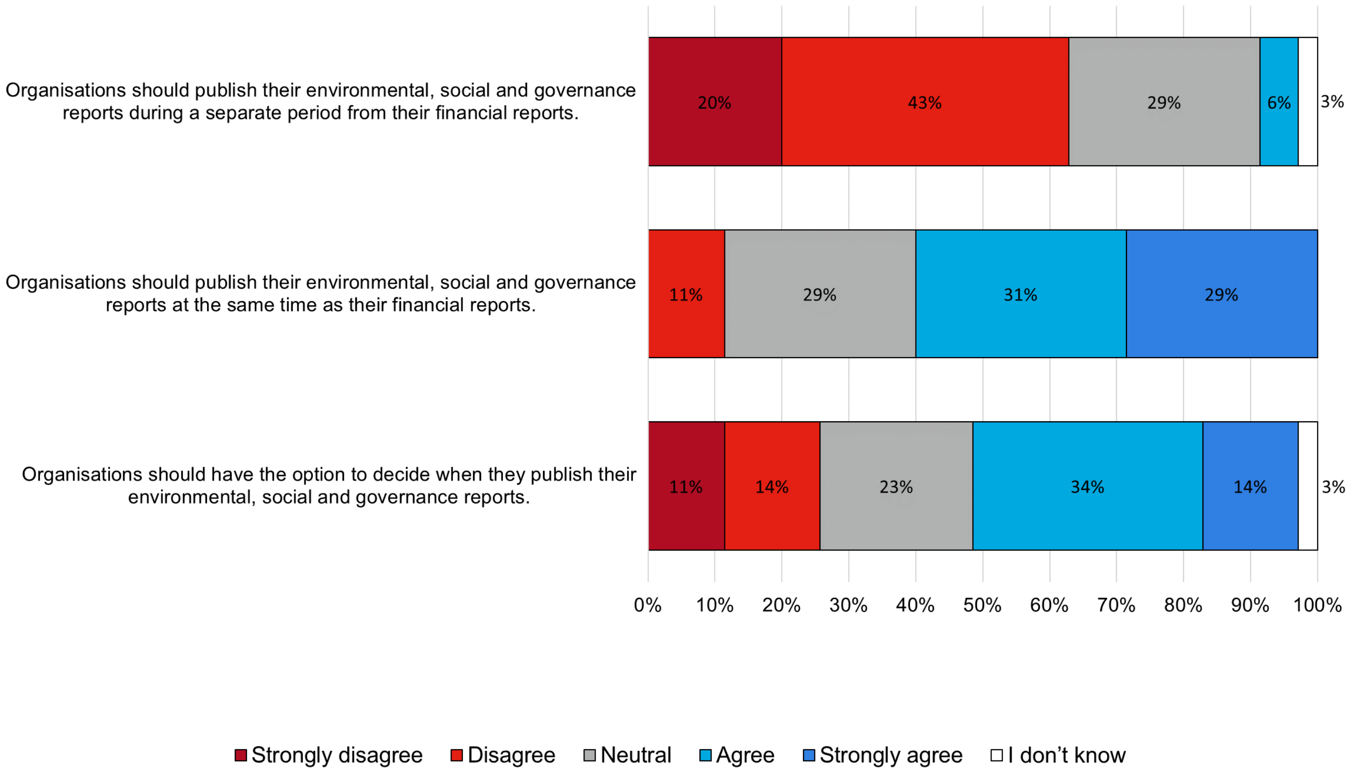


N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

94% believed that environmental, social and governance reports should be published on an annual basis, and none believed it should be any more frequent. 3% believed it should be every two years, and 3% felt that organisations should have the option to decide.

Q B29 To what extent do you agree with the following statements?

Figure 61: Publication of ESG Reports Relative to Financial Reports



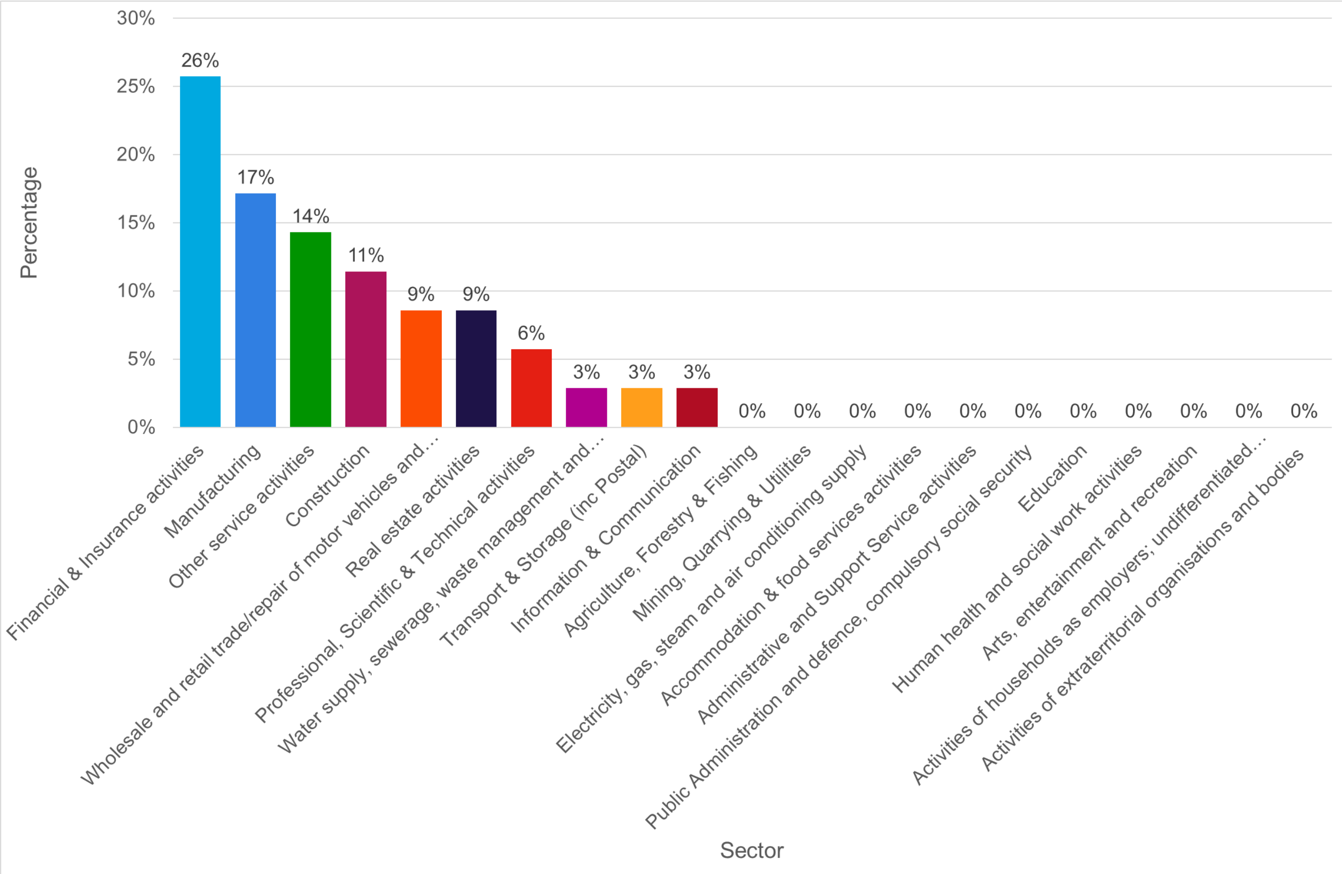
N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

In general, respondents did not feel that organisations should publish their ESG reports during a separate period from their financial reports, rather that they should be published at the same time, or they should have the option to decide when this should be.

63% of respondents disagreed or strongly disagreed that reports should be published at separate periods, and only 6% agreed, whilst 29% were neutral, and 3% were unsure. 60% agreed or strongly agreed that organisations should report at the same time, and only 11% disagreed, whilst 29% were neutral. Responses for whether organisations should have the option to decide when to publish their non-financial reports were more spread, but 48% agreed or strongly agreed that organisations should be able to decide, and 25% disagreed or strongly disagreed. This statement had the fewest 'neutral' responses, at 23%, and 3% were unsure.

Q B30 What sector best describes the main activity of your business?

Figure 62: Sector of Business Operation

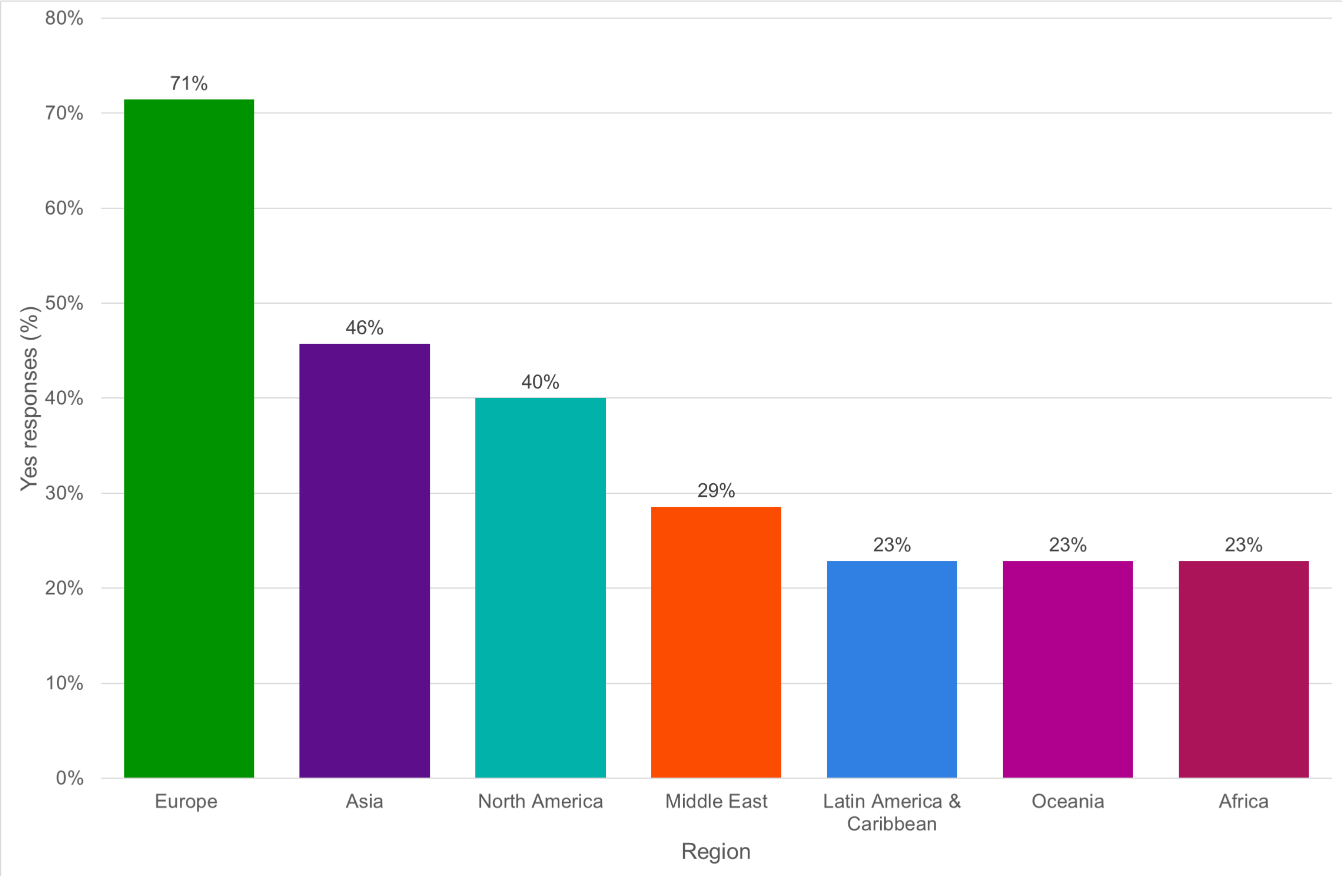


N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

The activity mentioned by the highest number of respondents was financial and insurance activities at 26; followed by manufacturing at 17%; ‘other service activities’ at 14%, construction at 11%; wholesale and retail trade/repair of motor vehicles and motorcycles and real estate activities, both at 9%; professional, scientific and technical activities at 6%;and water supply, sewage, waste management and remediation activities, transport and storage (including postal), and information & communication, all at 3%.

Q B31a Which regions does your business operate in?

Figure 63: Region of Business Operation (Worldwide)

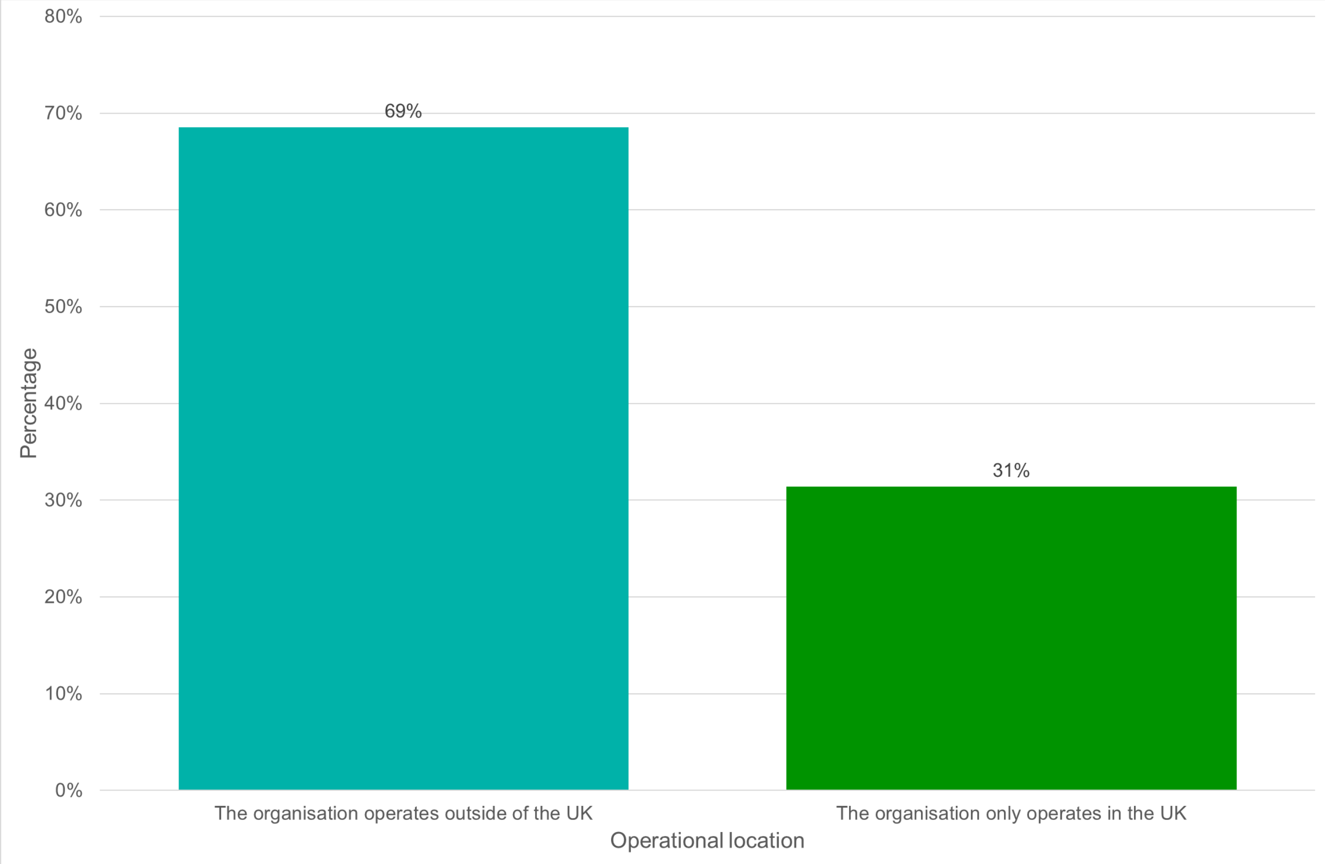


N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

71% of respondents worked for organisations that have operations in Europe, 46% in Asia, 40% in North America, 29% in the Middle East, 23% in Latin America & Caribbean, 23% in Oceania, and 23% in Africa.

Q B31b Which regions does your business operate in?

Figure 64: Region of Business Operation (Inside or Outside of the UK)

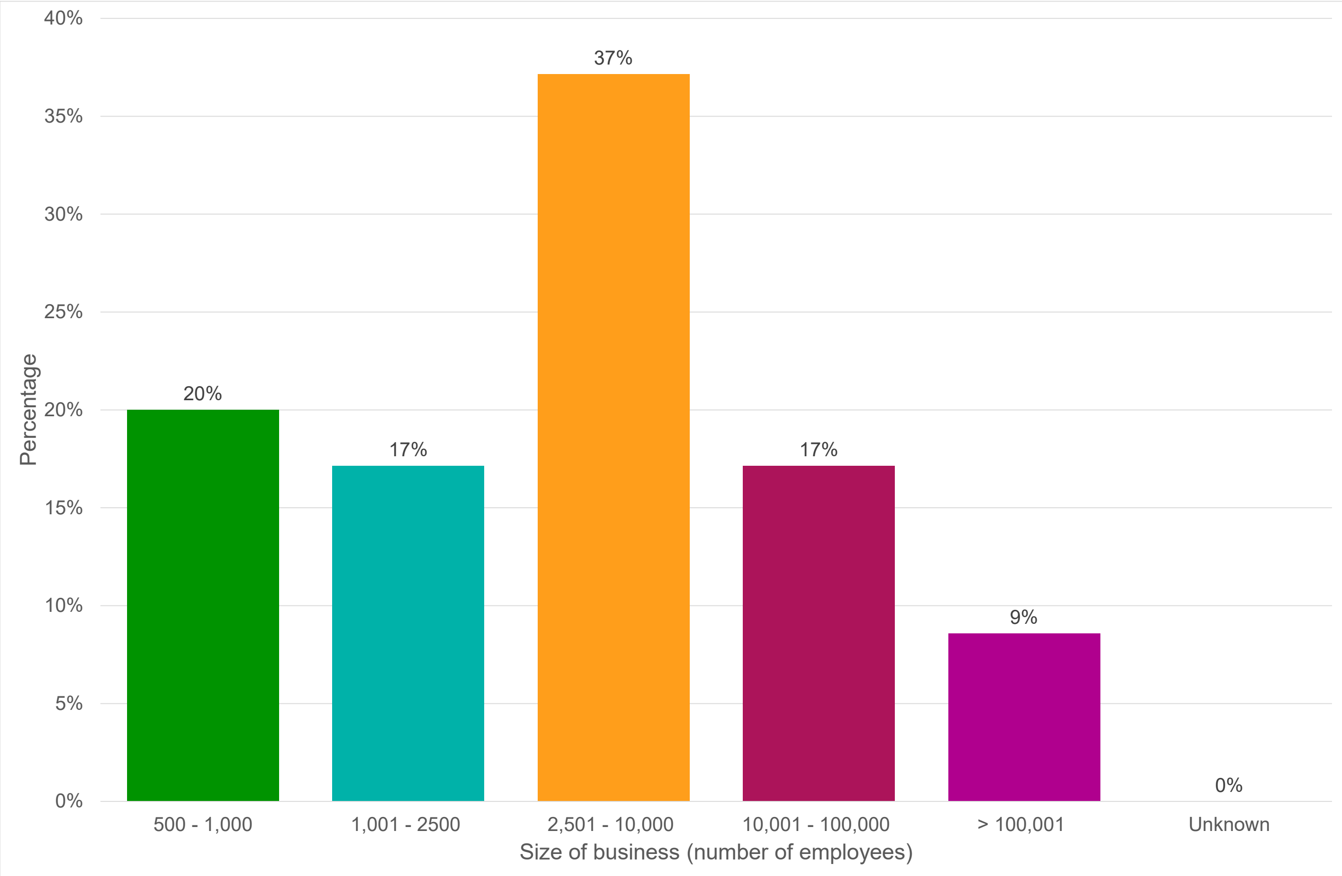


N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

69% of business respondents that completed the survey work for an organisation that operates within and outside of the UK, while 31% have operations within the UK only.

Q B32 What is the size of your business in terms of number of employees? (select one)

Figure 65: Business Size by Number of Employees

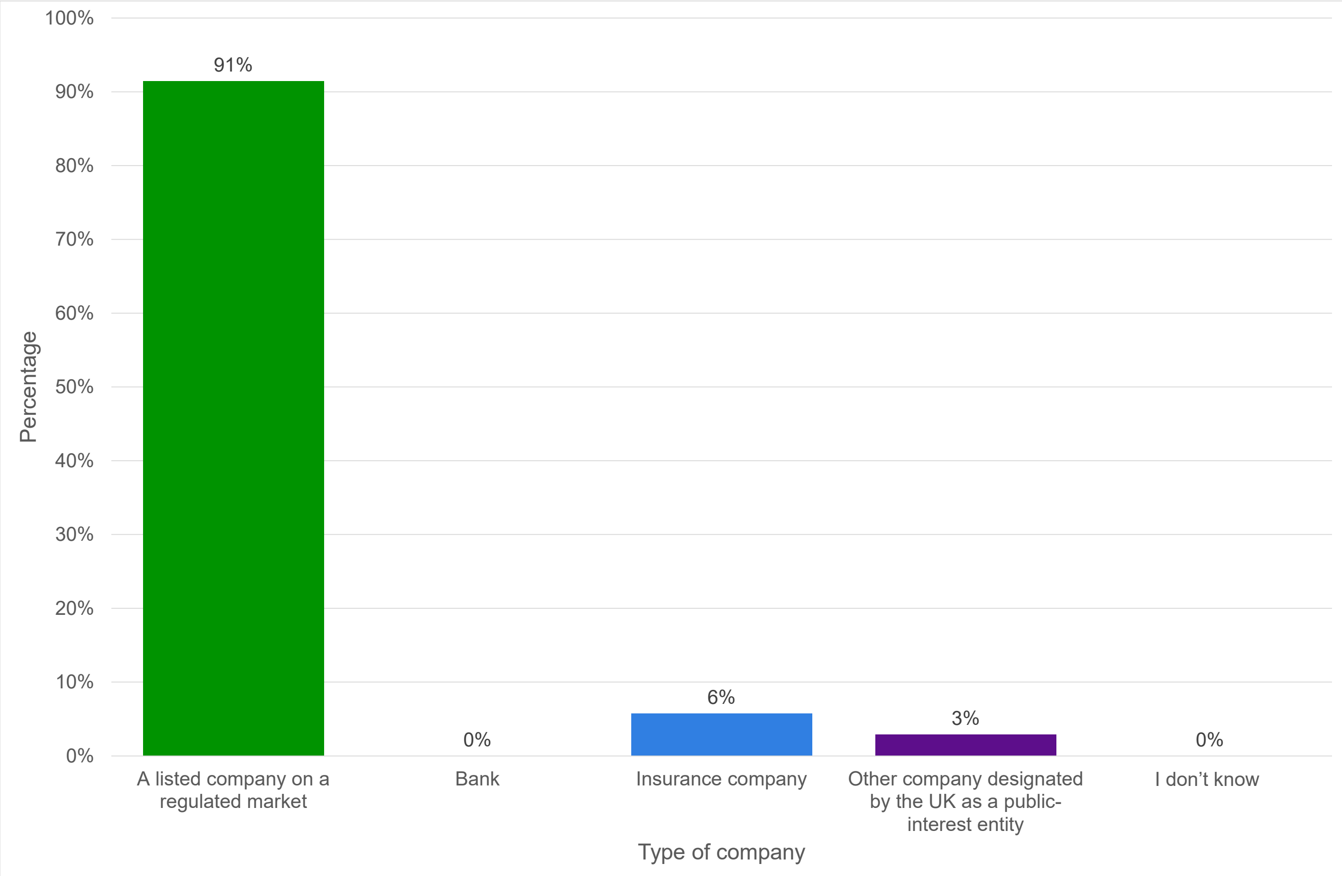


N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

The most common size of business for which respondents worked was between 2,501 to 10,000 employees, for which 37% of respondents worked. 20% of people worked for a business with between 500 to 1,000 employees, 17% for both 1,001 to 2,500 employees, and 10,001 to 100,000 employees, and 9% for a business with more than 100,001 employees.

Q B33 Which type of company is your organisation? (select all that apply)

Figure 66: Type of Organisation



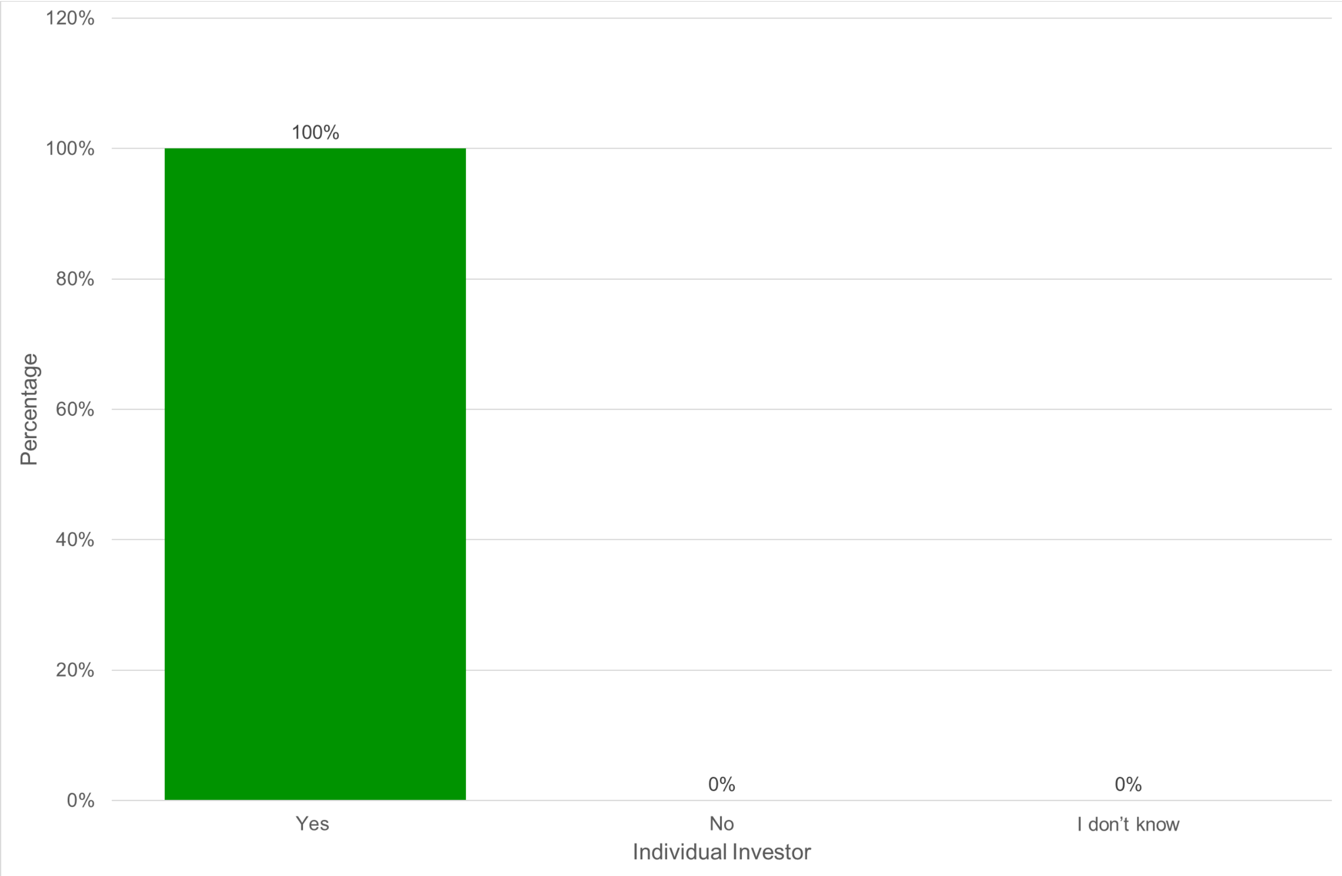
N value	35
Of the 45 businesses that completed the survey, 35 answered this question.	

91% of respondents work for a listed company on a regulated market. 6% worked for an insurance company, and 3% worked for another company designated by the UK as a public-interest entity. None of the respondents worked for a bank.

Retail Investor Survey Results

Q I1 Are you someone who invests money in specific business that you choose?

Figure 67: Investment in Specific Businesses of Choice

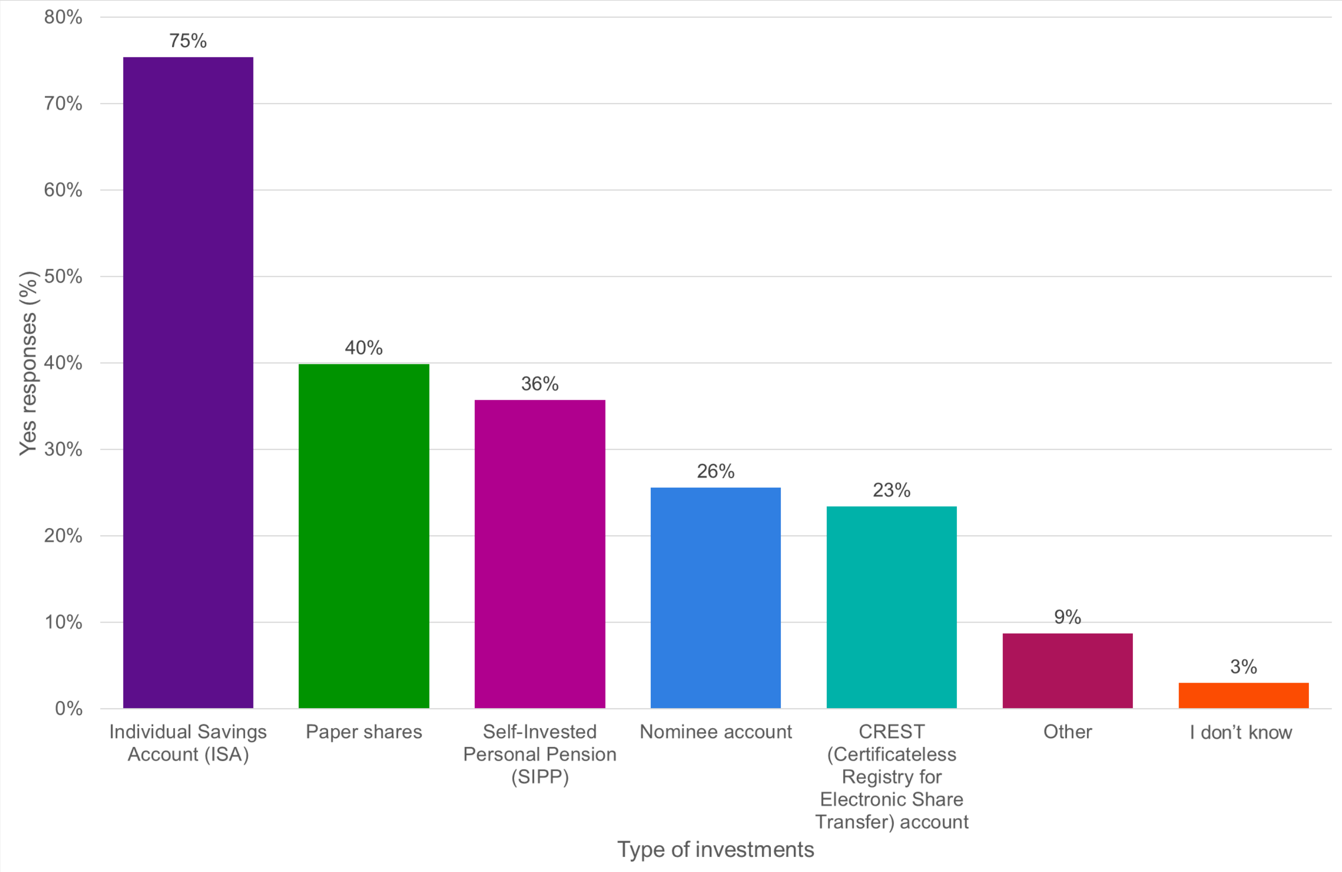


N value	504
Of the 504 retail investors that completed the survey, all responded to this question.	

100% of respondents invest money in specific businesses that they choose.

Q I2 Which type of investments do you hold? (check as many that apply)

Figure 68: Type of Investments Held

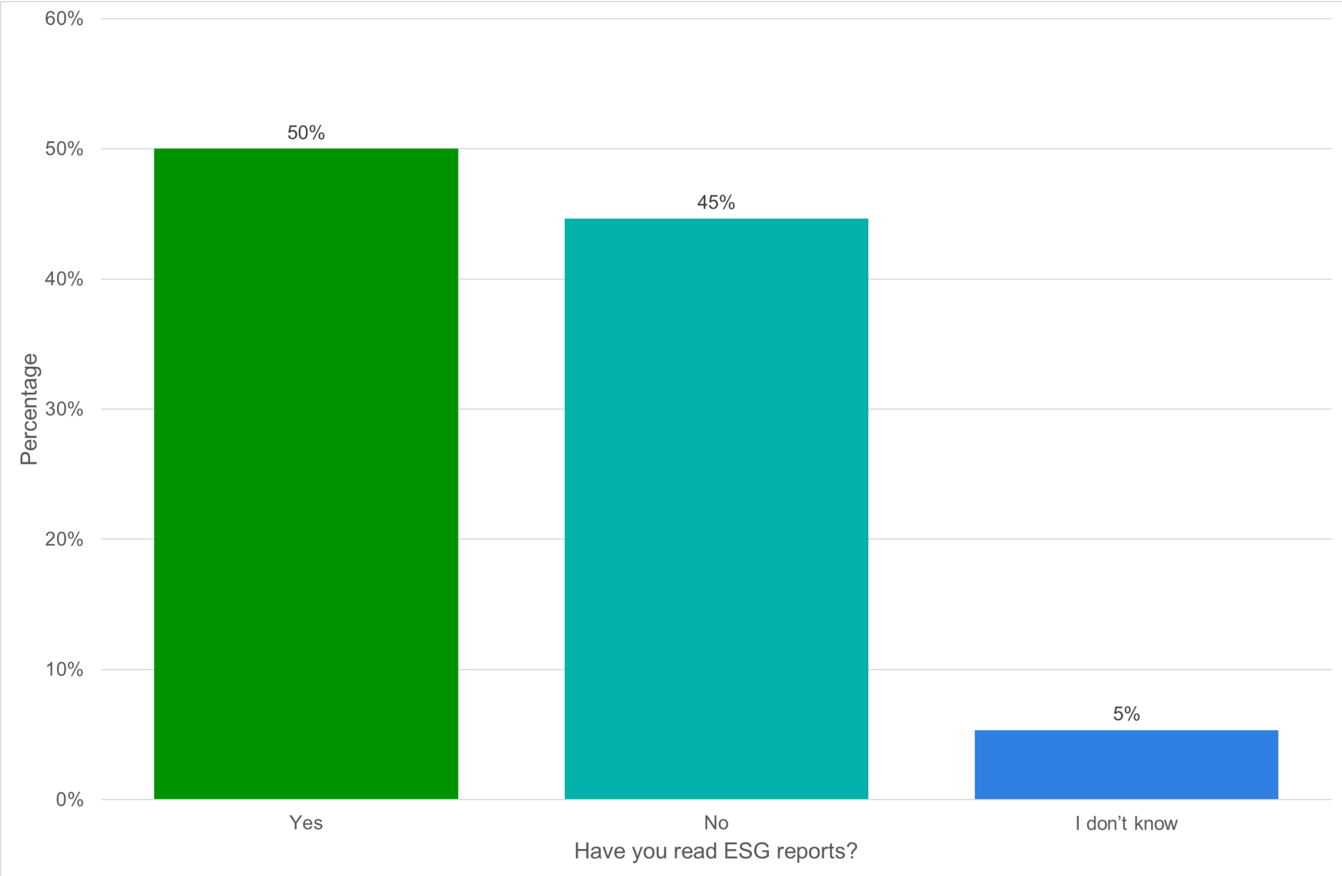


N value	504
Of the 504 retail investors that completed the survey, all responded to this question.	

The most common type of investment that respondents hold are Individual Savings Accounts (ISAs), held by 75% of respondents, followed by paper shares, held by 40%. 36% held Self-Invested Personal Pensions (SIPPs), 26% held nominee accounts, and 23% held Certificateless Registry for Electronic Share Transfer (CREST) accounts. 9% held other types of investment, and 3% were unsure.

Q I3 Have you previously read any environmental, social, and governance (ESG) reports or information for the businesses which you consider investing in?

Figure 69: Use of ESG Reports for Future Investments

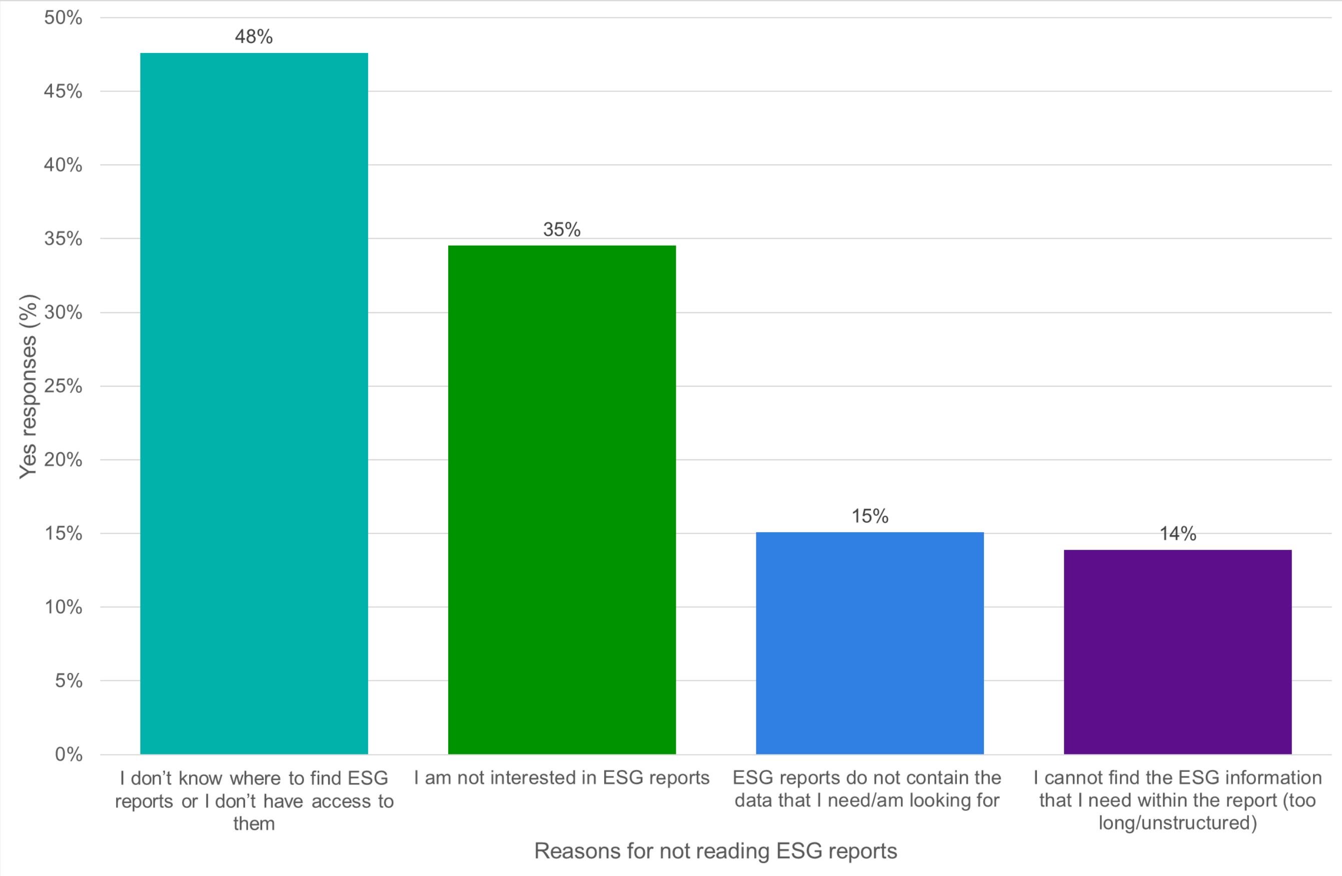


N value	504
Of the 504 retail investors that completed the survey, all responded to this question.	

50% of retail investors have previously read ESG reports or information for the businesses they consider investing in. 45% have not, and 5% did not know whether they had or had not.

Q I4 If not, why haven't you previously read any ESG reports/information for the businesses which you invest in? (tick all that apply)

Figure 70: Reasons for Lack of Use of ESG Reports

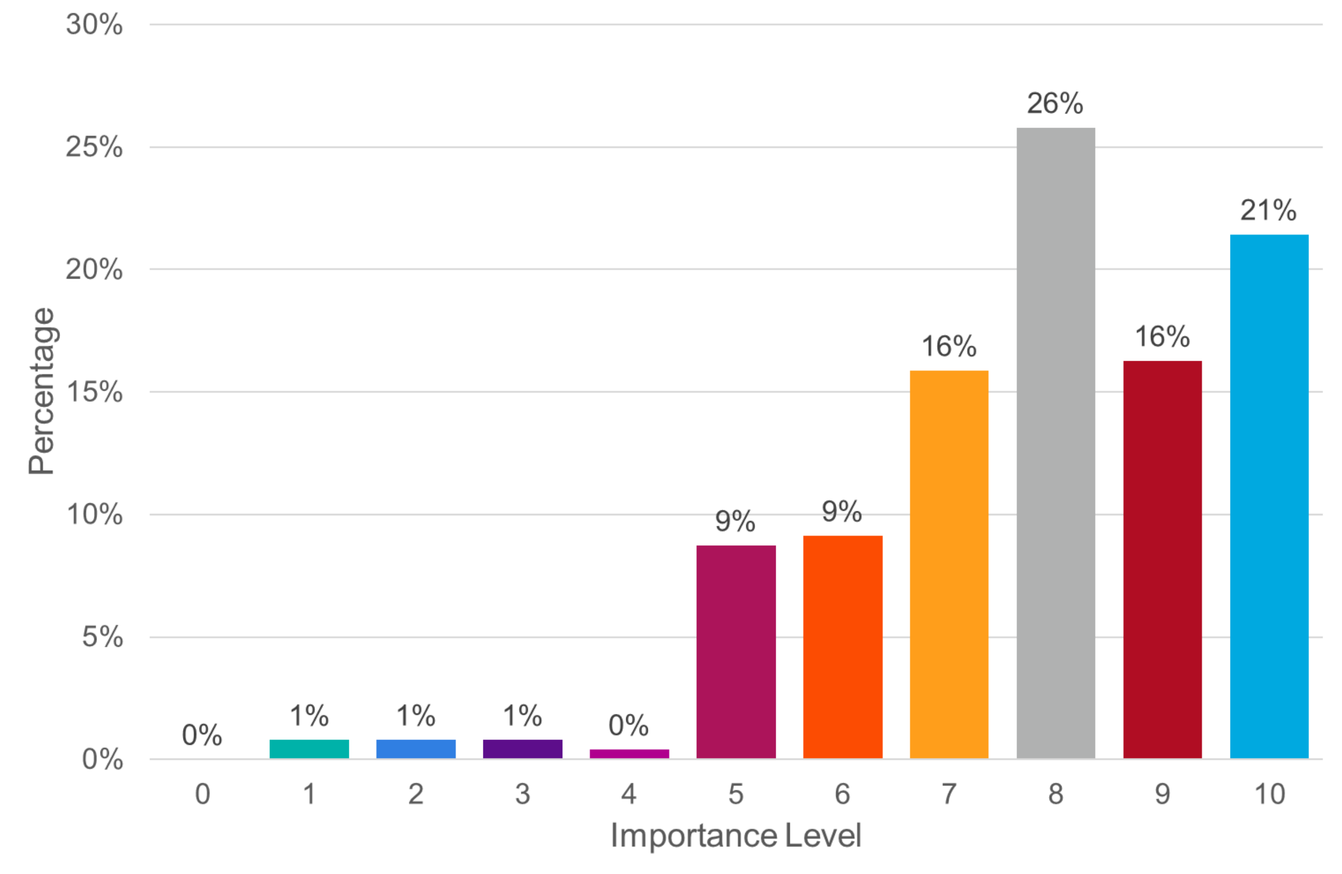


N value	252
Of the 504 retail investors that completed the survey, 252 answered this question.	

Access to ESG reports is a barrier to retail investors, and 48% of respondents have never read such a report because they not know where to find them. Lack of interest from retail investors is also an issue, with 35% not reading them for this reason. Only 15% felt that ESG reports didn't contain the data they needed, and 14% felt that information is difficult to find within long and unstructured reports.

Q I5a How important or not important is ESG performance in your decisions to invest in a specific business?

Figure 71: Importance of ESG Performance in Decisions to Invest in a Specific Business

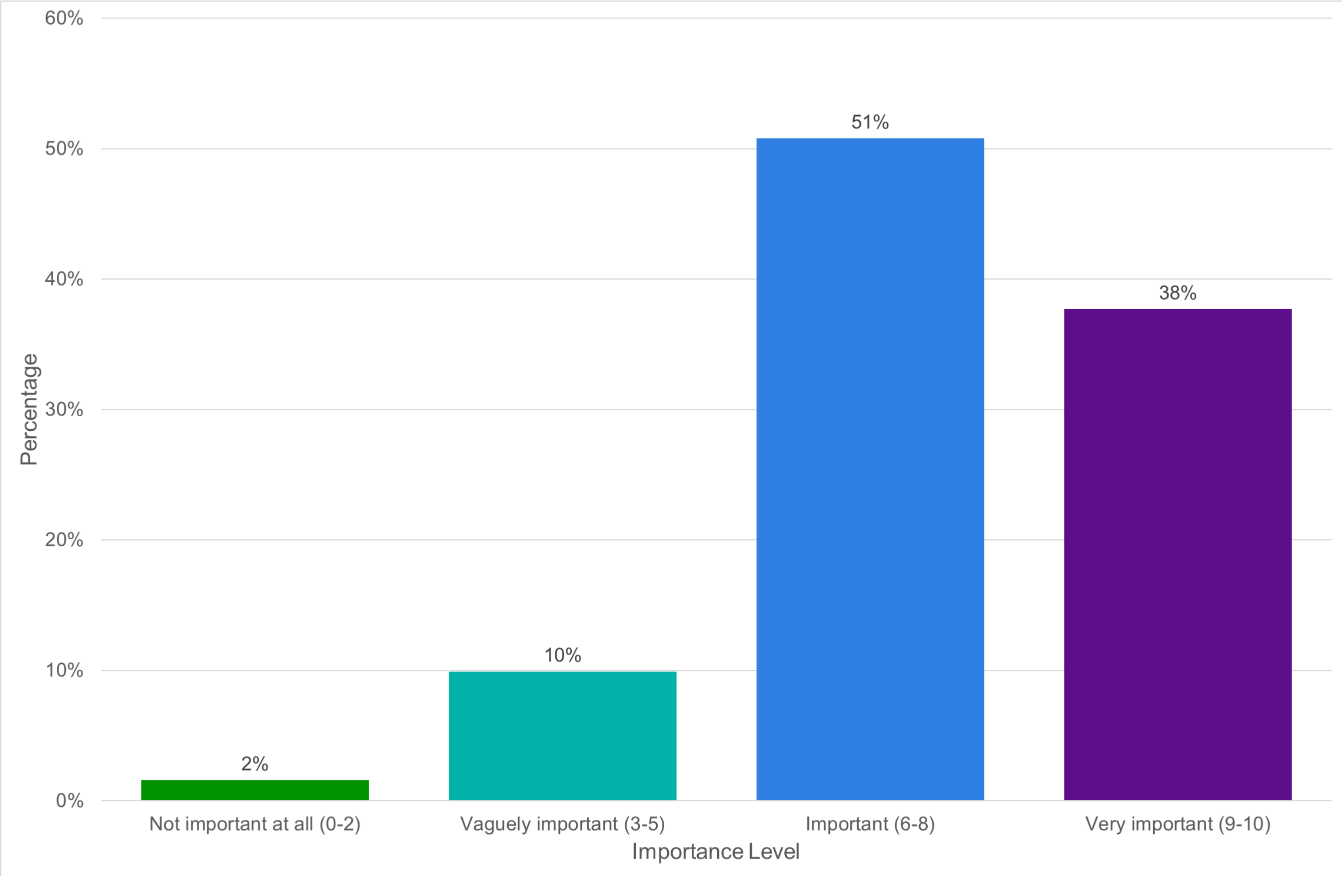


N value	252
Of the 504 retail investors completed the survey, 252 answered this question.	

In general, respondents felt that ESG performance is important in their decisions to invest in a specific business. 21% felt that the importance level was ’10,’ 16% for ‘9,’ 26% for ‘8,’ 16% for ‘7,’ 9% for ‘6,’ 9% for ‘5,’ 0% for ‘4,’ 1% for ‘3,’ ‘2,’ and ‘1,’ and 0% for ‘0.’

Q I5b How important or not important is ESG performance in your decisions to invest in a specific business?

Figure 72: Importance of ESG Performance in Decisions to Invest in Specific Business (Grouped)

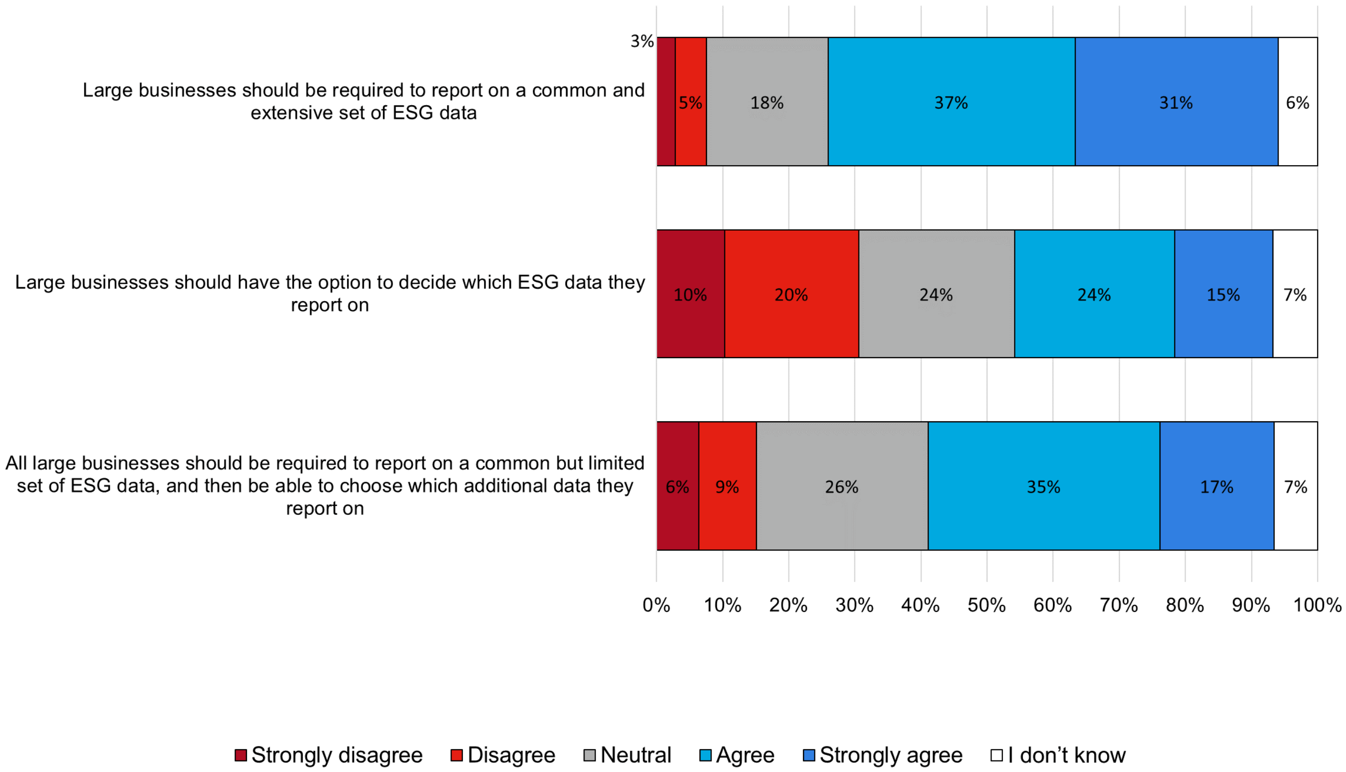


N value	252
Of the 504 retail investors that completed the survey, 252 answered this question.	

51% of respondents felt that ESG performance is important in their decisions to invest in a specific business, and 38% felt that is was very important. This includes a combined total of 89%. Only 2% felt that it was not important at all, and 10% felt that it was vaguely important.

Q I7 To what extent do you agree with the following approaches to reporting?

Figure 73: Requirements for ESG Reporting Data



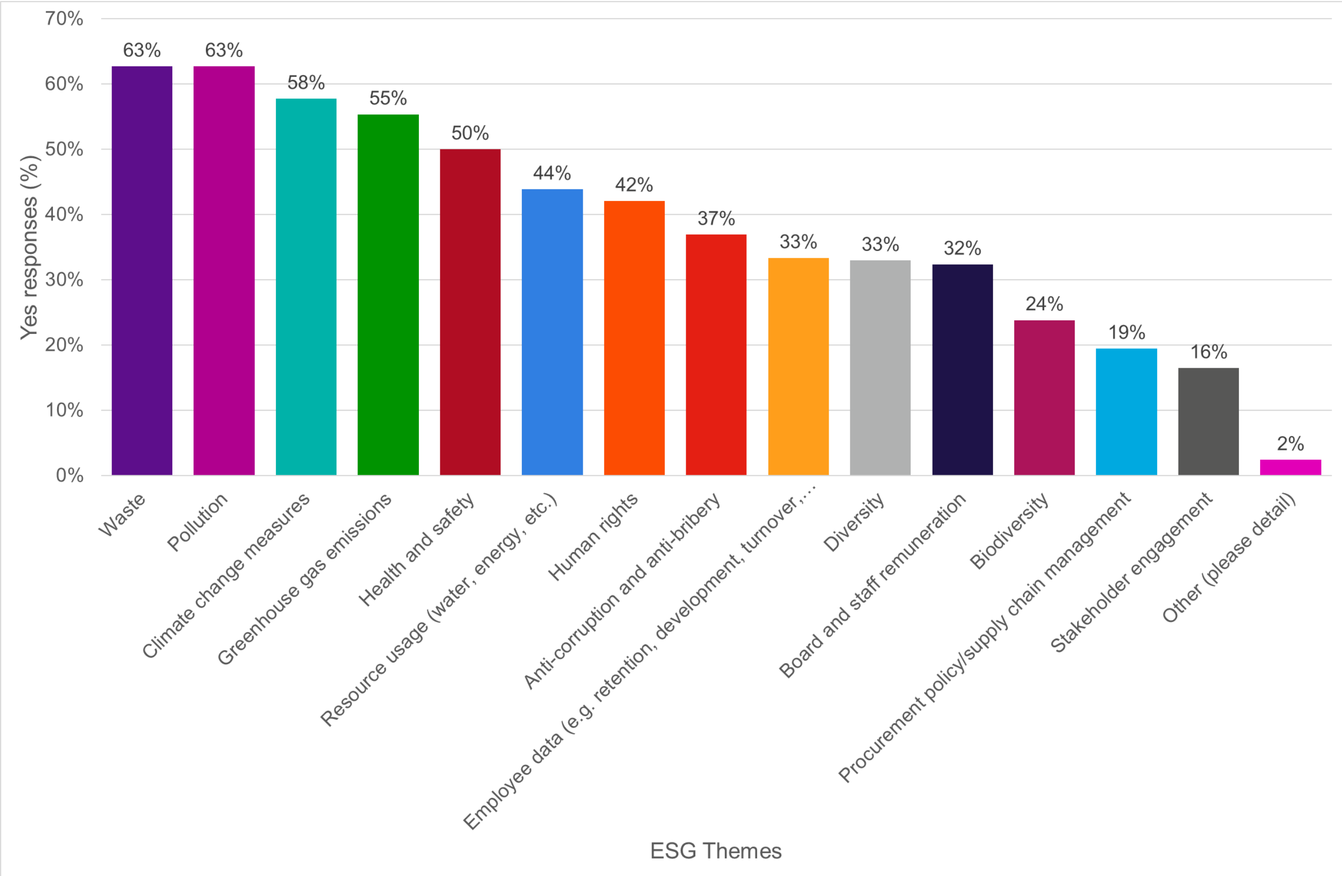
N value	504
Of the 504 retail investors that completed the survey, all responded to this question.	

Retail investors tend to believe that all large businesses should report on a common and extensive set of ESG data, with 68% agreeing or strongly agreeing that it should be an extensive set. 52% agreed or strongly agreed that large businesses should report on a common but limited set of ESG data, and then choose which additional data they report on.

30% disagreed or strongly disagreed that large businesses should have the option of exactly which data they report on, whilst 39% agreed or strongly agreed that they should. 6-7% of responses were unsure about each of these approaches.

Q I9 If businesses were required to report on a common but limited set of environmental, social, and governance data, which themes should they report on? Please select all that you think should apply.

Figure 74: ESG Themes for Reporting Requirements

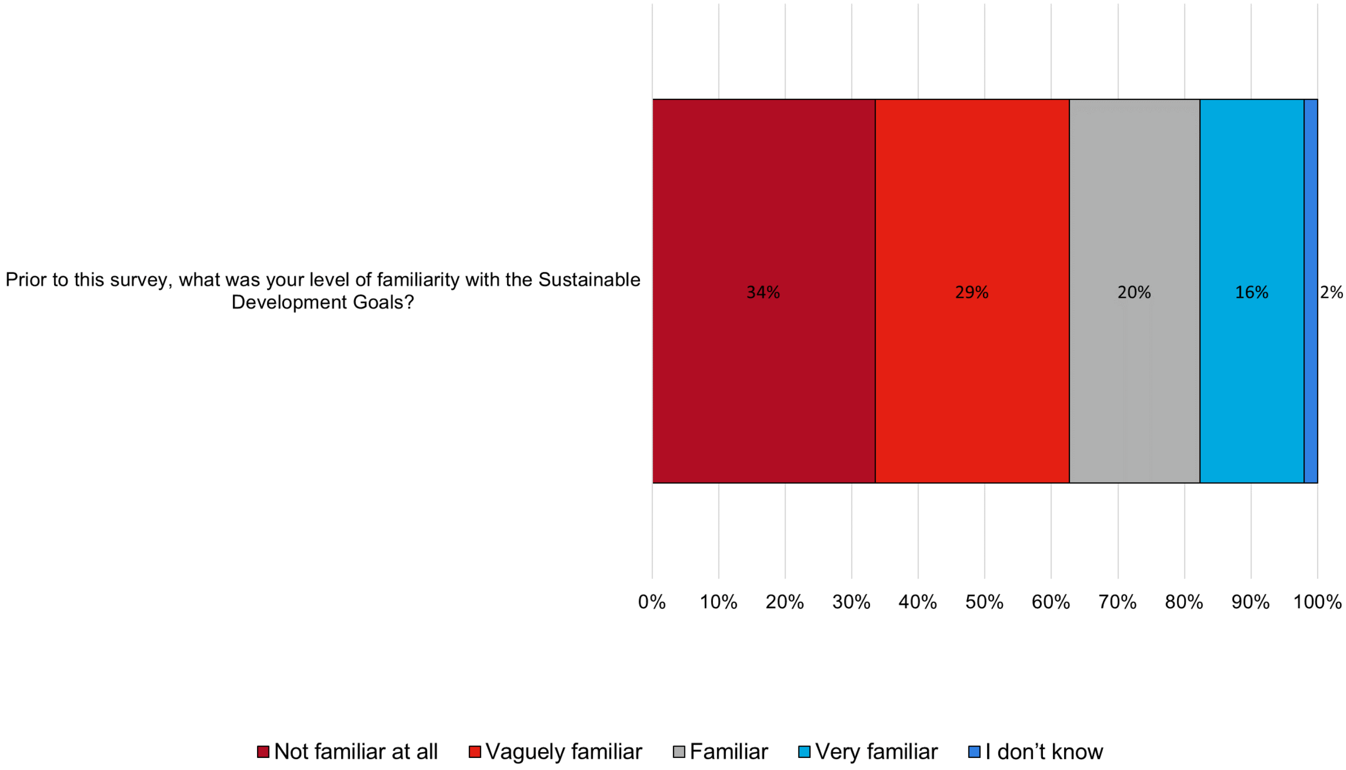


N value	504
Of the 504 retail investors that completed the survey, all responded to this question.	

Of the themes listed regarding which retail investors feel businesses should report on, five themes were supported by at least half (50% or more) of retail investors, whilst nine topics were considered important by less than half (44% or lower). The two most important themes were thought to be waste and pollution, which 63% of retail investors felt should be required to be reported on, followed by climate change measures at 58%. Stakeholder engagement was considered the least important, at 16%, followed by procurement policy/supply chain management at 19%, and biodiversity, at 24%. Support for other themes ranged from 32% to 44%.

Q I10 Prior to this survey, what was your level of familiarity with the Sustainable Development Goals?

Figure 75: Familiarity with SDGs

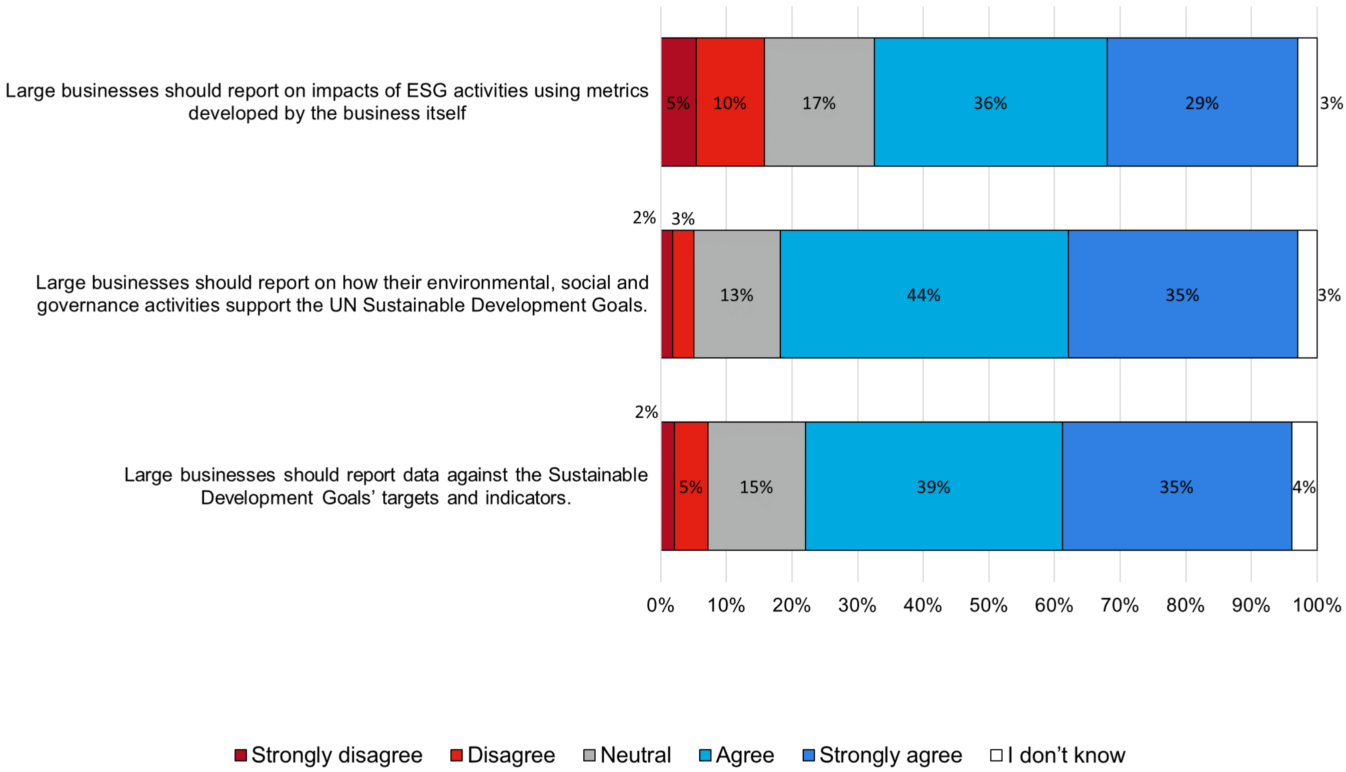


N value	504
Of the 504 retail investors that completed the survey, all responded to this question.	

63% of respondents were vaguely familiar or not familiar at all with the Sustainable Development Goals. 36% were familiar or very familiar, and 2% were unsure.

Q I11 To what extent do you agree or disagree with the following statements?

Figure 76: Use of SDGs in Reporting on ESG Data



N value	335
Of the 504 retail investors completed the survey, 335 answered this question.	

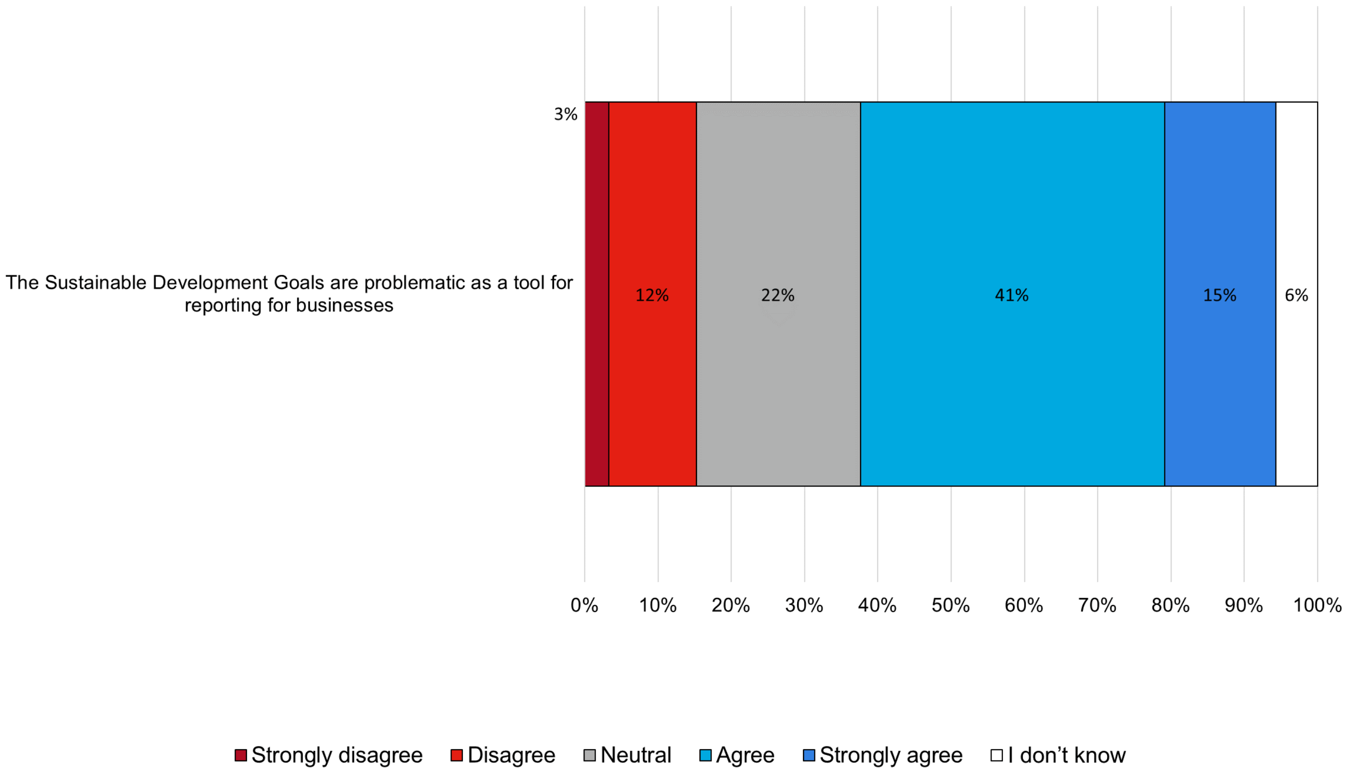
65% of respondents agreed or strongly agreed that large businesses should report on impacts of ESG activities using metrics developed by the business itself. 15% disagreed or strongly disagreed, and 17% were neutral.

79% of respondents agreed or strongly agreed that large businesses should report on how their ESG activities support the UN SDGs. Very few (5%) disagreed or strongly disagreed, and 3% were neutral.

74% agreed or strongly agreed that large businesses should report data against the SDGs targets and indicators. Only 7% disagreed or strongly disagreed, and 15% were neutral.

Q I12 To what extent do you agree or disagree with the following statement?

Figure 77: Problems in Using SDGs as a Tool for ESG Reporting

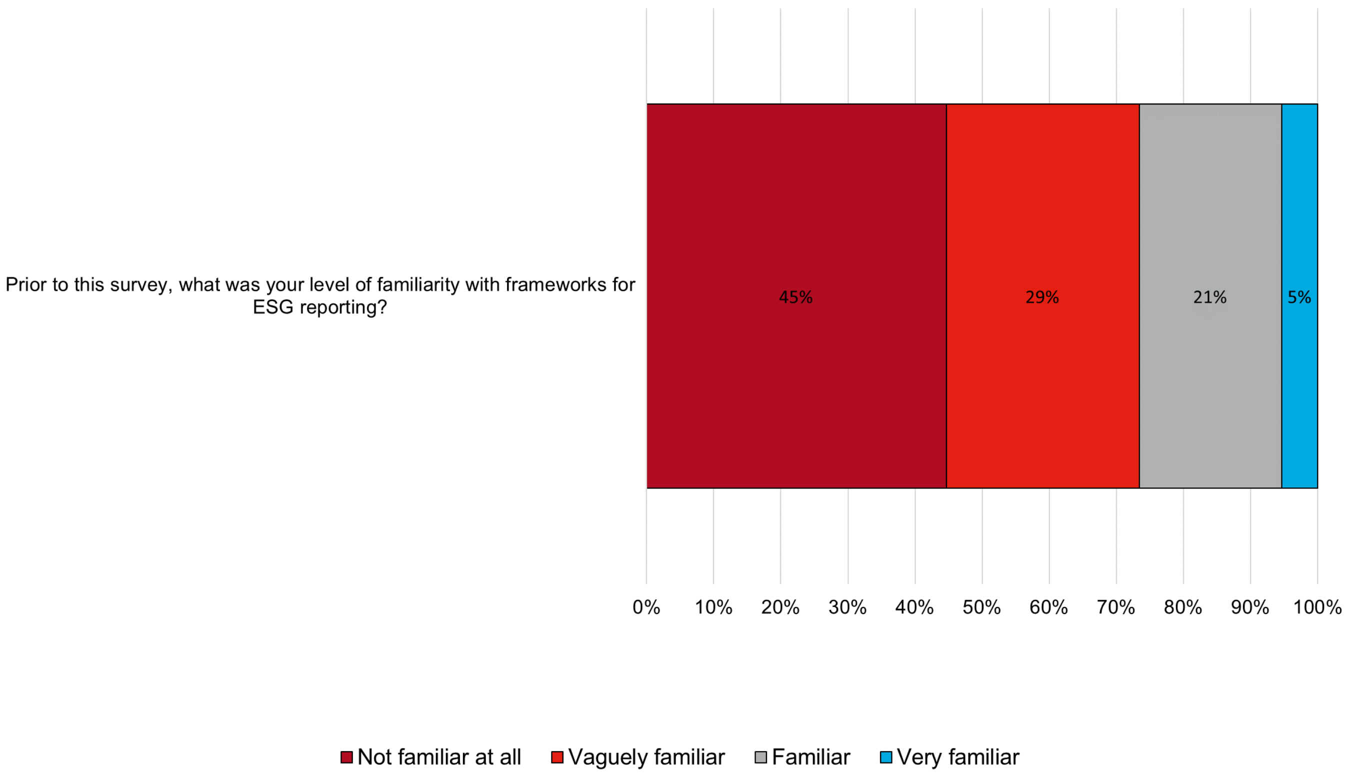


N value	335
Of the 504 retail investors that completed the survey, 335 answered this question.	

56% agreed or strongly agreed that the SDG's are problematic as a tool for reporting for businesses. 15% disagreed or strongly disagreed, 22% were neutral, and 6% were unsure.

Q I15 Prior to this survey, what was your level of familiarity with frameworks for ESG reporting?

Figure 78: Familiarity with Frameworks for ESG Reporting

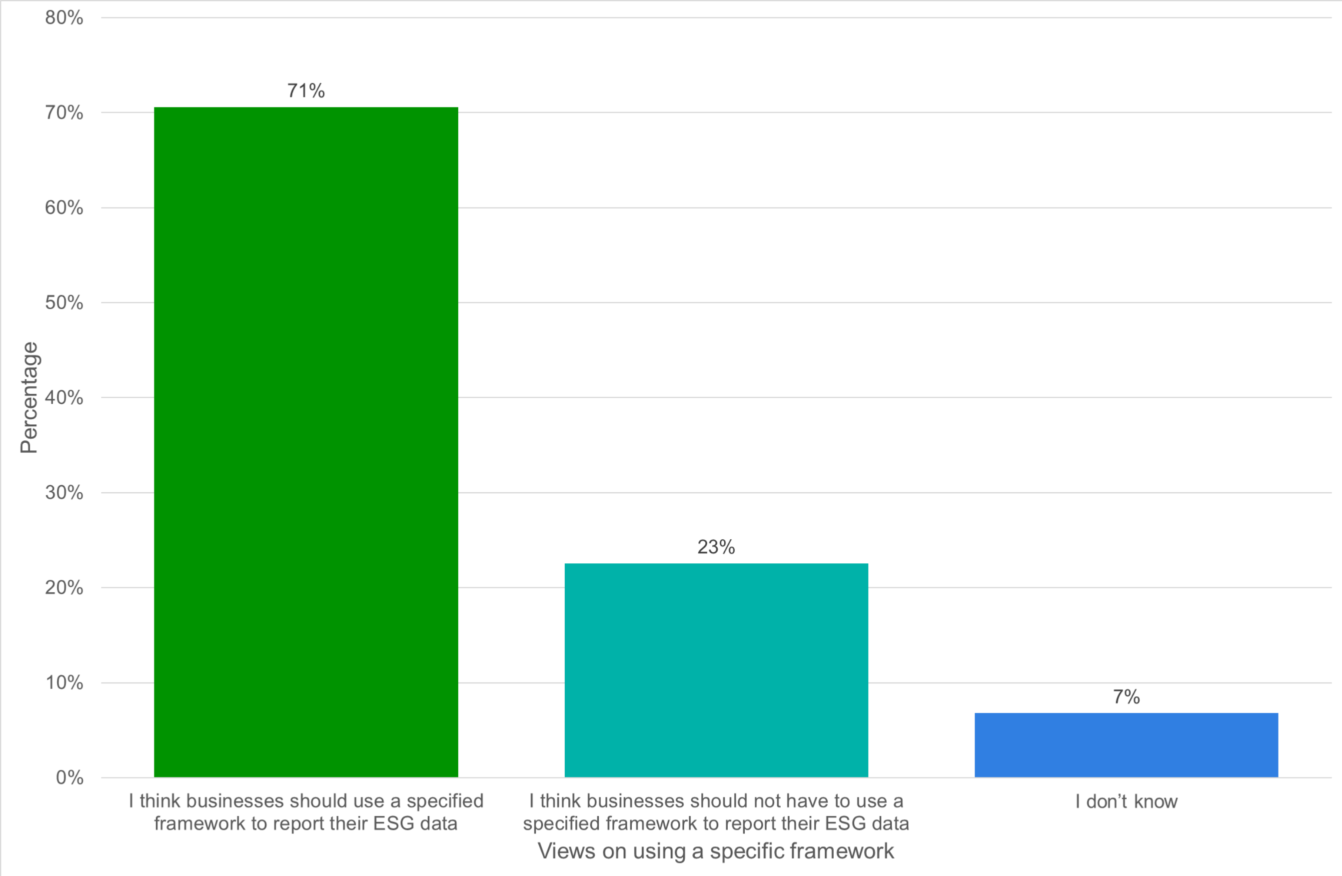


N value	504
Of the 504 retail investors that completed the survey, all answered this question.	

Familiarity with frameworks for ESG reporting is low among retail investors, with 74% of people responding they were vaguely familiar or not familiar at all, with most (49%) not familiar at all. Only 5% considered themselves ‘very familiar,’ and 21% ‘familiar.’

Q I16 Do you think that businesses should report ESG data using a specific framework, or not using a specific framework?

Figure 79: Use of Specific Framework for Reporting on ESG Data

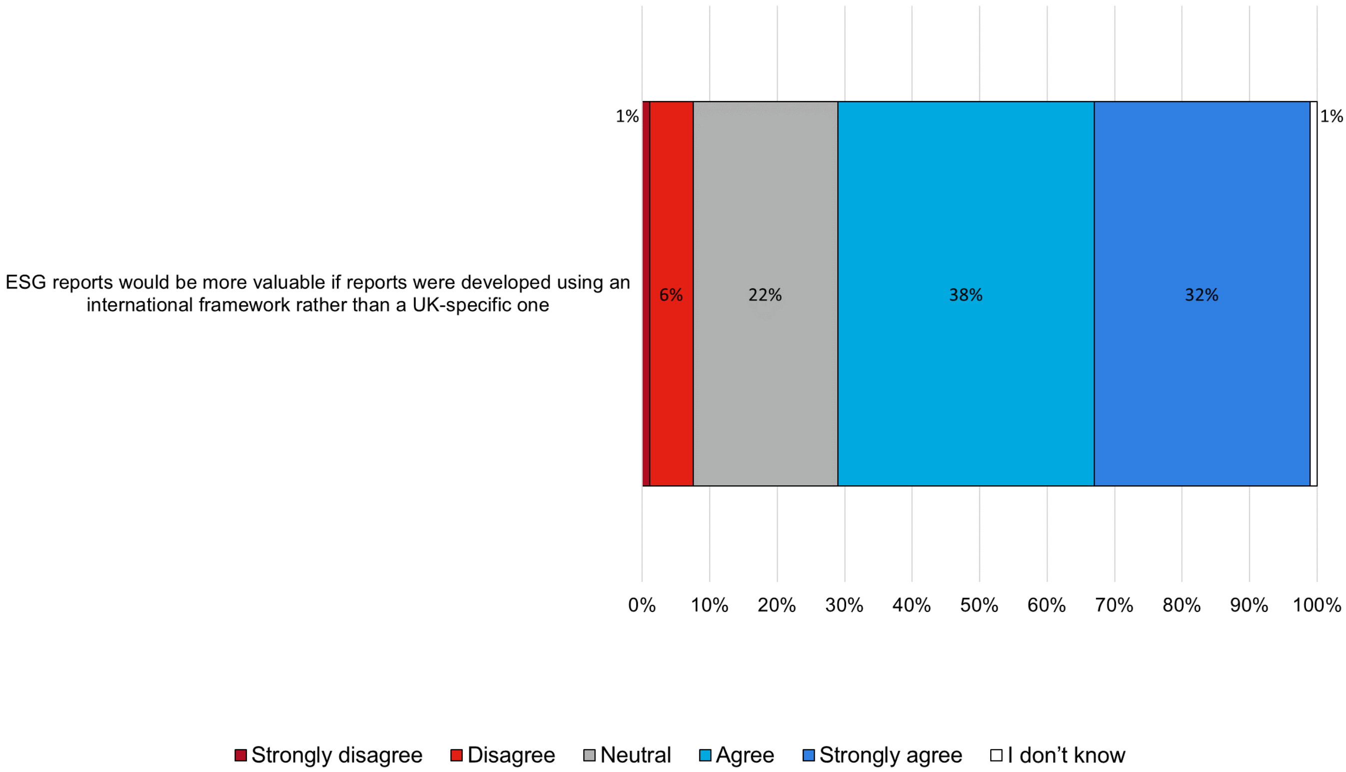


N value	279
Of the 504 retail investors that completed the survey, 279 answered this question.	

71% of retail investors agreed that businesses should use a specified framework to report their ESG data, whilst 23% disagreed. 7% did not know.

Q I17 To what extent do you agree or disagree with the following statement?

Figure 80: Value of Developing an International Framework for ESG Reports

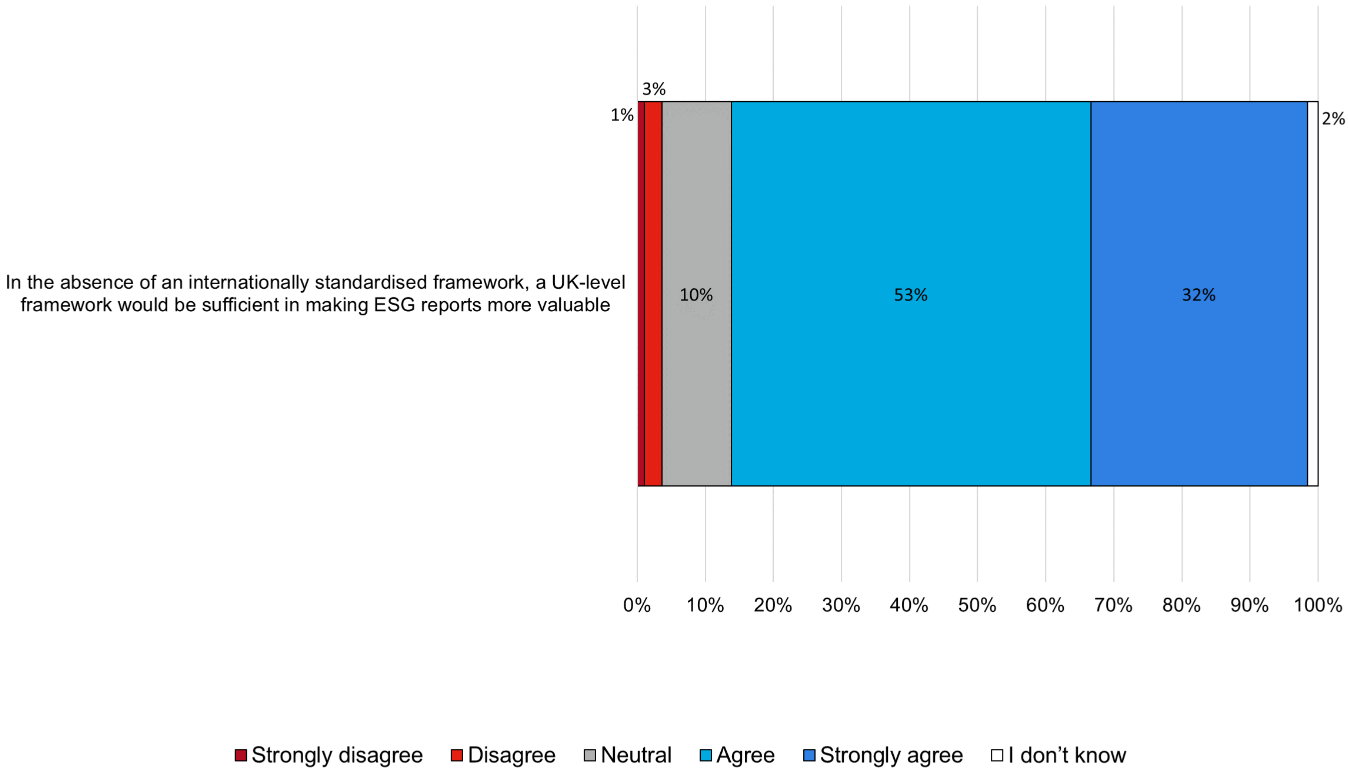


N value	279
Of the 504 retail investors that completed the survey, 279 answered this question.	

70% agreed or strongly agreed that ESG reports would be more valuable if reports were developed using an international framework rather than a UK-specific one. Of this 70%, almost half (32%) strongly agreed.

Q I18 To what extent do you agree or disagree with the following statement?

Figure 81: Sufficiency of a UK-Level Reporting Framework for ESG Data

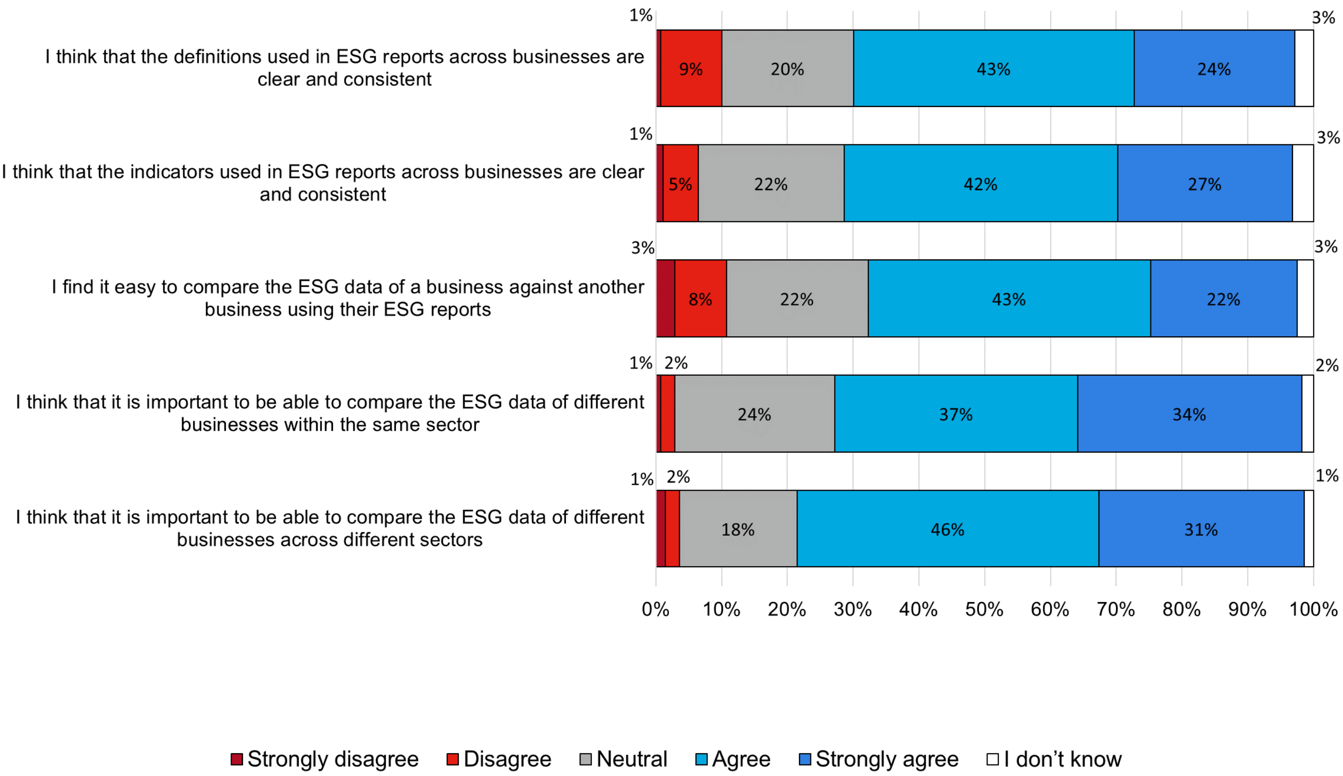


N value	195
Of the 504 retail investors that completed the survey, 195 answered this question.	

85% of retail investors agreed or strongly agreed that a UK-level framework would be sufficient in making ESG reports more valuable in the absence of an internationally standardised framework.

Q I20 To what extent do you agree or disagree with the following statements?

Figure 82: Ease of Engaging with ESG Reports



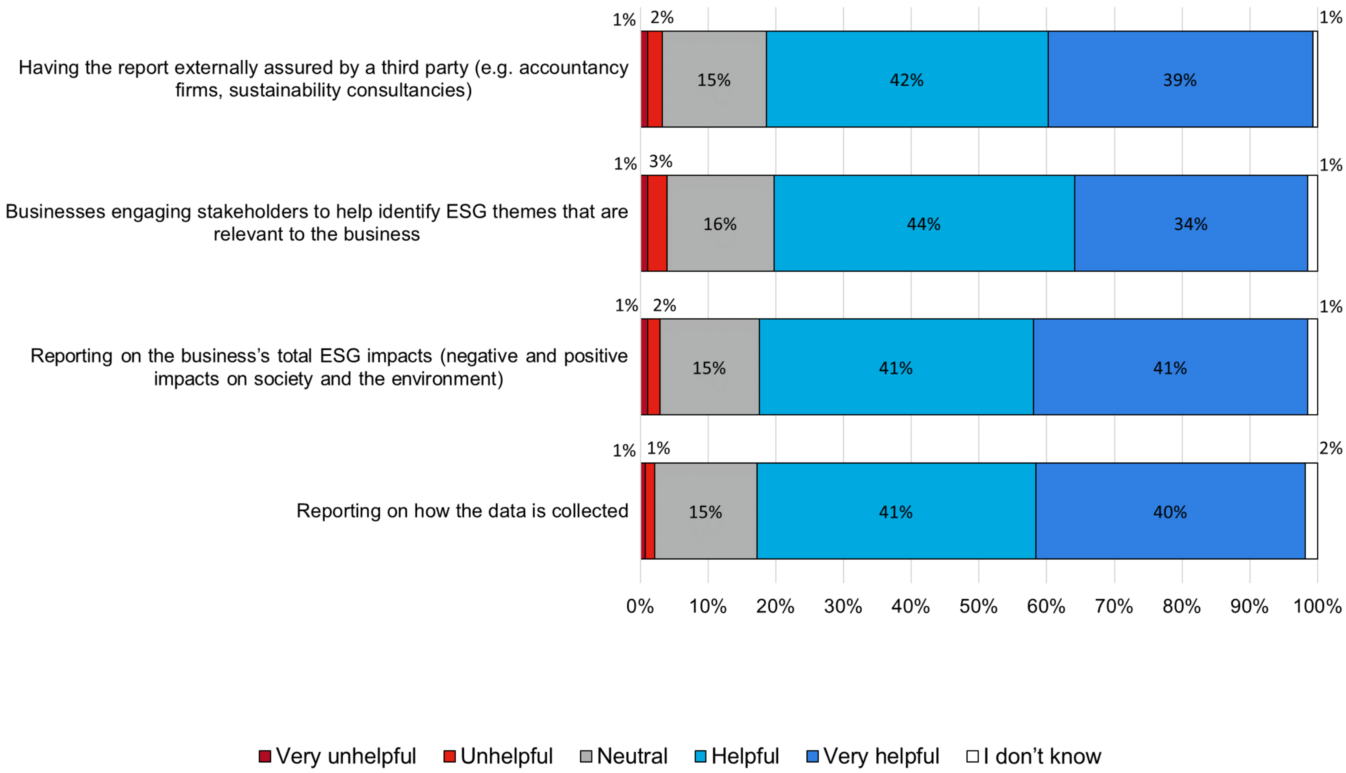
N value	279
Of the 504 retail investors that completed the survey, 279 answered this question.	

In general, respondents felt that definitions and indicators used in ESG reports are clear and consistent, and that it is easy to compare data from ESG reports between different organisations. More respondents (77%) agreed or strongly agreed that it is important to be able to compare the ESG data of different businesses across different sectors. 67% of respondents agreed or strongly agreed that comparing different businesses within the same sector is important.

67% agreed or strongly agreed that definitions used in ESG reports are clear and consistent across ESG reports, and 69% agreed or strongly agreed that indicators across ESG reports should be clear and consistent. 65% agreed or strongly agreed that it is easy to compare ESG data of a business against another business.

Q I21 To what extent do you believe that the following ways listed below would help improve your trust in ESG reports?

Figure 83: Improvement of Trust in ESG Reports



N value	279
Of the 504 retail investors that completed the survey, 279 answered this question.	

Retail investors felt that their trust in ESG reports could be improved by each of the ways listed, and around half of these positive responses were 'very helpful.' 'Neutral' responses were 15-16% for each option.

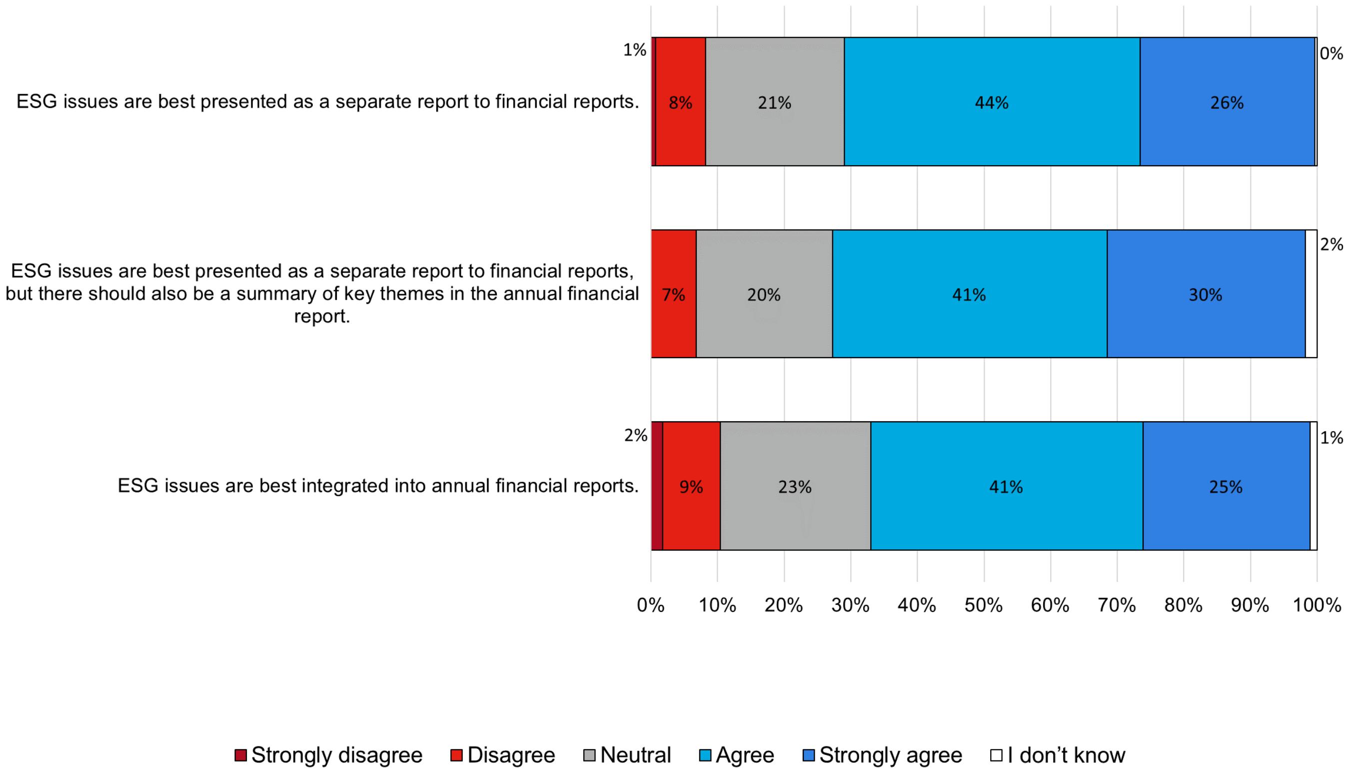
Reporting on both a business' negative and positive impacts of society and the environment received the most positive responses, with 41% feeling this would be 'helpful' and similarly 'very helpful,' a total of 82%.

For the option of having 'businesses engaging stakeholders to help identify ESG themes that are relevant to the business,' 44% felt this would be 'helpful', and 34% felt it would be 'very helpful'.

'Having the report externally assured by a third party,' and 'reporting on how the data is collected' each received 81% positive response.

Q I22 To what extent do you agree or disagree with the following statements?

Figure 84: Presentation of ESG Reports Relative to Financial Reports



N value	279
Of the 504 retail investors that completed the survey, 279 answered this question.	

There was no consensus among retail investors over whether ESG issues should or should not be integrated into financial reports, although slightly more felt that it should be separate.

A slight majority was directed towards the statement: '*ESG issues are best presented as a separate report to financial reports but there should also be a summary of key themes in the annual financial report*', with 41% agreeing and 30% strongly agreeing (71% overall), and only 7% disagreeing. No one strongly disagreed with this, and it also had the smallest 'neutral' response of all three statements, at 20%. However, it also had the greatest 'I don't know' response, at 2%.

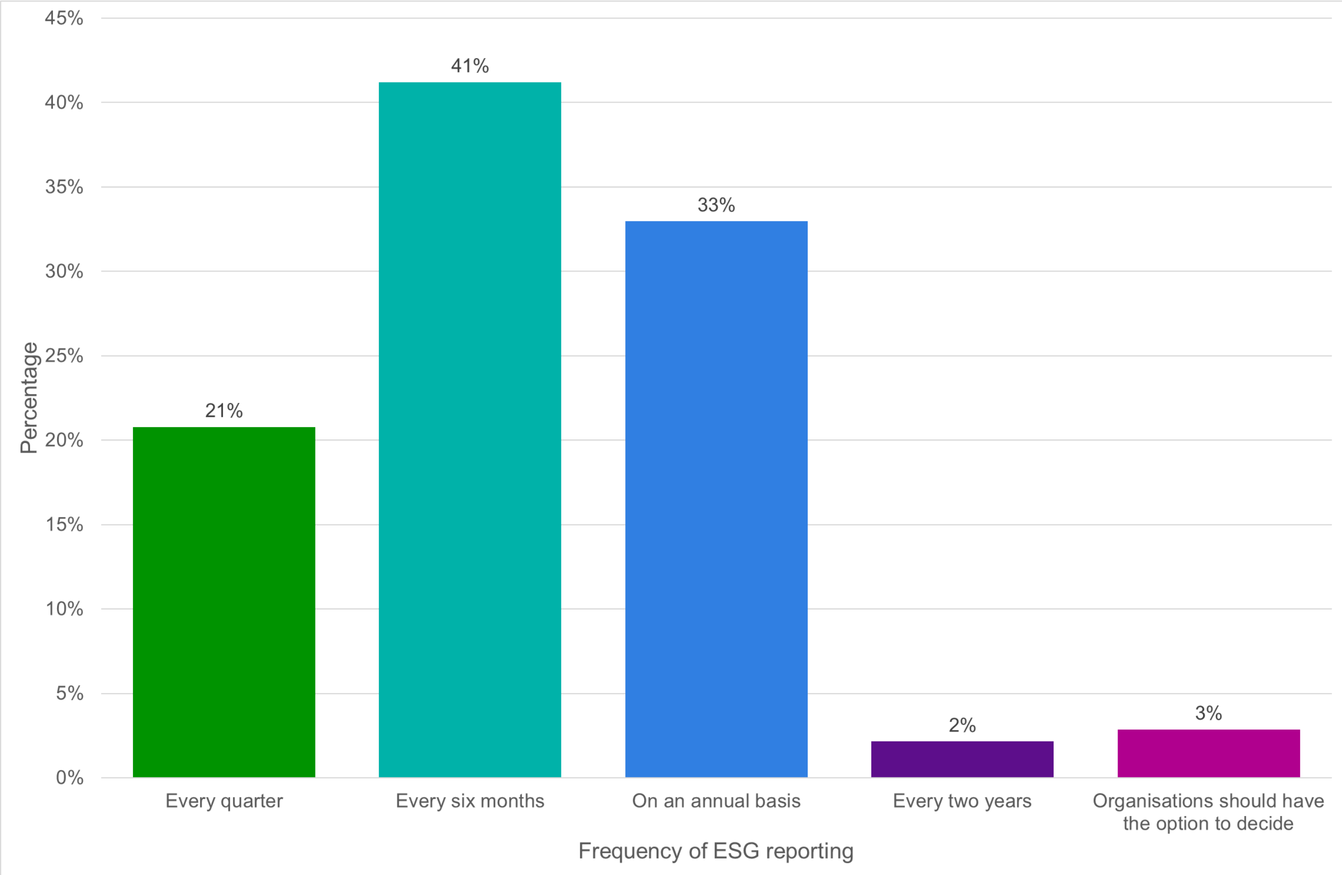
The statement '*ESG issues are best integrated into annual financial reports*' received the least positive response, with 41% agreeing and 25% strongly agreeing (66% overall). It had the greatest negative response, at 11%, made up of 9% disagreeing and 2% strongly disagreeing. It also had the greatest 'neutral' response at 23%.

The statement '*ESG issues are best presented as a separate report to financial issues*' fell between the other two statements, with 44% agreeing and 26% strongly agreeing (70%

overall), and 9% disagreeing or strongly disagreeing. This statement received no responses for 'I don't know.'

Q I23 How frequently do you think large businesses should publish their ESG reports?

Figure 85: Frequency of Publication of ESG Reports

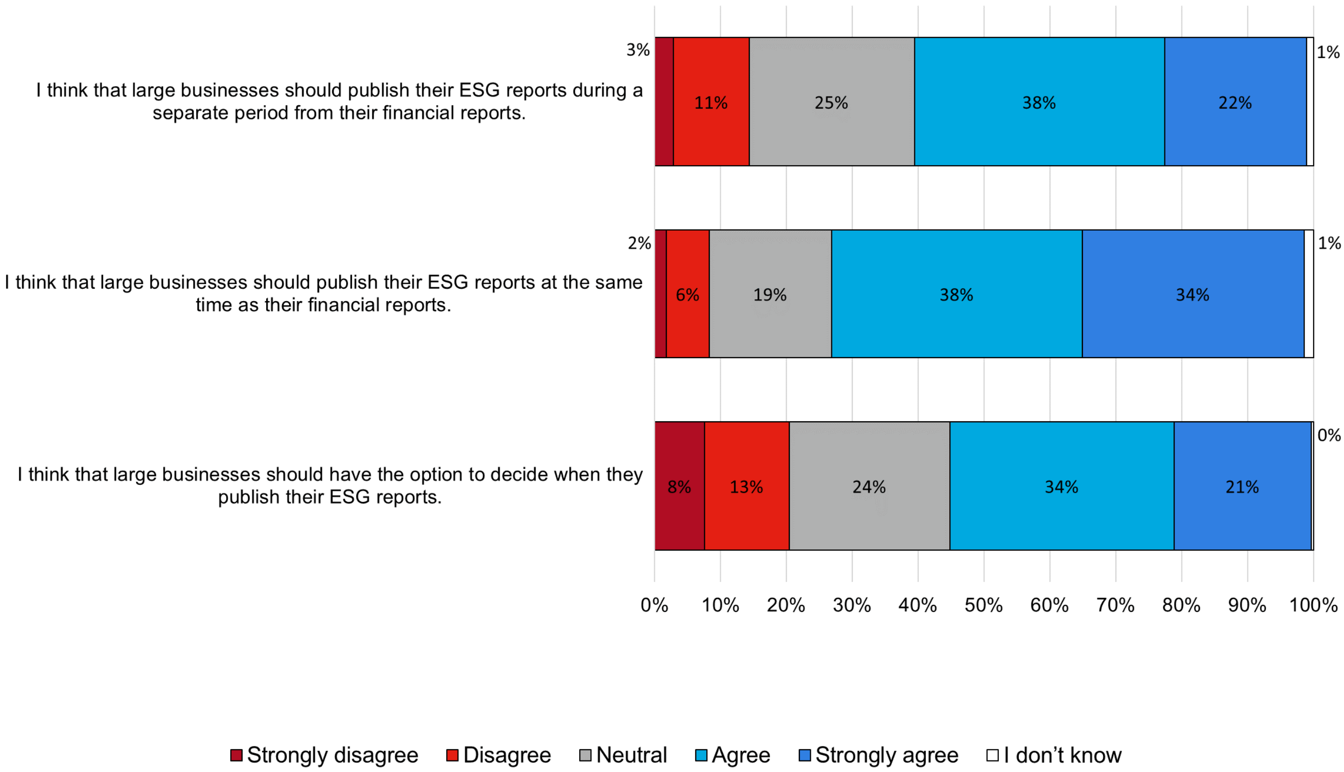


N value	279
Of the 504 retail investors that completed the survey, 279 answered this question.	

Retail investors felt that ESG reports should be published more frequently than less frequently. The largest amount (41%) of retail investors felt that large businesses should be published every six months, followed by 'on an annual basis' at 33%. 21% felt that it should be every quarter, and only 2% felt it should be every two years. A small amount (3%) felt it should be up to the business to decide.

Q I24 To what extent do you agree or disagree with the following statements?

Figure 86: Publication of ESG Reports Relative to Financial Reports



N value	279
Of the 504 retail investors that completed the survey, 279 answered this question.	

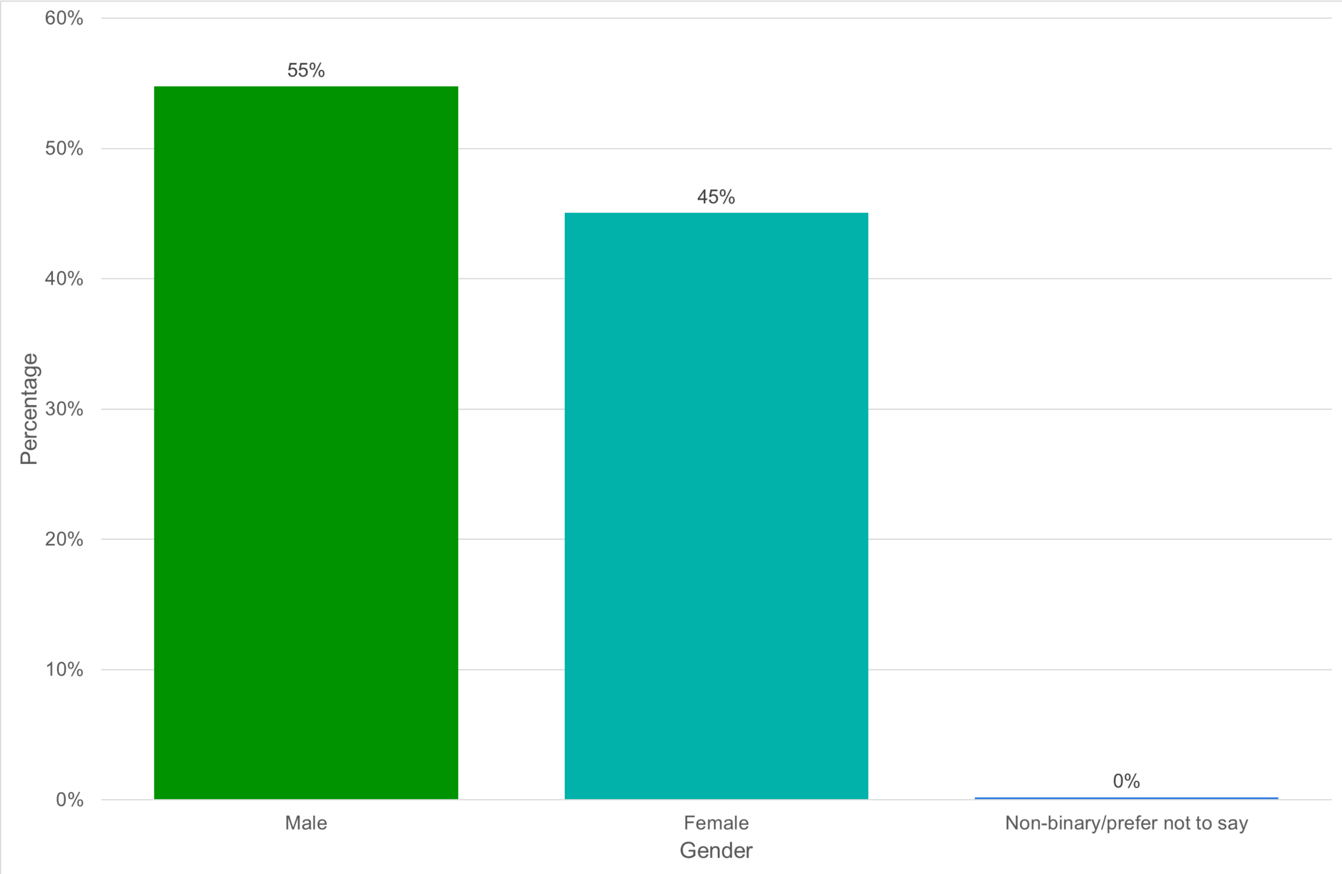
Regarding when ESG reports should be published, the most popular option was that they should be published at the same time as their financial reports. 38% agreed with this, and 34% strongly agreed, a total of 72%. This received the fewest negative responses, with only 8% disagreeing or strongly disagreeing. It also received the fewest 'neutral' responses of any statement, at 19%.

Fewest retail investors felt that large businesses should have the option to decide when they publish, which received the lowest positive response with 34% agreeing and 21% strongly agreeing (55% overall). 13% disagreed with this and 8% strongly disagreed. At a total of 21%, this received the greatest negative response. There were no responses for 'I don't know,' but 24% were neutral.

60% felt that ESG reports should be published during a separate period, with 38% agreeing and 22% strongly agreeing this should be the case. 25% were neutral, and 14% disagreed or strongly disagreed.

Q I25 Are you…? (Specify gender option)

Figure 87: Gender of Retail Investors

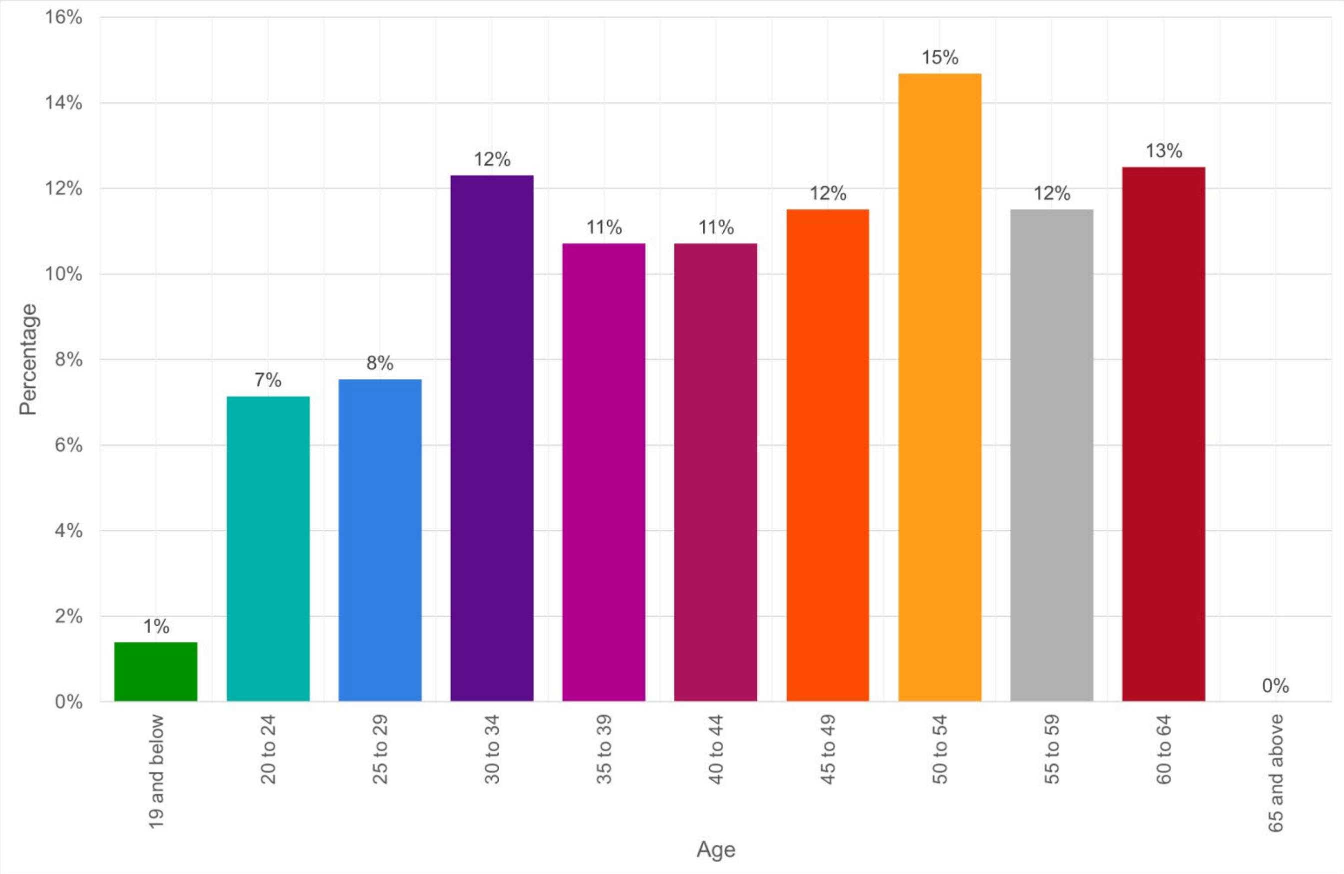


N value	504
Of the 504 retail investors that completed the survey, all answered this question.	

55% of retail investors surveyed were male, and 45% were female.

Q I26 How old are you…?

Figure 88: Age of Retail Investors



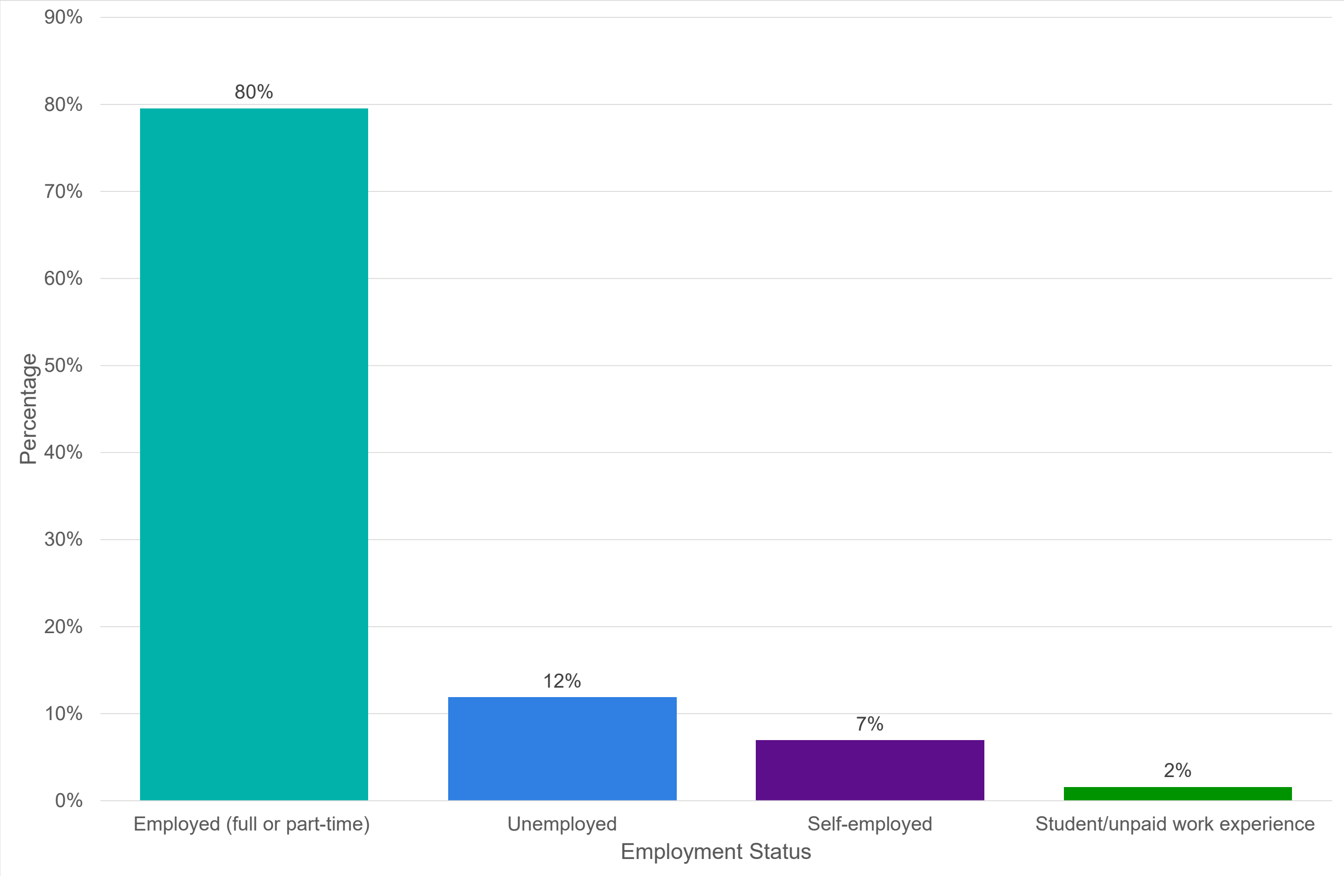
N value	504
Of the 504 retail investors that completed the survey, all answered this question.	

The age range of respondents was quite broad, and the most common age group for was 50 to 54, at 15% of the total. 1% were 19 and below, 7% were 20 to 24, 8% were 25 to 29, 12% were 30 to 34, 11% were 35 to 39, 11% were 40 to 44, 12% were 45 to 49, 12% were 55 to 59, and 13% were 60 to 64.

Employee/Potential Employee Survey Results

Q E2 What is your employment status?

Figure 89: Employment Status

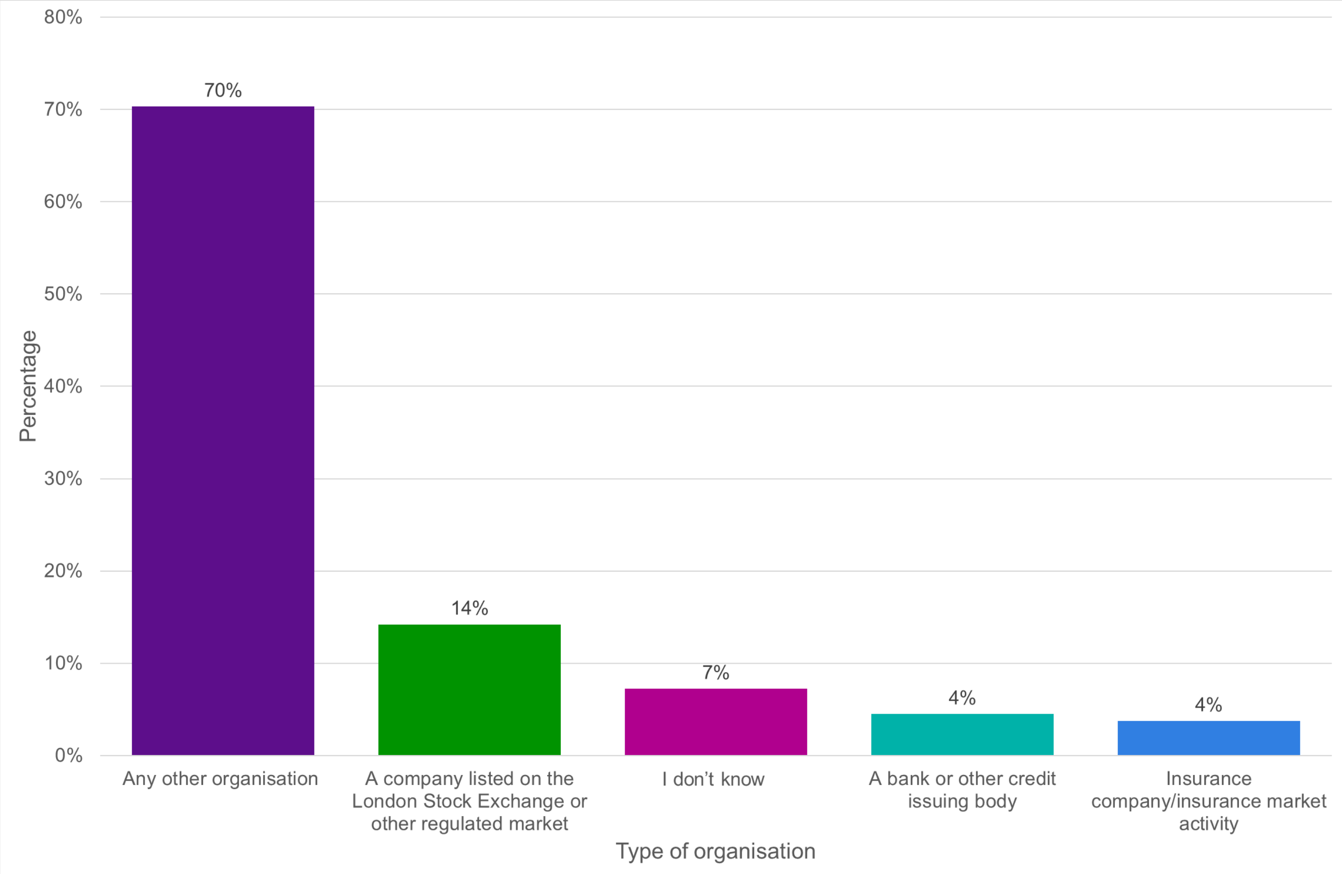


N value	504
Of the 504 employees/potential employees that completed the survey, all answered this question.	

80% of respondents were employed full or part-time, 12% were unemployed, 7% were self-employed, and 2% were students, or on unpaid work experience.

Q E3 What type of organisation do you work for?

Figure 90: Type of Organisation for which Employees Work

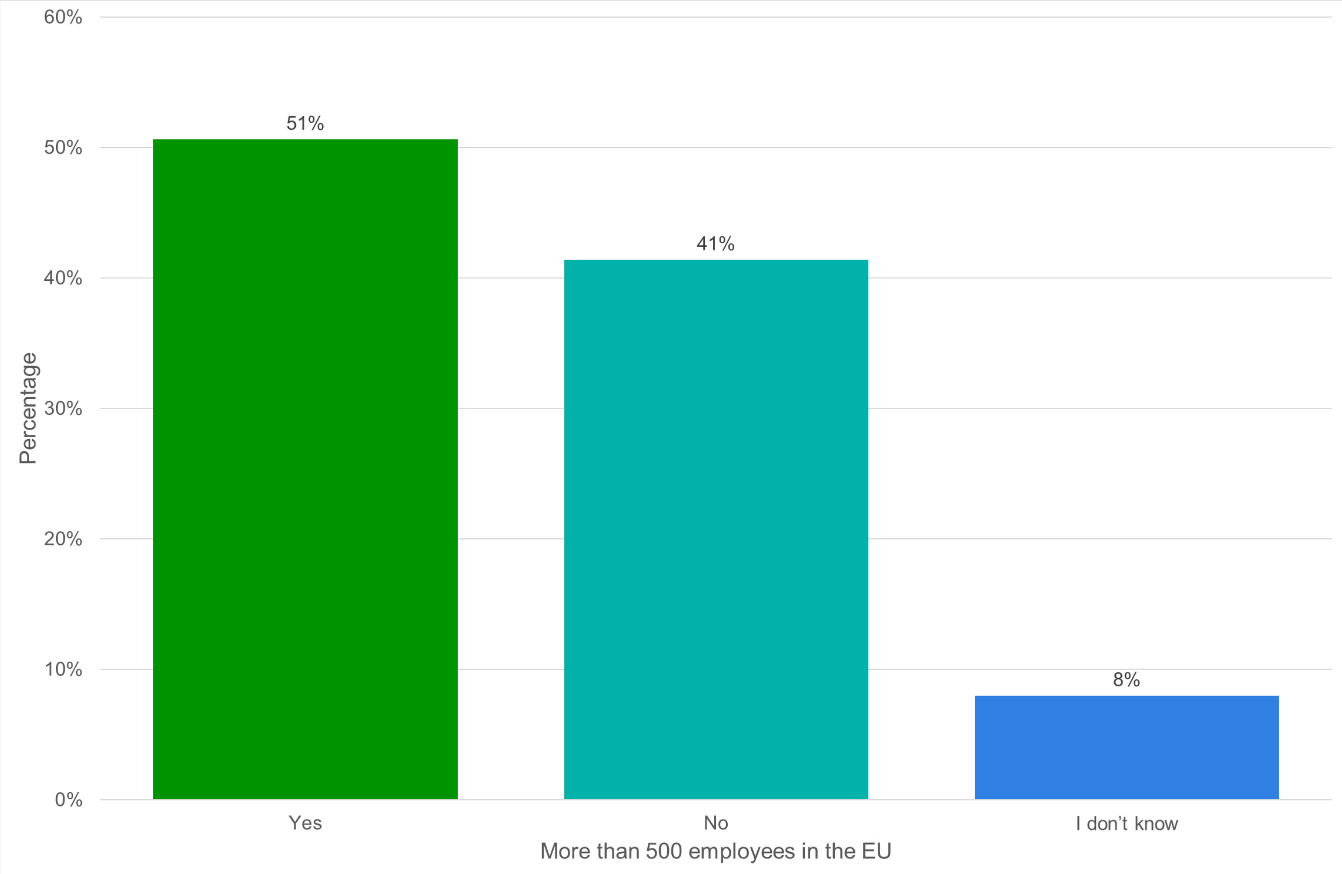


N value	401
Of the 504 employees/potential employees that completed the survey, 401 answered this question.	

70% of respondents worked for 'any other organisation' other than those listed in the survey. 14% worked for a business listed on the London Stock Exchange or other regulated market, 7% were unsure, 4% worked for a bank or other credit issuing body, and 4% worked for an insurance organisation, or in insurance market activity.

Q E4 Does the business you work for have more than 500 employees in the EU?

Figure 91: Size of Business by Employees in the EU

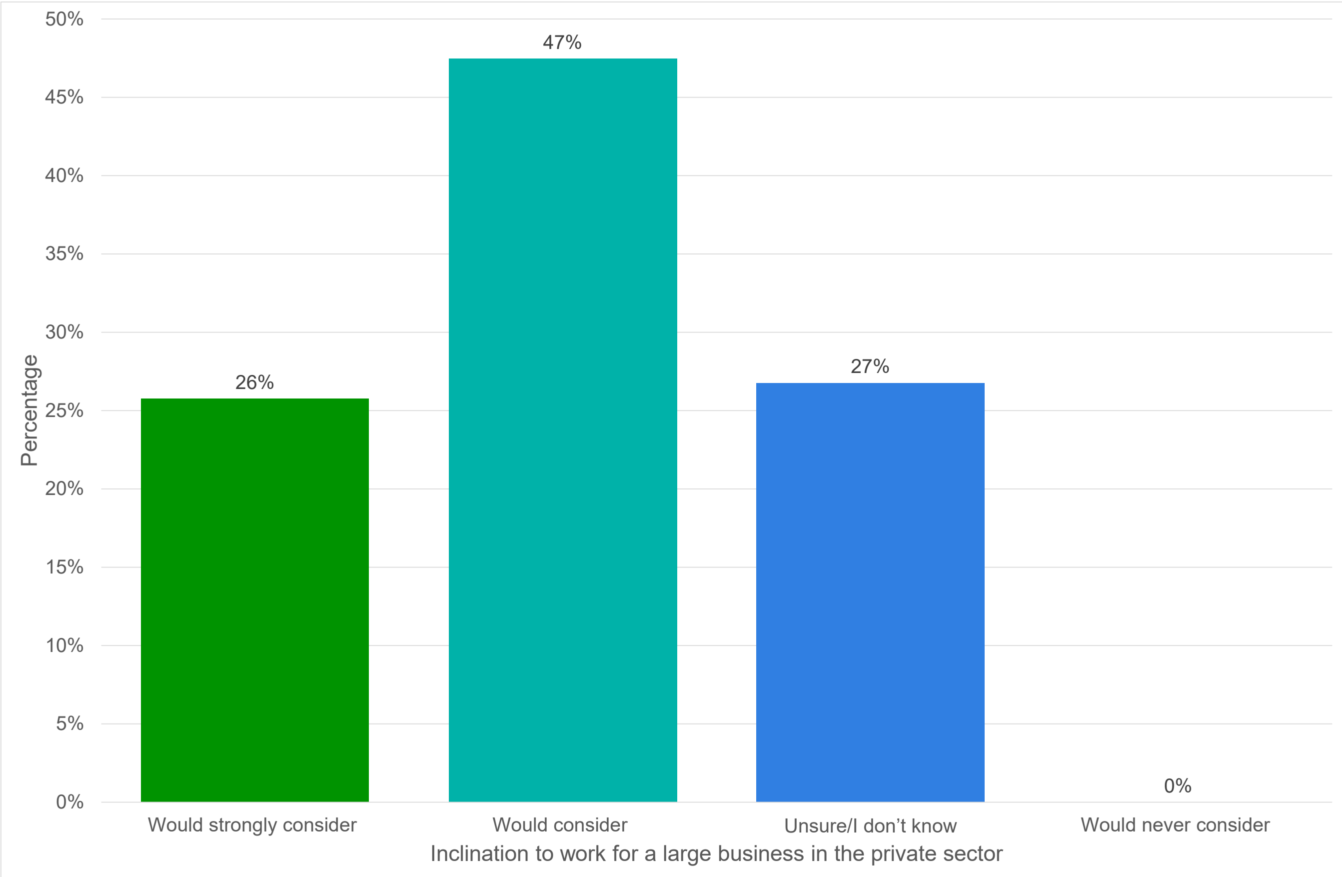


N value	401
Of the 504 employees/potential employees that completed the survey, 401 answered this question.	

51% of respondents worked for a business with more than 500 employees in the EU, 41% worked for a business with fewer than 500 employees in the EU, and 8% were unsure.

Q E5 Working for a large business in the private sector

Figure 92: Views on Working for a Large Business in the Private Sector

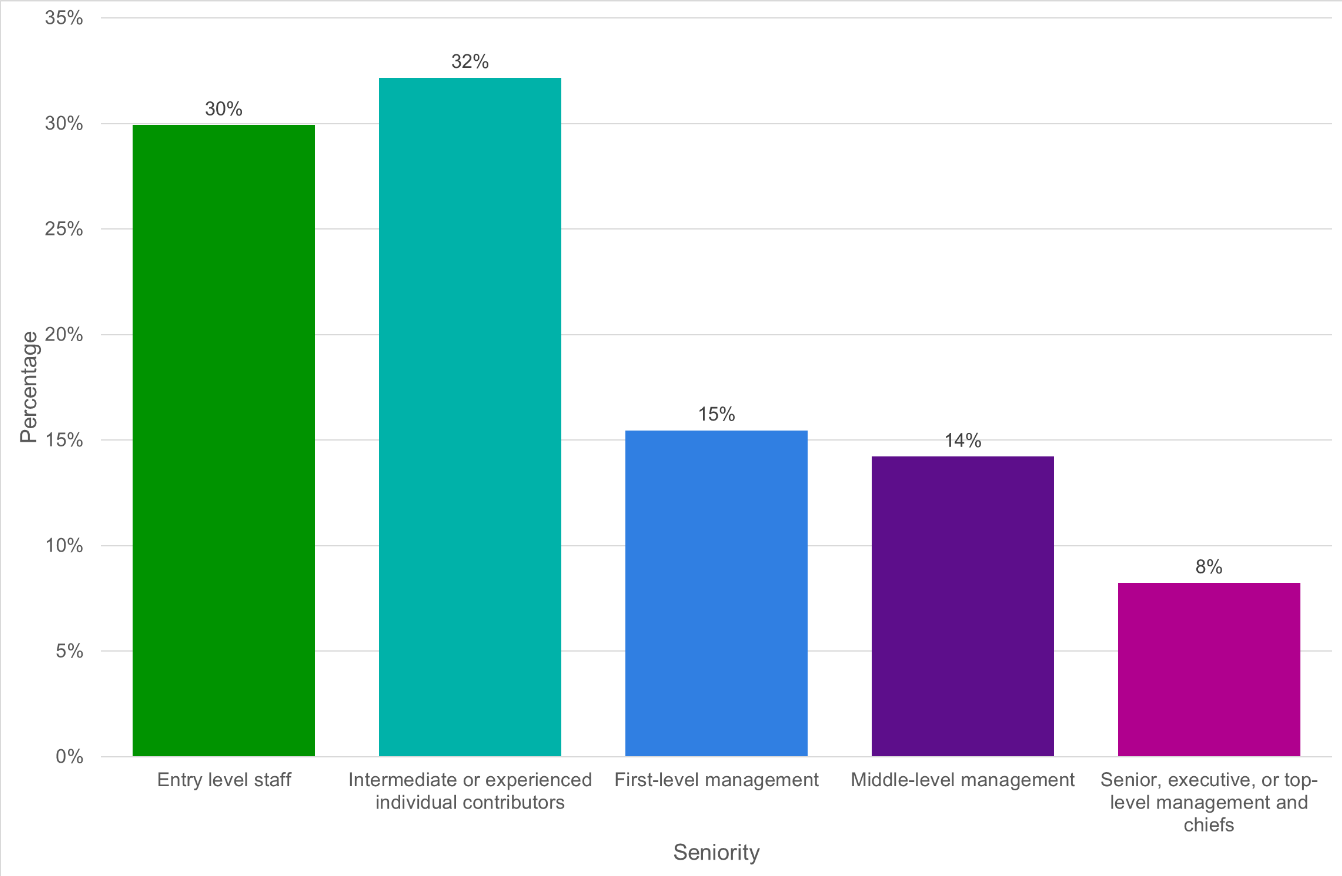


N value	198
Of the 504 employees/potential employees that completed the survey, 198 answered this question.	

47% of respondents would consider working for a large business in the private sector, and 26% would strongly consider this, a combined total of 73% of respondents. 27% were unsure, but 0% would never consider working for a large business in the private sector.

Q E6 What is your level of seniority within your business?

Figure 93: Level of Seniority

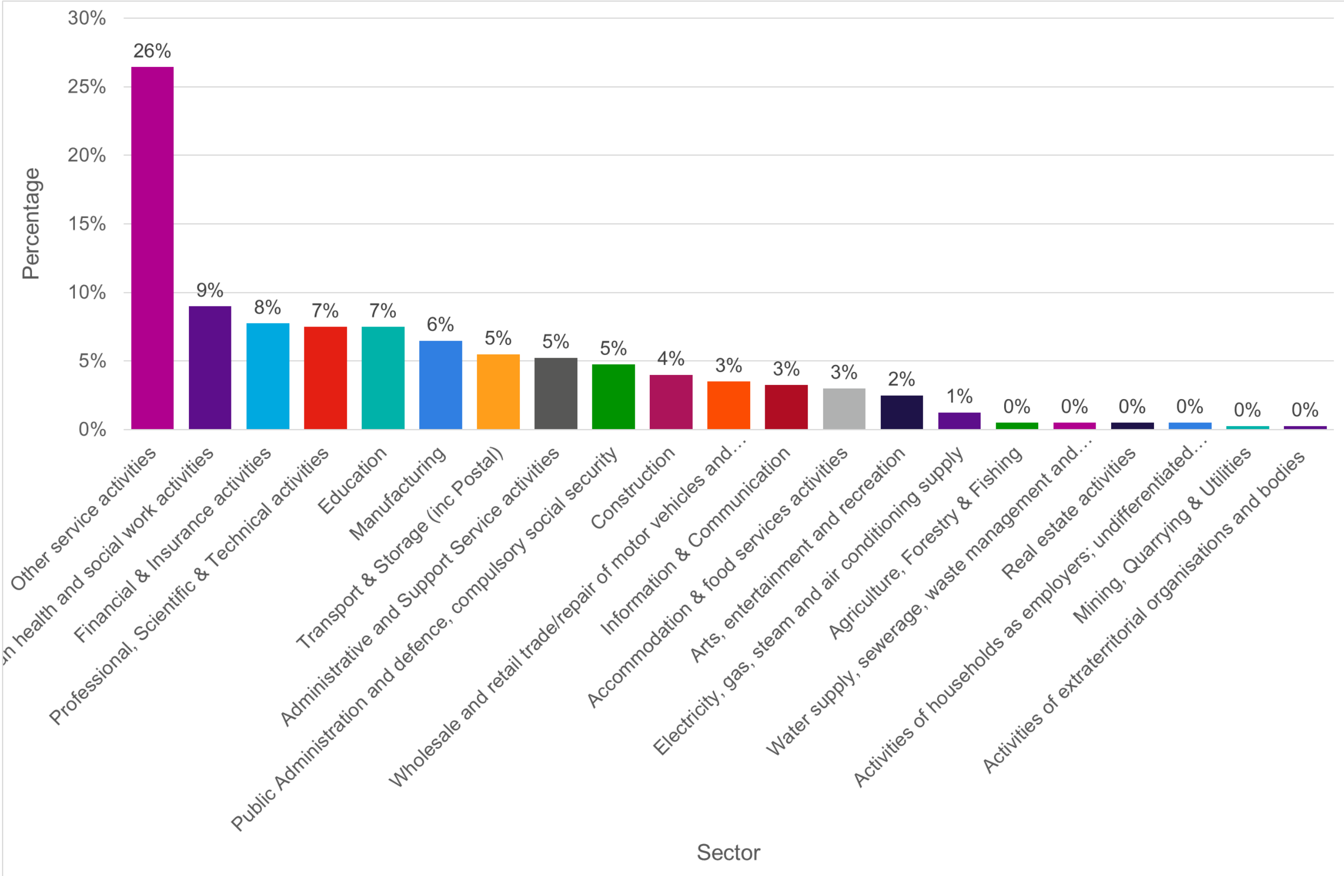


N value	401
Of the 504 employees/potential employees that completed the survey, 401 answered this question.	

There were fewer respondents within a managerial role (37%), than who were not in a managerial role (62%). The most common was ‘intermediate or experienced individual contributors’ at 32%, followed by ‘entry level staff’ at 30%. Fewest responses came from senior, executive, or top-level management and chiefs (8%), followed by middle-level management (14%), and first-level management (15%).

Q E7 Which sector describes the main activity of the business you work for?

Figure 94: Sector

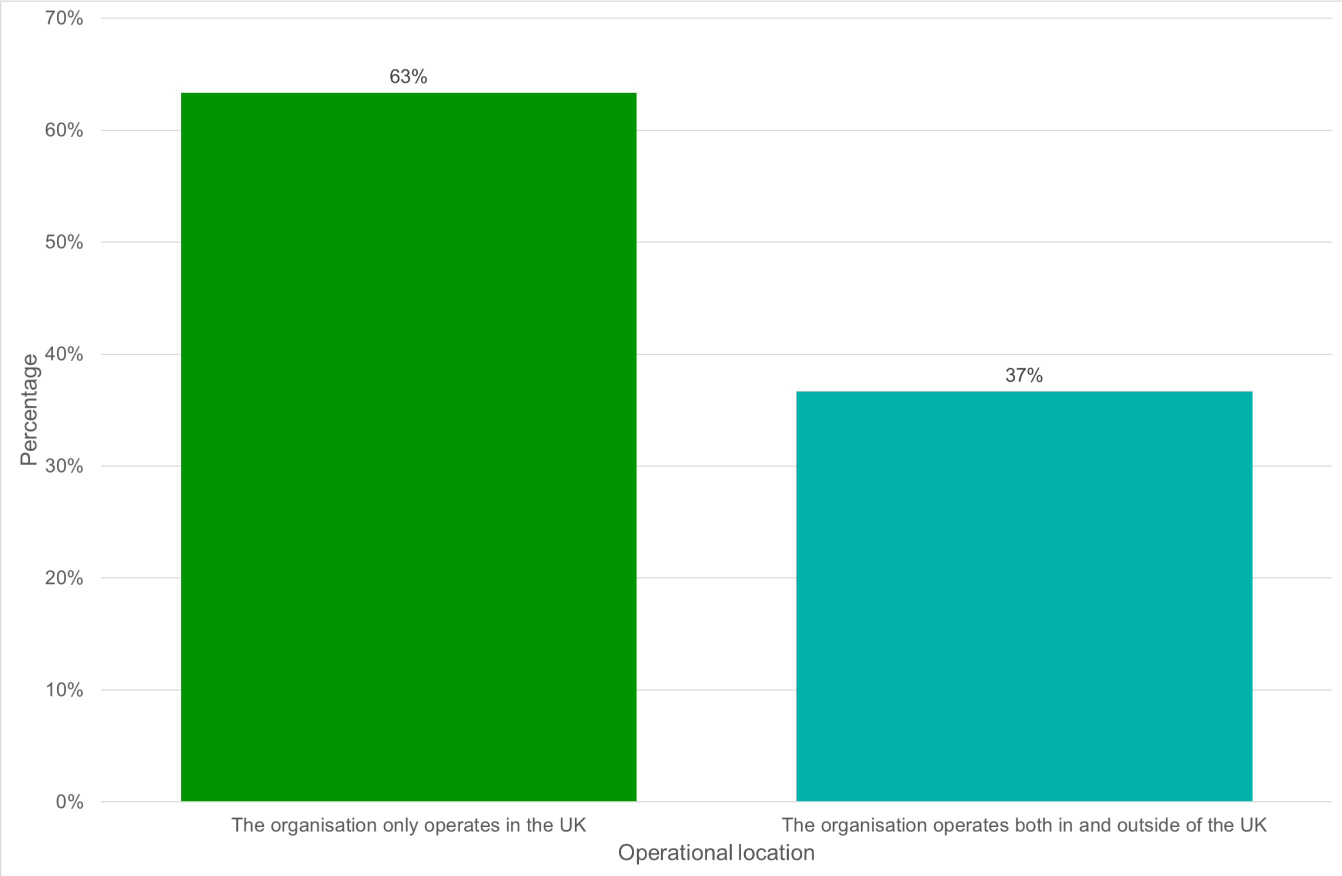


N value	401
Of the 504 employees/potential employees that completed the survey, 401 answered this question.	

The most common type of activity carried out by the businesses that respondents worked for was ‘other service activities’ (26%); followed by ‘human health and social work activities’ (9%); ‘financial and insurance activities’ (8%); ‘professional, scientific and technical activities’ and ‘education’ (each at 7%); ‘manufacturing’ (6%); ‘transport and storage (including postal),’ ‘administrative and support service activities,’ and ‘public administration and defence, compulsory social security’ (each at 5%); construction (4%); wholesale and retail trade/repair of motor vehicles and motorcycles,’ ‘information and communication,’ and ‘accommodation and food service activities’ (each at 3%); ‘arts, entertainment and recreation’ (2%); and ‘electricity, gas, steam and air conditioning supply’ (1%).

Q E8 Where does the organisation you work for operate in?

Figure 95: Region of Operation (Inside or Outside of the UK)

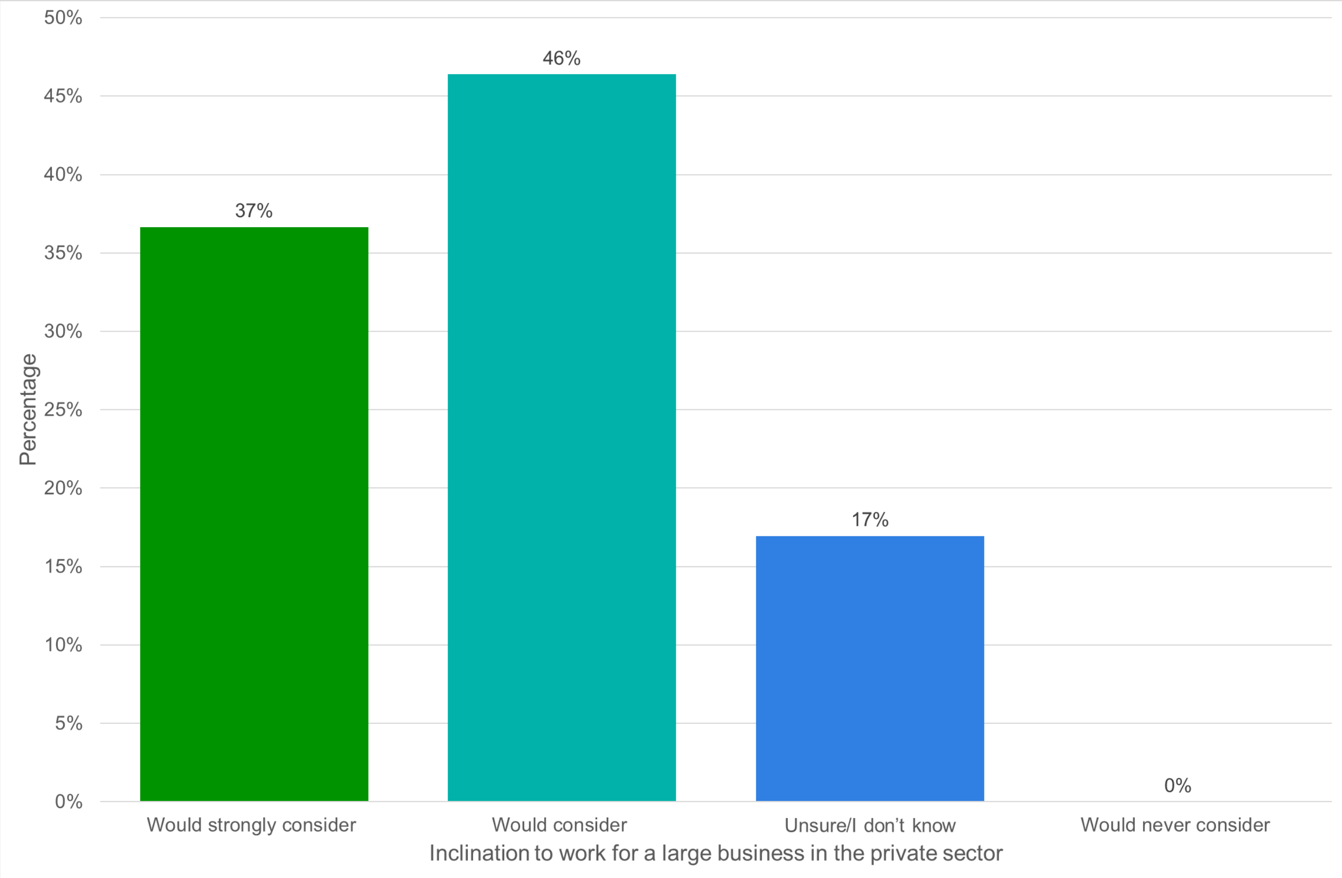


N value	401
Of the 504 employees/potential employees that completed the survey, 401 answered this question.	

63% of employees worked for an organisation that only operates in the UK, and 37% worked for an organisation that operates both in and outside of the UK.

Q E9 As your career progresses, would you ever consider working for a large business in the private sector (i.e. one which employs more than 500 people) in the future?

Figure 96: Views on Working for a Large Business in the Private Sector in the Future

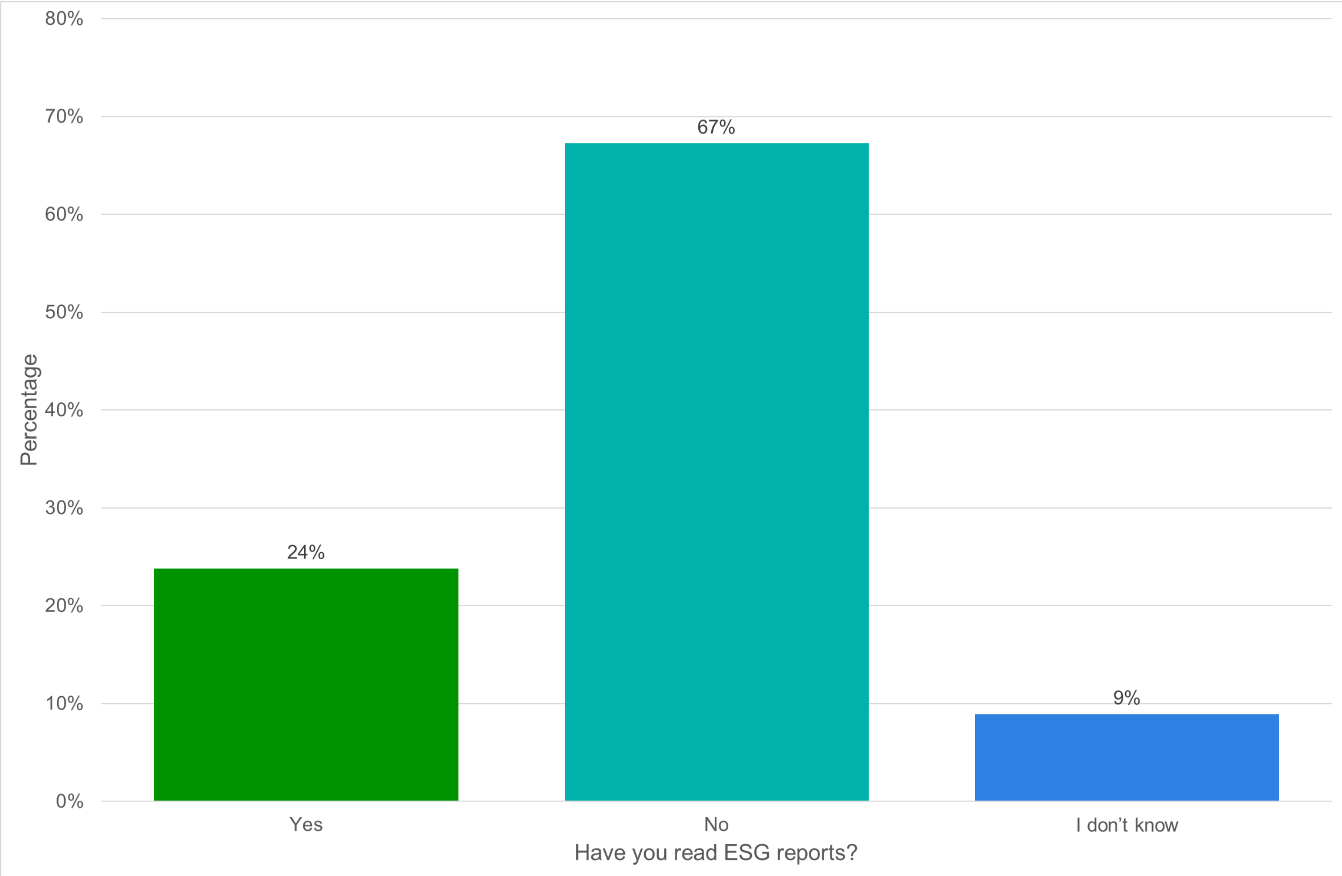


N value	401
Of the 504 employees/potential employees that completed the survey, 401 answered this question.	

46% of respondents would consider working for a large business in the private sector as their careers progress, and 37% would strongly consider, a combined total of 83%. 17% were unsure or were unsure, and 0% would never consider working for a large business in the private sector.

Q E10 Have you previously read any environmental, social, and governance (ESG) reports or information of the business you work for or of the business you hope to work for?

Figure 97: Use of ESG Reports Among Potential Employees

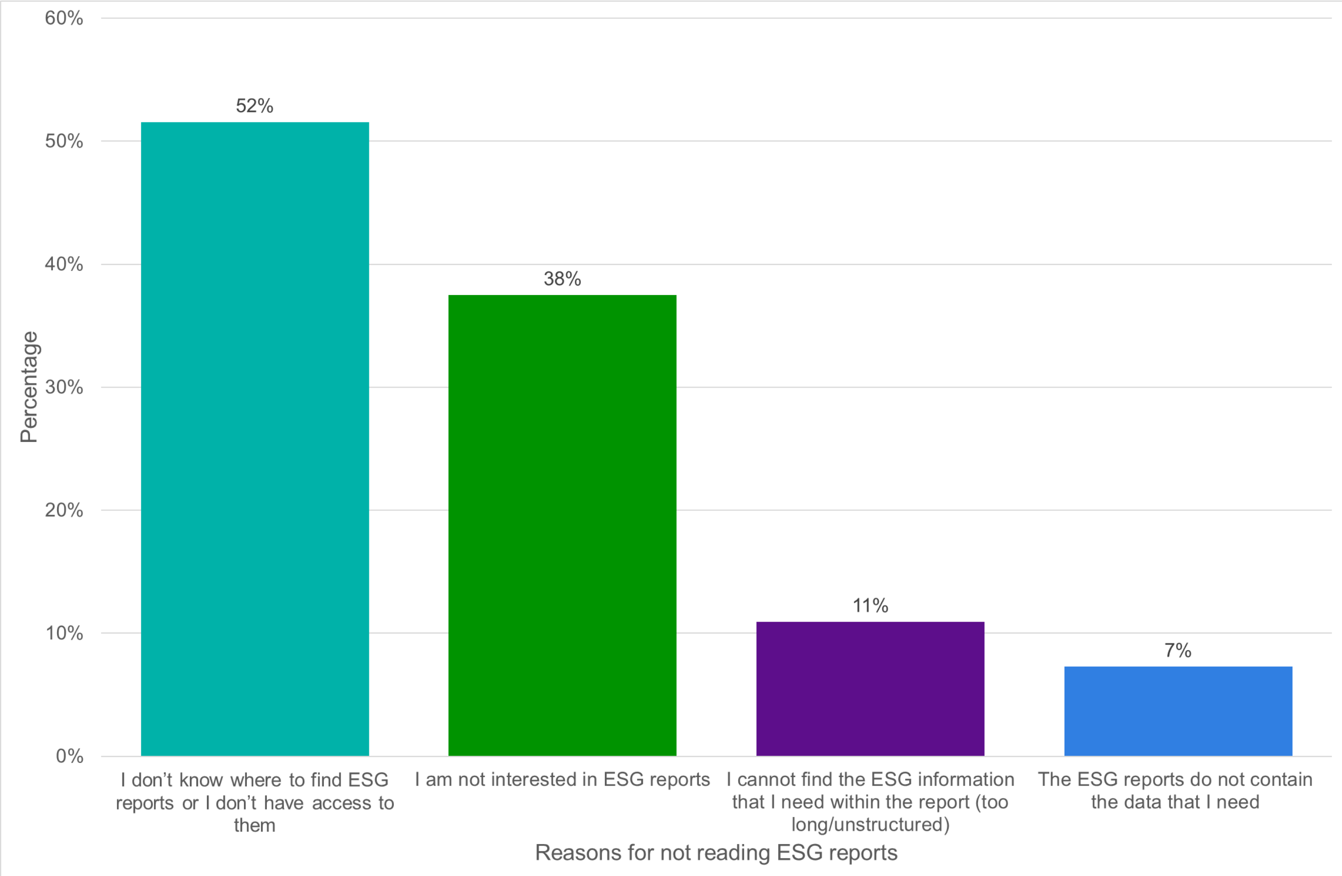


N value	504
Of the 504 employees/potential employees that completed the survey, all answered this question.	

67% of respondents had never read an ESG report or information of the business they work for or of the business they hope to work for, 24% had previously read an ESG report, and 9% were unsure whether they had or not read an ESG report.

Q E11 If not, why haven't you read an (ESG) report before? (tick all that apply)

Figure 98: Reasons for Lack of Use of ESG Reports

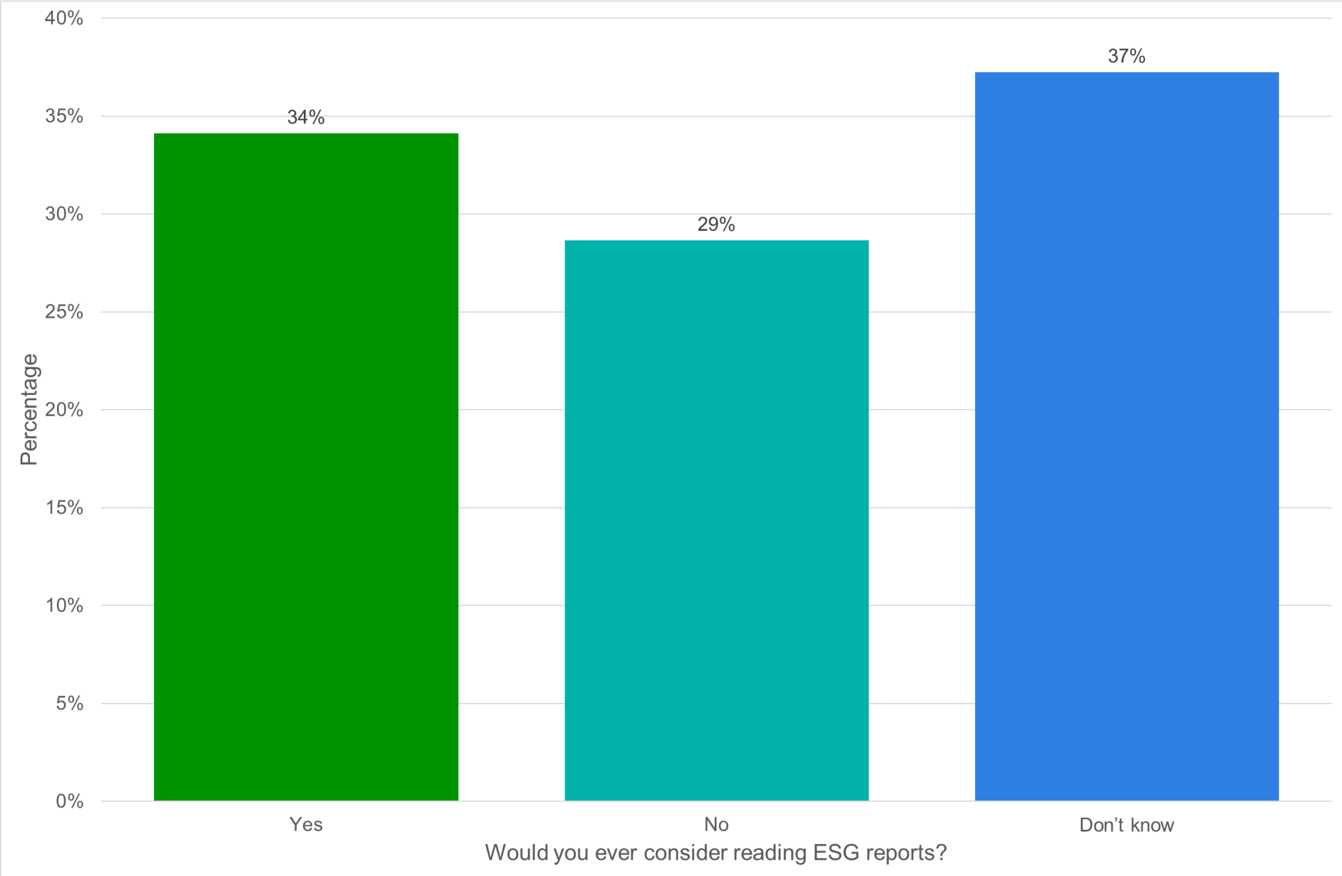


N value	384
Of the 504 employees/potential employees that completed the survey, 384 answered this question.	

Of those that hadn't read an ESG report before, 52% responded that they were unsure where to find them or didn't have access to them; 38% were not interested, 11% couldn't find the information they needed with the ESG report; and 7% felt that ESG reports did not contain the data they needed.

Q E12 Would you ever consider reading ESG reports?

Figure 99: Reading ESG Reports in the Future

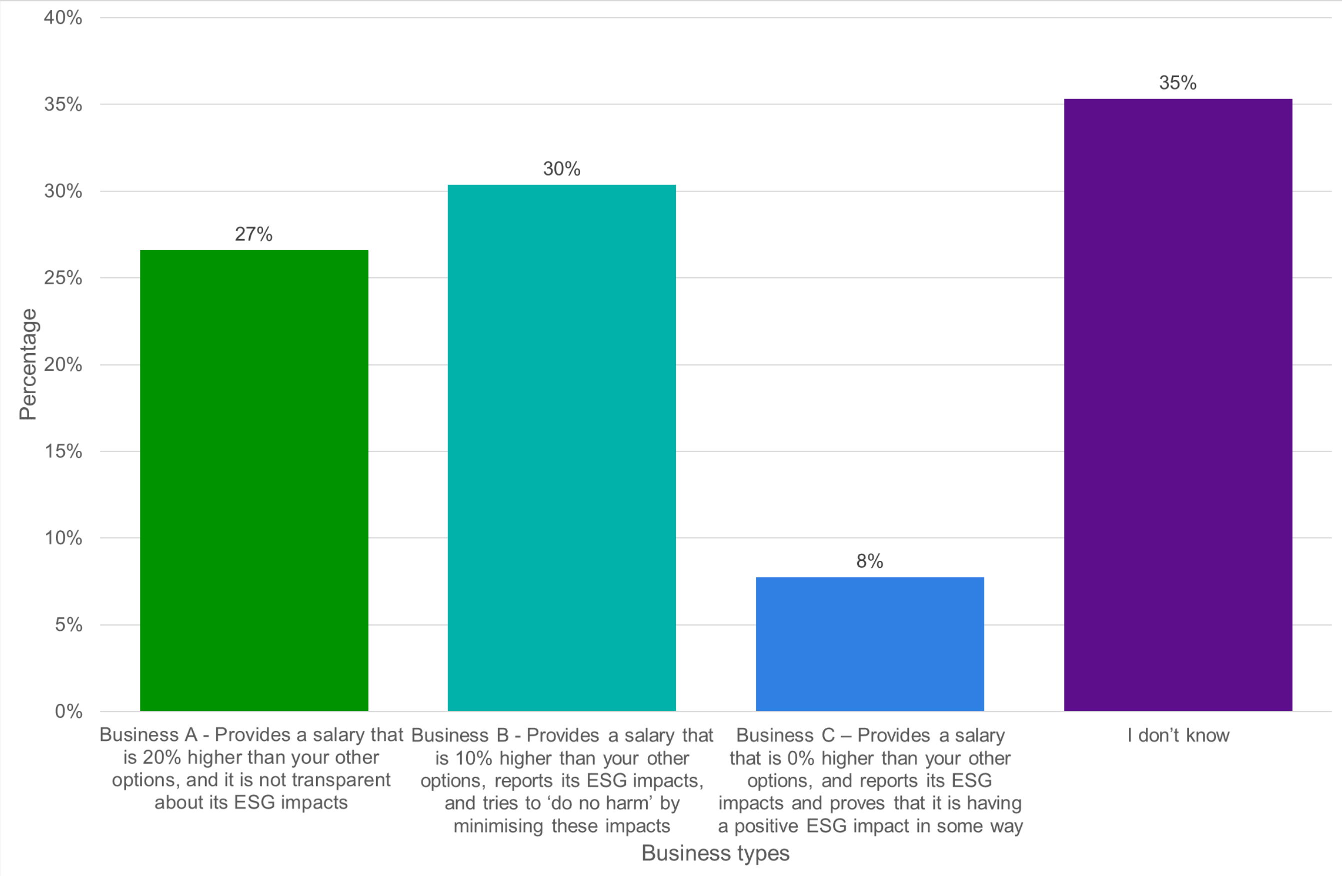


N value	384
Of the 504 employees/potential employees that completed the survey, 384 answered this question.	

34% of respondents would consider reading ESG reports, 29% would not consider, and 37% were unsure.

Q E13 As an employee or potential employee, which business would you personally choose to work for?

Figure 100: Consideration of Salary and ESG Impacts in Decisions to Work for a Business

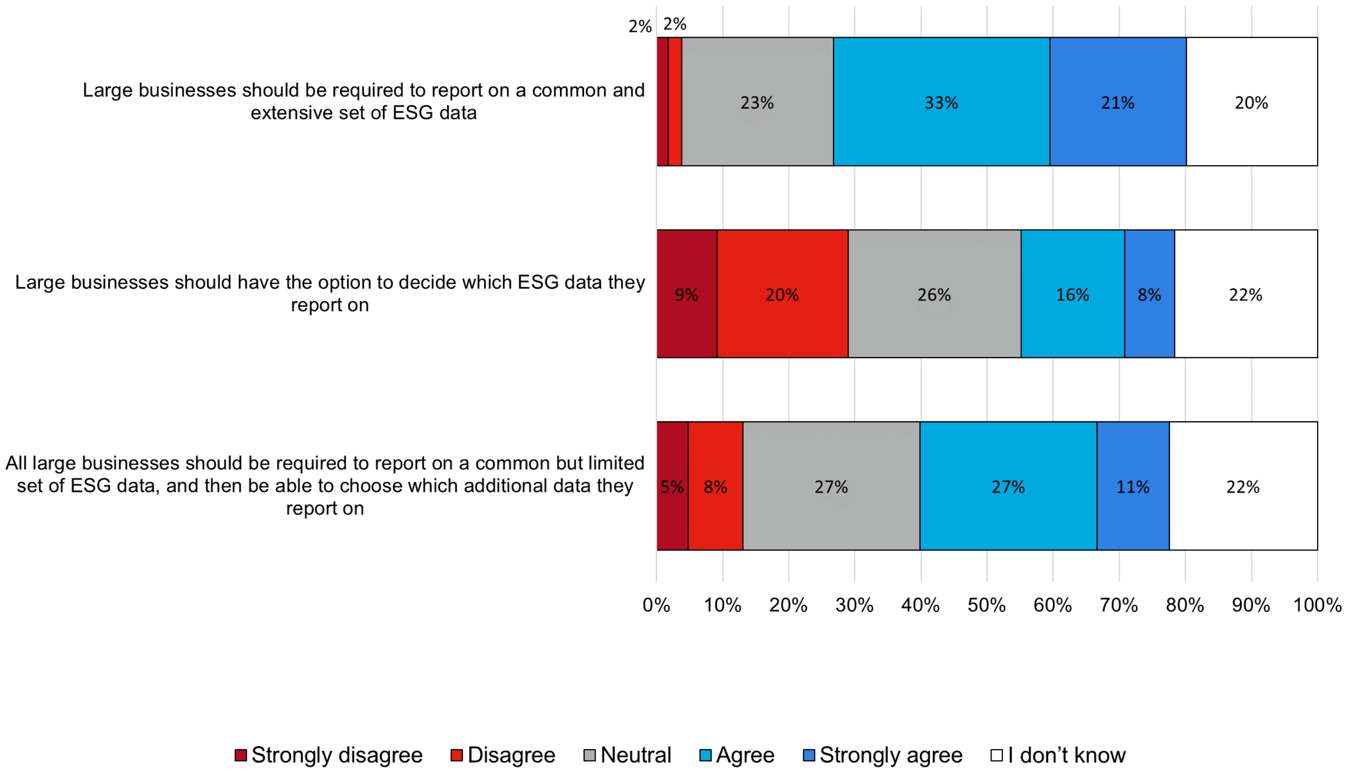


N value	504
Of the 504 employees/potential employees that completed the survey, all answered this question.	

Although the highest proportion (35%) of respondents did not know which business they would personally choose to work for, of those that chose Business A, B or C, the most popular answer was Business B, at 30%. 27% would choose Business A, and 8% would choose Business B. Business B was the middling option, satisfying some salary and ESG requirements, rather than prioritising either salary, as choosing Business A would, or prioritising positive ESG impacts, as choosing Business C would.

Q E14 To what extent do you agree with the following approaches to reporting?

Figure 101: Requirements for ESG Reporting Data



N value	504
Of the 504 employees/potential employees that completed the survey, all answered this question.	

Respondents generally felt that there should be requirements as to what large businesses should report on, as opposed to large businesses having the option to decide which ESG data they report on.

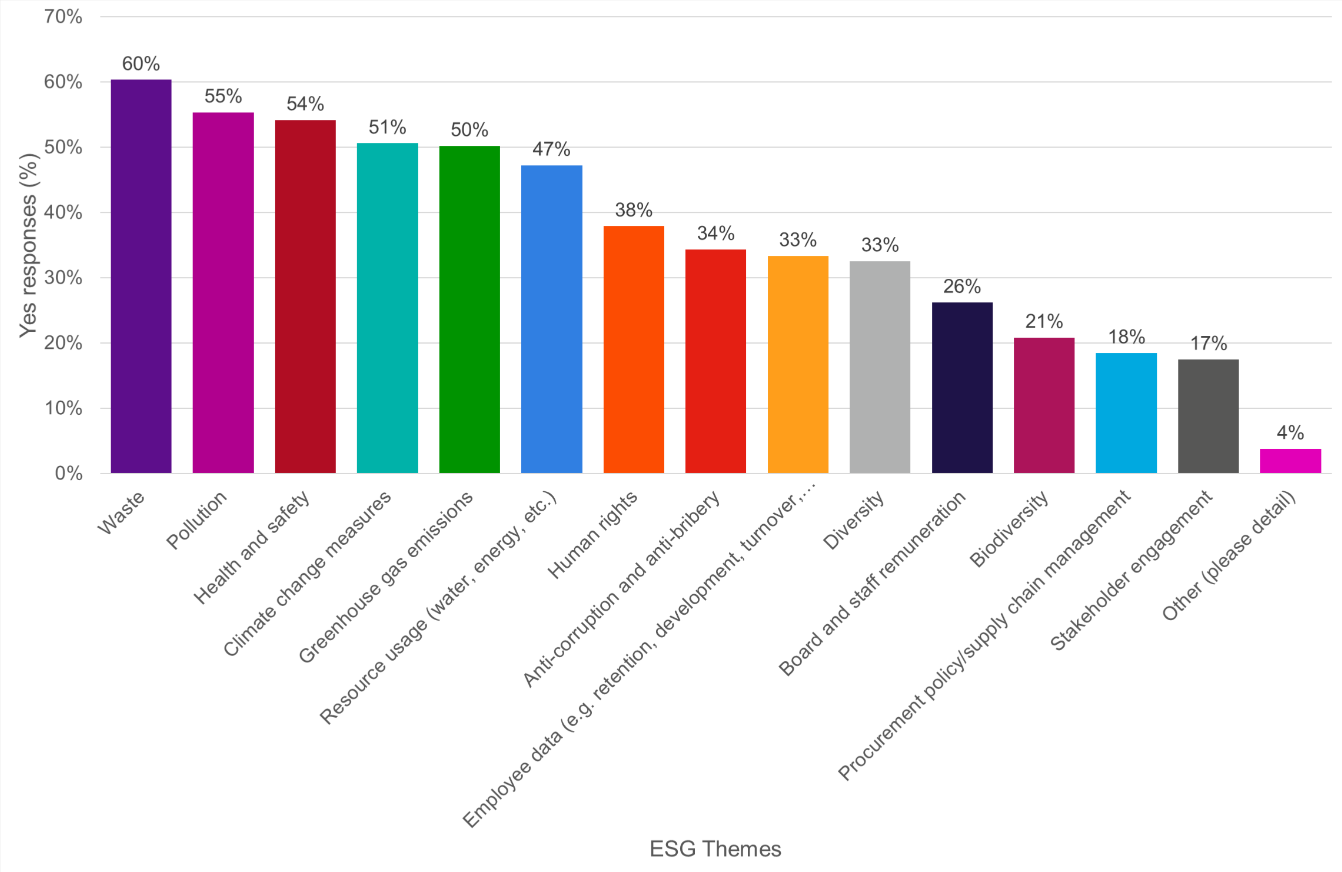
The most popular option was '*large organisations should be required to report on a common and extensive set of ESG data*'; 54% either agreed or strongly agreed with this, and only 4% disagreed or strongly disagreed. This also had the smallest 'neutral' response of all approaches, at 23%, and the smallest proportion of 'I don't know' responses, at 20%.

The least preferred approach was '*large organisations should have the option to decide which ESG data they report on*', with 29% disagreeing or strongly disagreeing, and only 24% agreeing or strongly agreeing. 26% felt neutral about this, and 22% were unsure.

There was a more even spread of responses for '*all large businesses should be required to report on a common but limited set of ESG data, and then be able to choose which additional data they report on.*' 38% agreed or strongly agreed, 13% disagreed or strongly disagreed, 27% were neutral, and 22% were unsure.

Q E16 If businesses were required to report on a common but limited set of environmental, social, and governance data, which themes should they report on? Please select all that you think should apply.

Figure 102: ESG Themes for Reporting Requirement

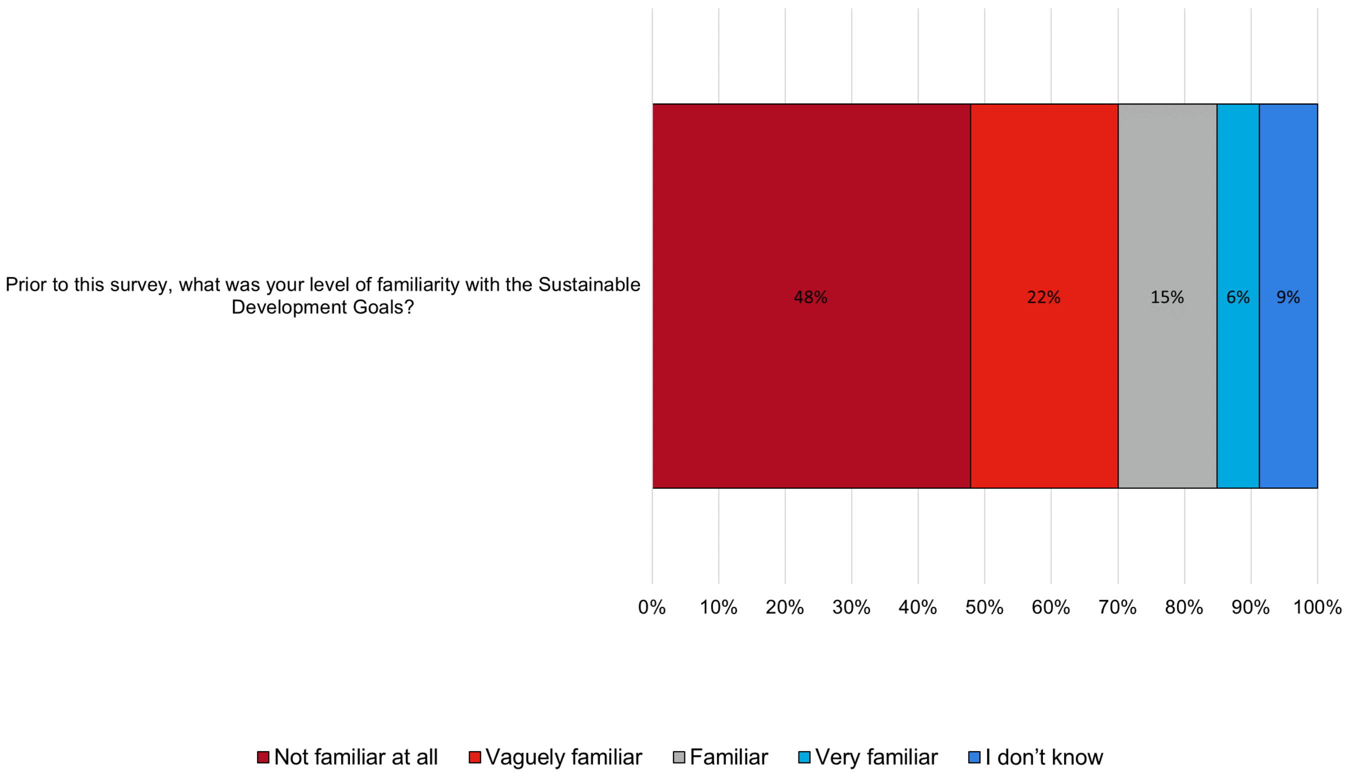


N value	504
Of the 504 employees/potential employees that completed the survey, all answered this question.	

There were five themes that at least 50% of respondents felt that businesses should be required to report on. The most popular was waste at 60%, followed by pollution at 55%; health and safety at 54%; climate change measures at 51%; and greenhouse gas emissions at 50%. There were nine themes that fewer than half of respondents felt should be required to report on, ranging from 17% to 47% of support from respondents. The three least important themes were considered to be stakeholder engagement, which only 17% felt should be reported on, followed by procurement policy/supply chain management at 18; and biodiversity at 21%.

Q E17 Prior to this survey, what was your level of familiarity with the Sustainable Development Goals?

Figure 103: Familiarity with SDGs

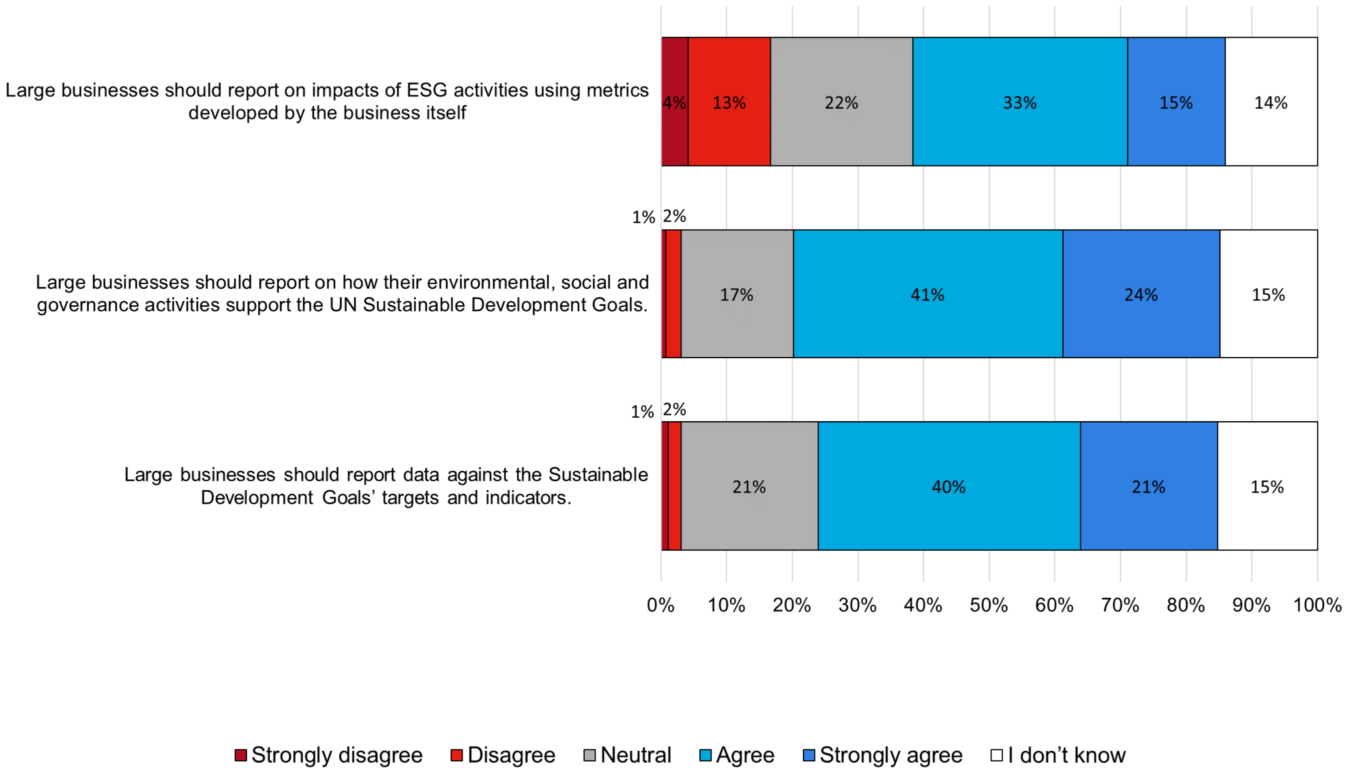


N value	504
Of the 504 employees/potential employees that completed the survey, all answered this question.	

48% of respondents were not familiar at all with the Sustainable Development goals, and 22% were vaguely familiar, a combined total of 70%. 21% were familiar or very familiar, and 9% were unsure.

Q E18 To what extent do you agree or disagree with the following statements?

Figure 104: Use of SDGs in Reporting on ESG Data



N value	263
Of the 504 employees/potential employees that completed the survey, 263 answered this question.	

In general, respondents felt more strongly that ESG reports from large businesses should align more with the SDGs, rather than metrics that these organisations develop themselves.

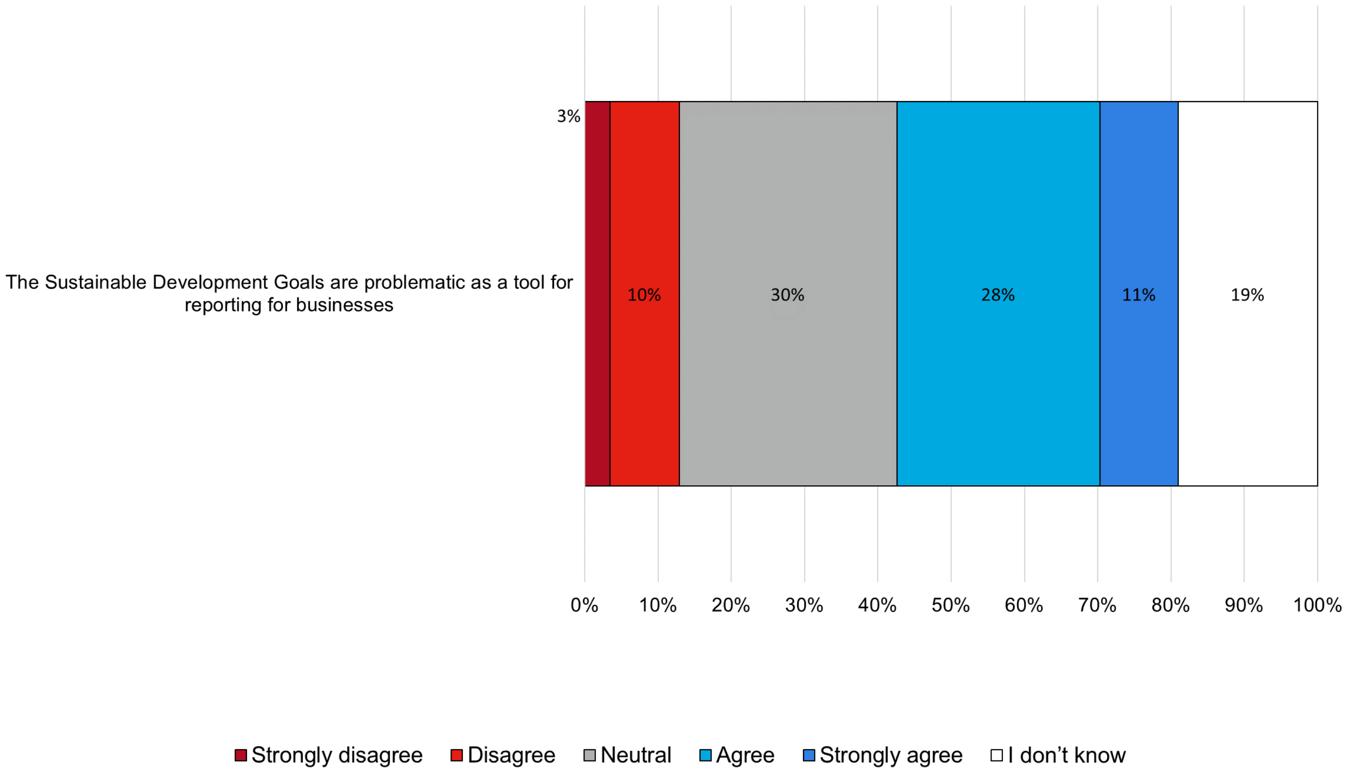
The strongest positive response was for the statement '*large organisations should report on how their ESG activities support the UN SDGs*', with 65% agreeing or strongly agreeing with this statement. Only 3% disagreed or strongly disagreed, 17% were neutral, and 15% were unsure.

For the statement '*large organisations should report on impacts of ESG activities developed by the organisation itself*,' 48% of respondents agreed or strongly agreed, and 17% disagreed or strongly disagreed. This statement received a greater proportion of neutral responses than either of the other two, at 22%, and 14% were unsure.

61% of respondents agreed or strongly agreed that large businesses should report data against the SDGs' targets and indicators, 3% disagreed or strongly disagreed, 21% were neutral, and 15% were unsure.

Q E19 To what extent do you agree or disagree with the following statements?

Figure 105: Problems in Using SDGs as a Tool for ESG Reporting

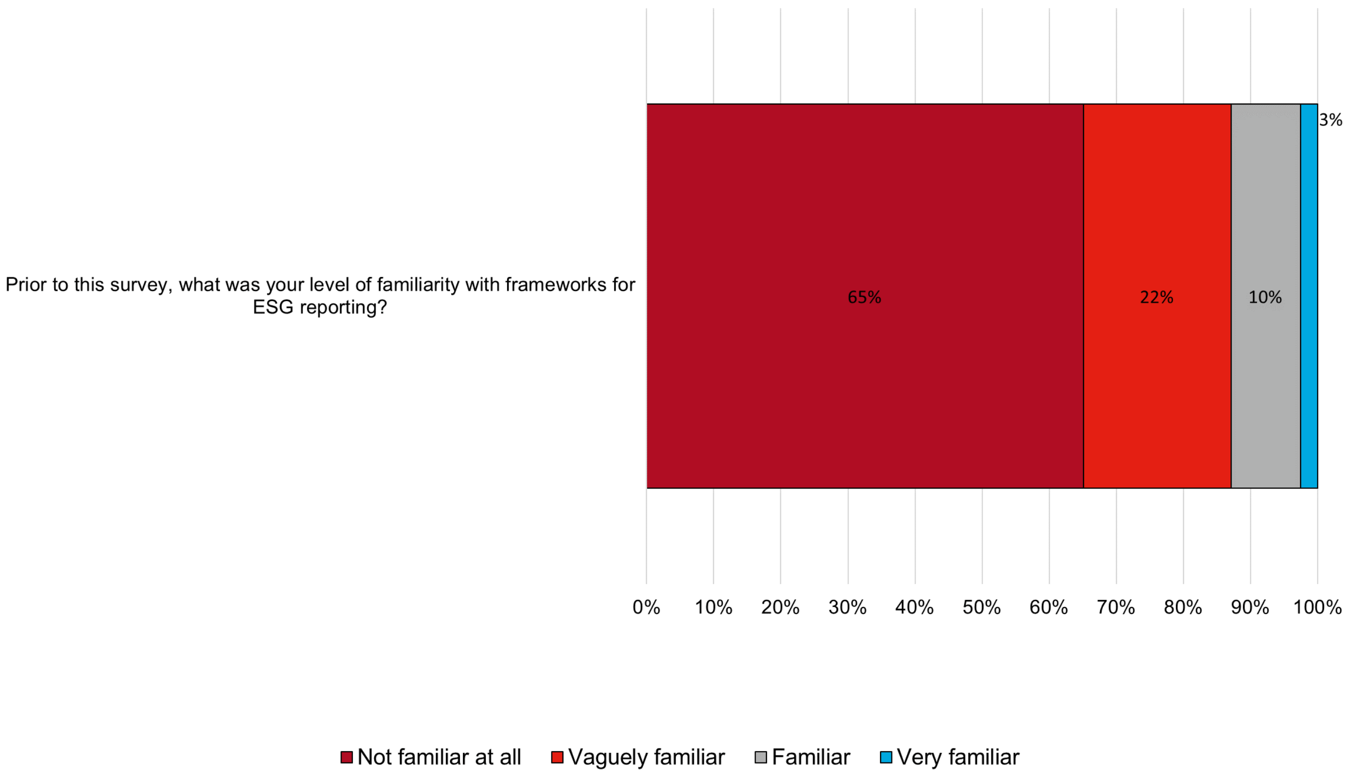


N value	263
Of the 504 employees/potential employees that completed the survey, 263 answered this question.	

There was no consensus as to whether the SDGs are problematic as a tool for reporting for businesses. The greatest proportion (30%) felt neutral, and 19% were unsure. A greater proportion (39%) agreed or strongly agreed, than disagreed or strongly disagreed, at 13%.

Q E22 Prior to this survey, what was your level of familiarity with frameworks for ESG reporting?

Figure 106: Familiarity with Frameworks for ESG Reporting

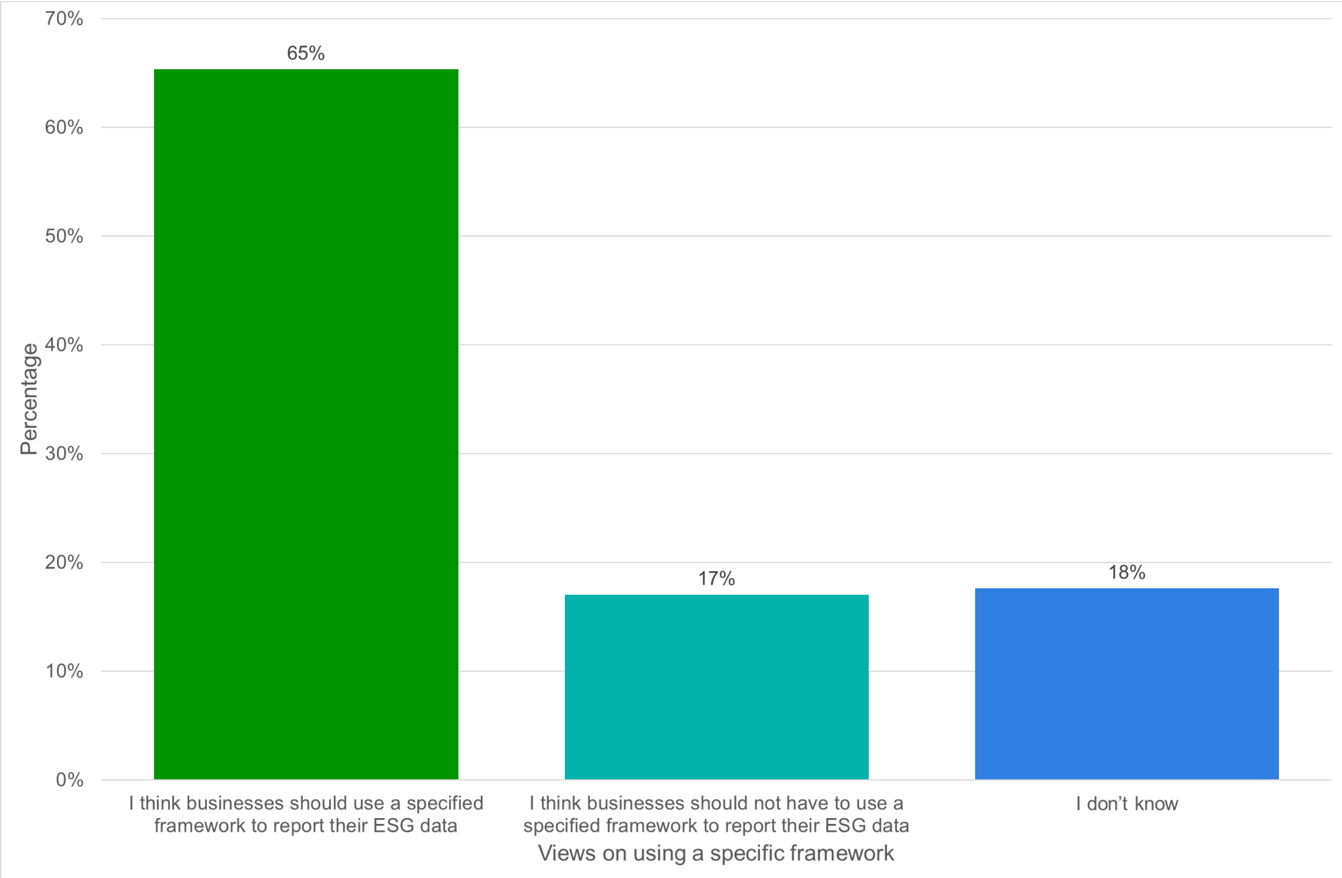


N value	504
Of the 504 employees/potential employees that completed the survey, all answered this question.	

There was very little familiarity with frameworks for SDGs prior to the survey, with 65% responding that they weren't familiar at all, and 22% vaguely familiar, a combined total of 87%. 10% were familiar, and only 3% very familiar.

Q E23 Do you think that businesses should report ESG data using a specific framework, or not using a specific framework?

Figure 107: Use of Specific Framework for Reporting on ESG Data

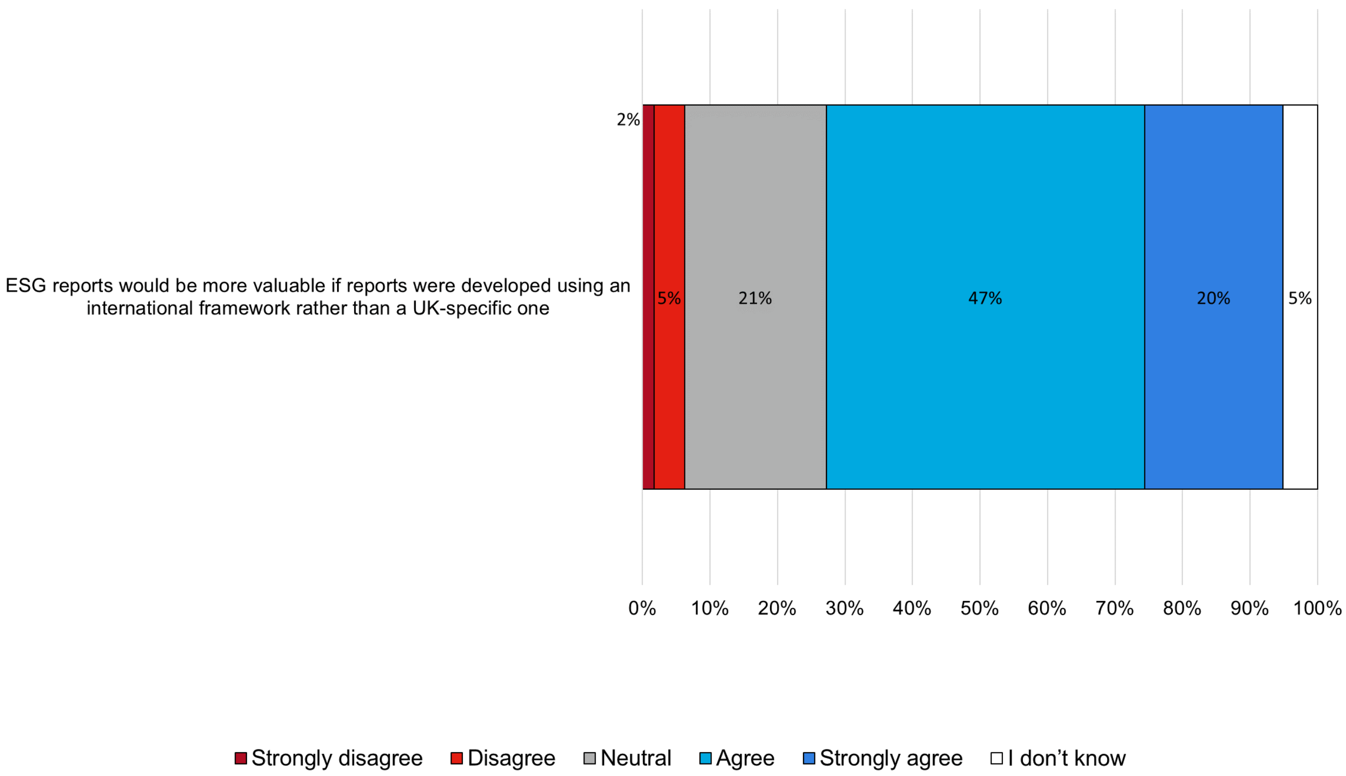


N value	176
Of the 504 employees/potential employees that completed the survey, 176 answered this question.	

65% of respondents felt that businesses should use a specified framework to report their ESG data, whilst 17% felt they should not have to use a specific framework. 18% were unsure.

Q E24 To what extent do you agree or disagree with the following statement?

Figure 108: Value of Developing an International Framework for ESG Reports

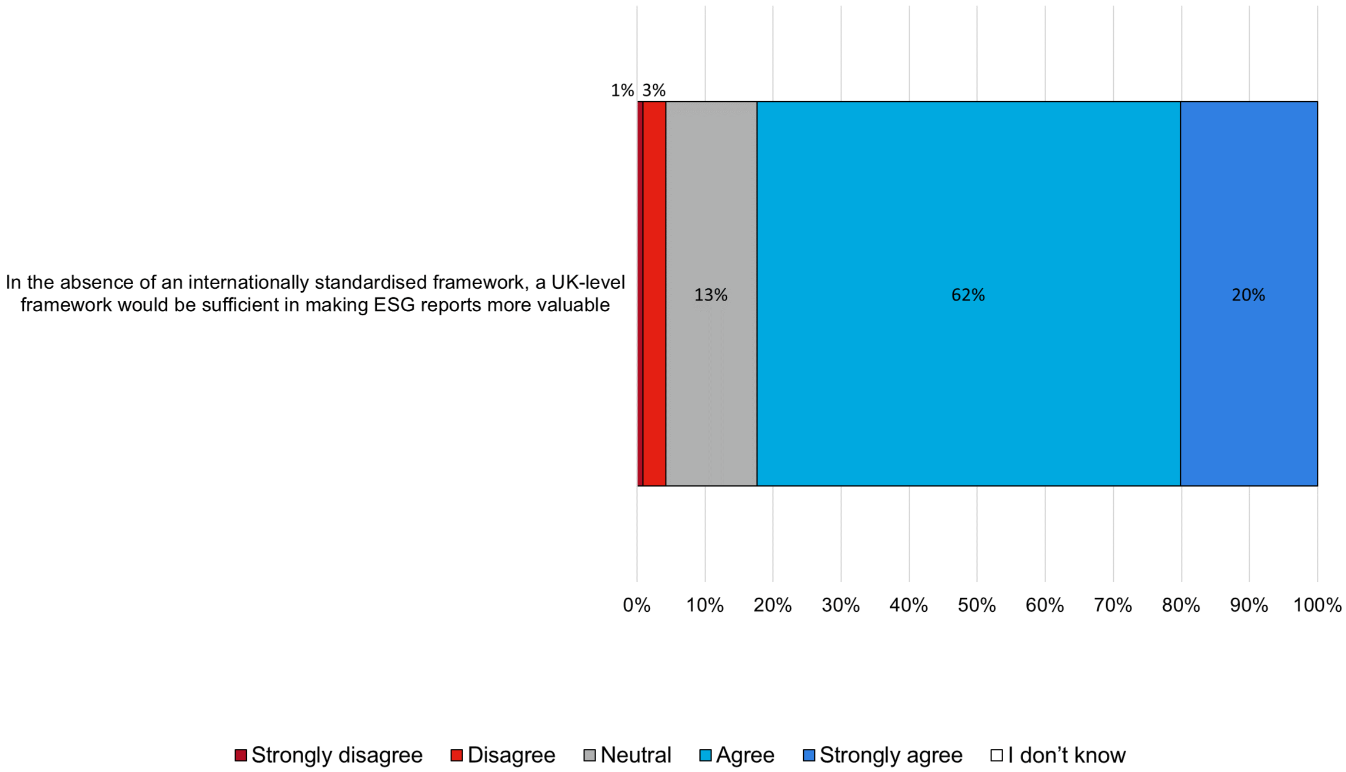


N value	176
Of the 504 employees/potential employees that completed the survey, 176 answered this question.	

47% agreed that ESG reports would be more valuable if reports were developed using an international framework rather than a UK-specific one, and 20% strongly agreed, a combined total of 67%. 7% disagreed or strongly disagreed, 21% were neutral, and 5% were unsure.

Q E25 To what extent do you agree or disagree with the following statement?

Figure 109: Sufficiency of a UK-Level Reporting Framework for ESG Data

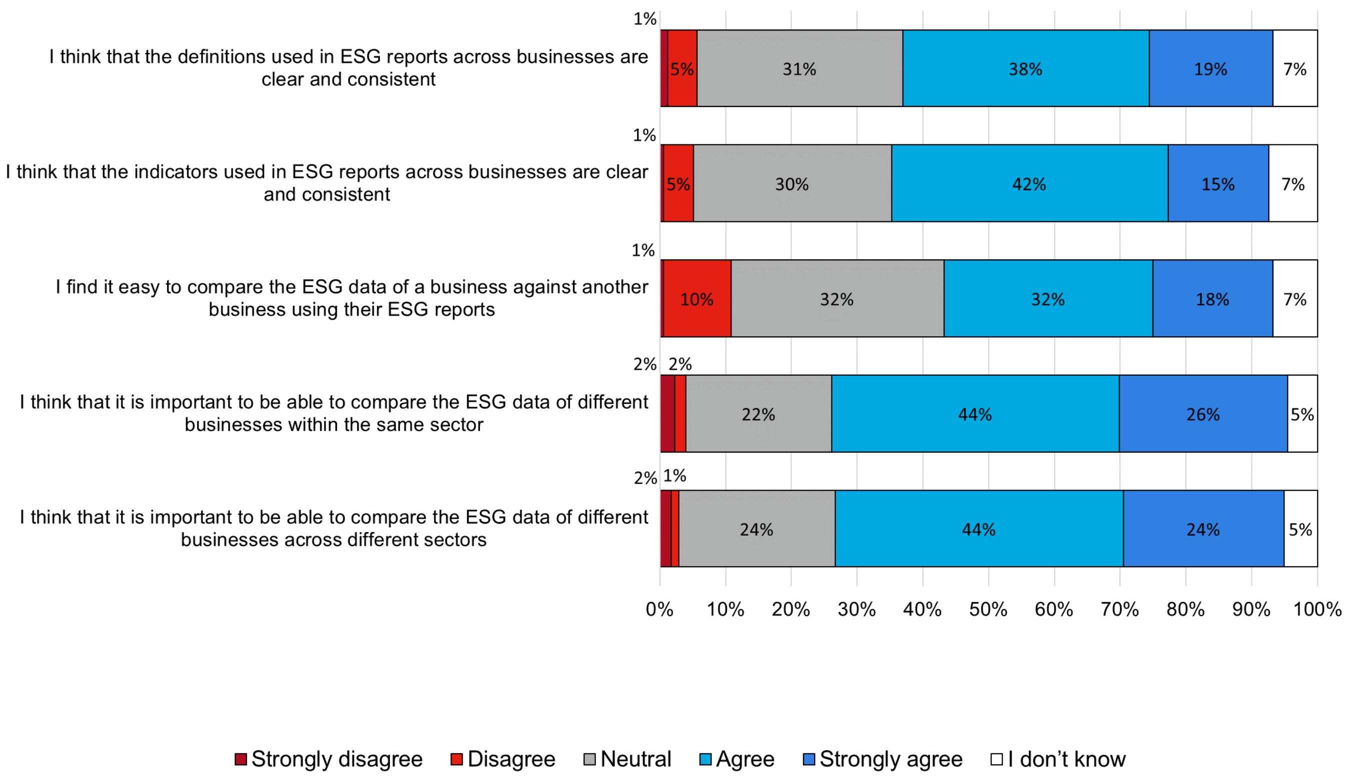


N value	119
Of the 504 employees/potential employees that completed the survey, 119 answered this question.	

62% agreed that in the absence of an internationally standardised framework, a UK-level framework would be sufficient in making ESG reports more valuable, and 20% agreed, a combined total of 82%. Only 4% disagreed or strongly disagreed, and 13% were neutral. 0% responded that they were unsure.

Q E27 To what extent do you agree or disagree with the following statements?

Figure 110: Ease of Engaging with ESG Reports



N value	176
Of the 504 employees/potential employees that completed the survey, 176 answered this question.	

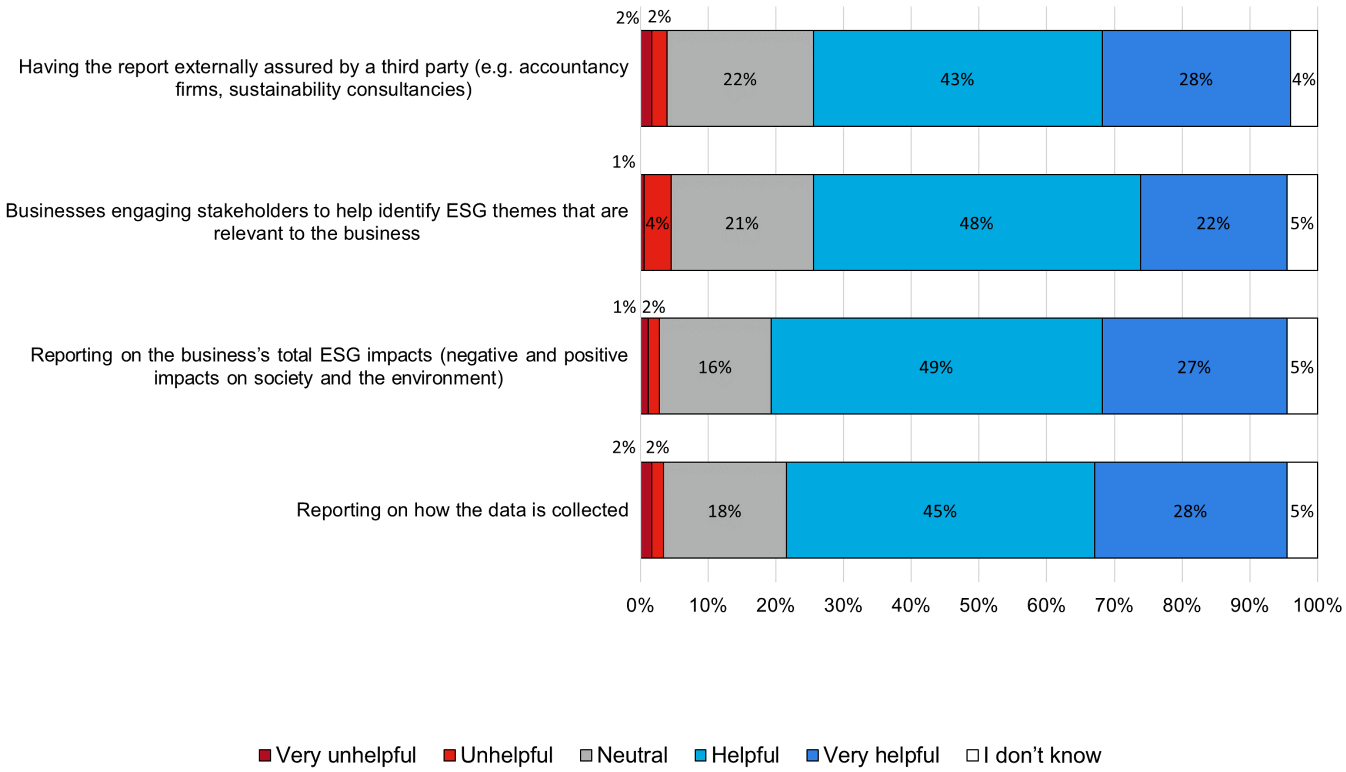
Respondents generally found that definitions and indicators used in ESG reports are clear and consistent across businesses. Definitions were considered to be used slightly more clearly and consistently than indicators, with 19% strongly agreeing and 38% agreeing that this was the case, while 15% strongly agreed that indicators were used clearly and consistently, and 42% agreed. Similarly, each had a combined total of 'agree' and 'strongly agree' of 57%; 6% were unsure, 30-31% were neutral, and 7% were unsure.

The statement with the least positive response was '*I find it easy to compare the ESG data of an organisation against another organisation using their ESG reports*'; 50% agreed or strongly agreed with this statement, 11% disagreed or strongly disagreed, 32% were neutral, and 7% were unsure.

Respondents felt that it was slightly more important to be able to compare the ESG data of different businesses within the same sector, rather than across different sectors. 70% agreed or strongly agreed it is important to be able to compare ESG data of different businesses within the same sector, and 68% believed this to be important between organisations in different sectors. 4% disagreed or strongly disagreed, and 22% were neutral that it was important between businesses in the same sector, versus 3% disagreeing or strongly disagreeing, and 24% neutral that it was important to be able to compare across different sectors. 5% did not know for either.

Q E28 To what extent do you believe that the following ways listed below would help improve your trust in ESG reports?

Figure 111: Improvement of Trust in ESG Reports



N value	176
Of the 504 employees/potential employees that completed the survey, 176 answered this question.	

Respondents generally agreed or strongly agreed that each of the ways listed would help improve their trust in ESG reports, with at least 70% of respondents agreeing or strongly agreeing that each way would help improve their trust. The most positive response was for '*reporting on the business's total ESG impacts (negative and positive impacts on society and the environment)*', with 76% agreeing or strongly agreeing. This also had the least negative response, with only 4% disagreeing or strongly disagreeing. It had the lowest neutral response, at 18%, and 5% were unsure.

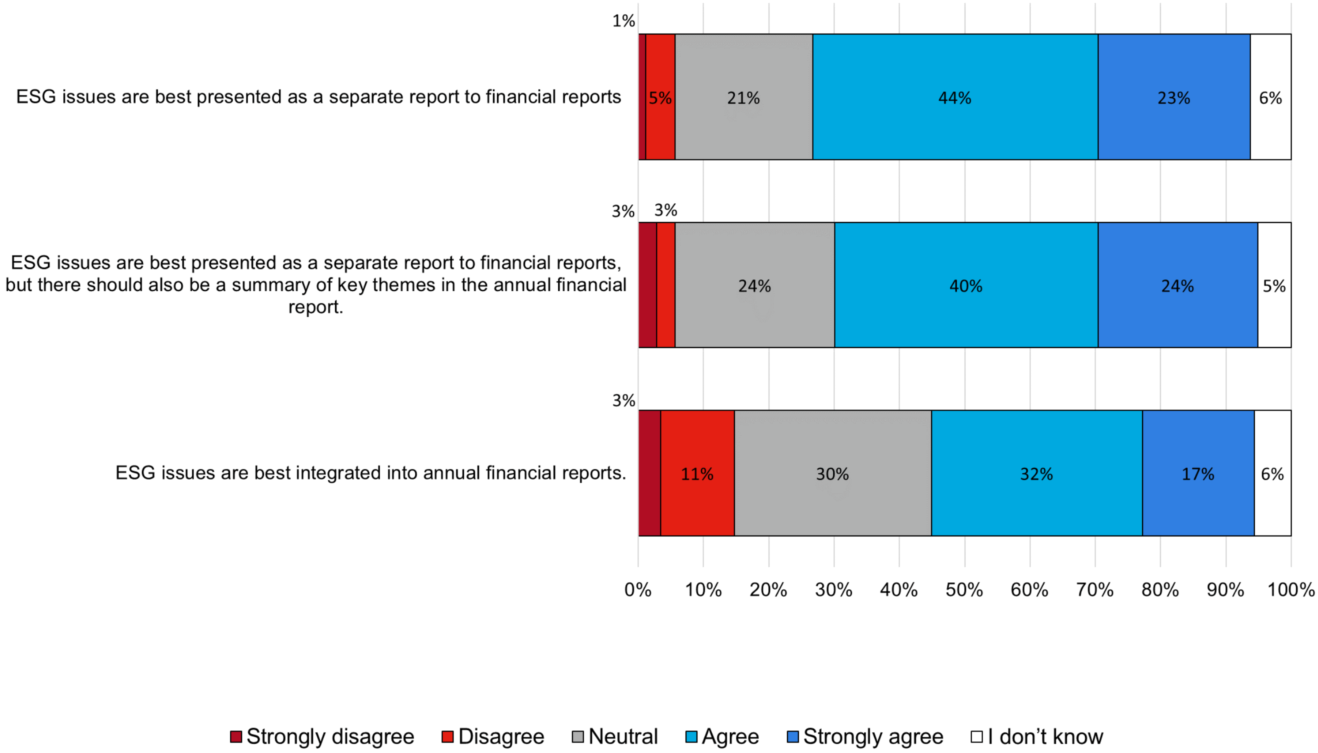
The next most positive response was for '*reporting on how the data is collected*,' with 73% agreeing or strongly agreeing and 4% disagreeing or strongly disagreeing. 18% were neutral and 5% were unsure.

The least positive response was for '*organisations engaging stakeholder to help identify ESG themes that are relevant to the organisation*,' with which 70% of respondents agreed or strongly agreed. 5% disagreed or strongly disagreed, 21% were neutral, and 5% were unsure.

For the statement '*having the report externally assured by a third party (e.g. accountancy firms, sustainability consultancies)*', 72% agreed or strongly agreed, 4% disagreed or strongly disagreed. It had the highest neutral response, at 22%, and the lowest 'don't know' response, at 4%.

E29 To what extent do you agree or disagree with the following statements?

Figure 112: Presentation of ESG Issues Relative to Financial Reports



N value	176
Of the 504 employees/potential employees that completed the survey, 176 answered this question.	

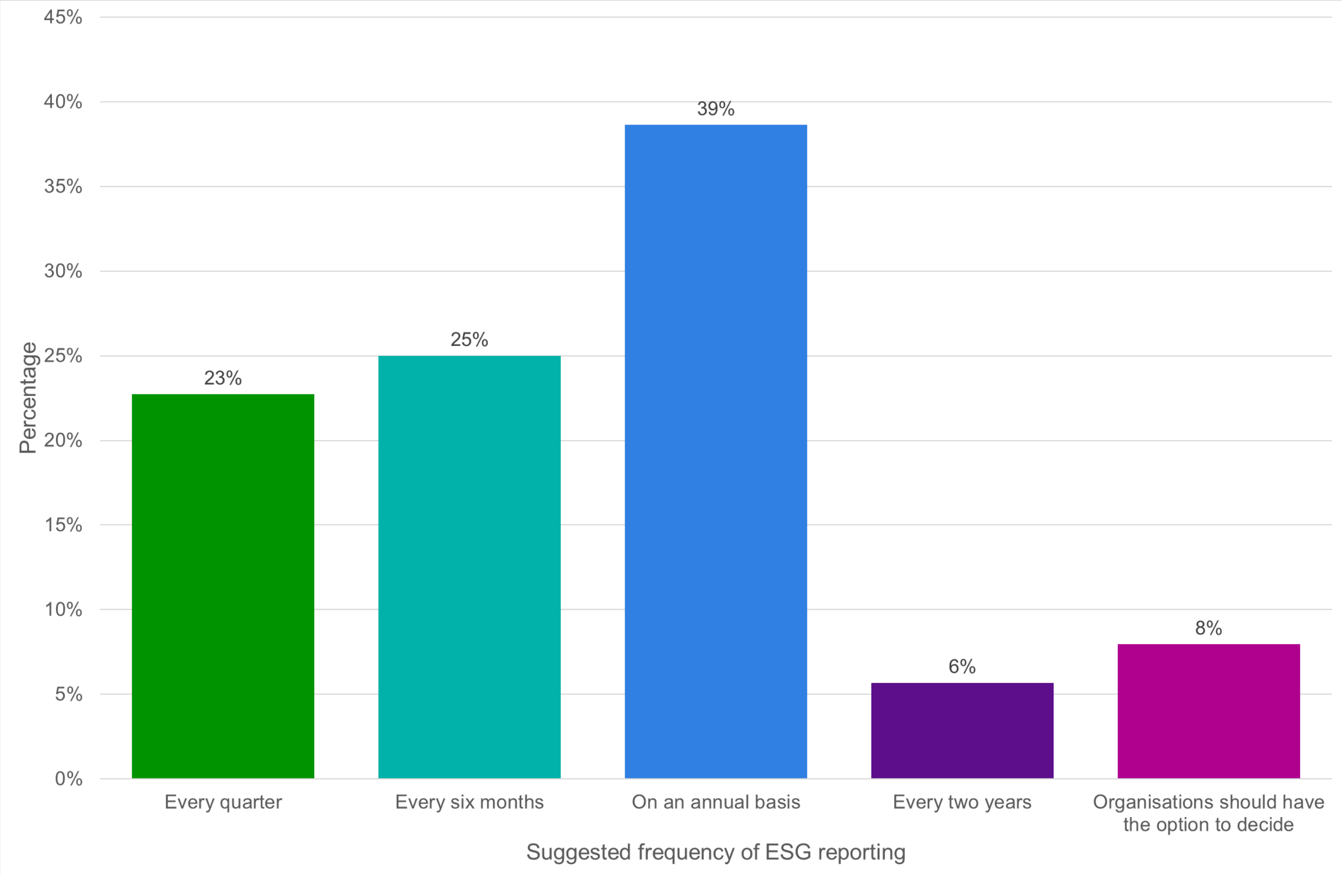
Respondents felt most strongly that ESG issues should be presented as a separate report to financial reports, with 67% agreeing or strongly agreeing, and 6% disagreeing or strongly disagreeing. It also had the fewest neutral responses, at 21%, whilst 6% were unsure.

The response for '*ESG issues are best presented as a separate report to financial reports, but there should also be a summary of key themes in the annual financial report*' was only slightly less positive, with 64% agreeing or strongly agreeing, and 6% disagreeing or strongly disagreeing. The neutral responses were slightly higher, at 24%, and 5% were unsure.

For the statement, '*ESG issues are best integrated into annual financial reports*,' with 49% agreeing or strongly agreeing, and 14% disagreeing or strongly disagreeing. It had the highest neutral response, at 30%, and 6% were unsure.

Q E30 How frequently do you think large businesses should publish their ESG reports?

Figure 113: Frequency of Publication of ESG Reports

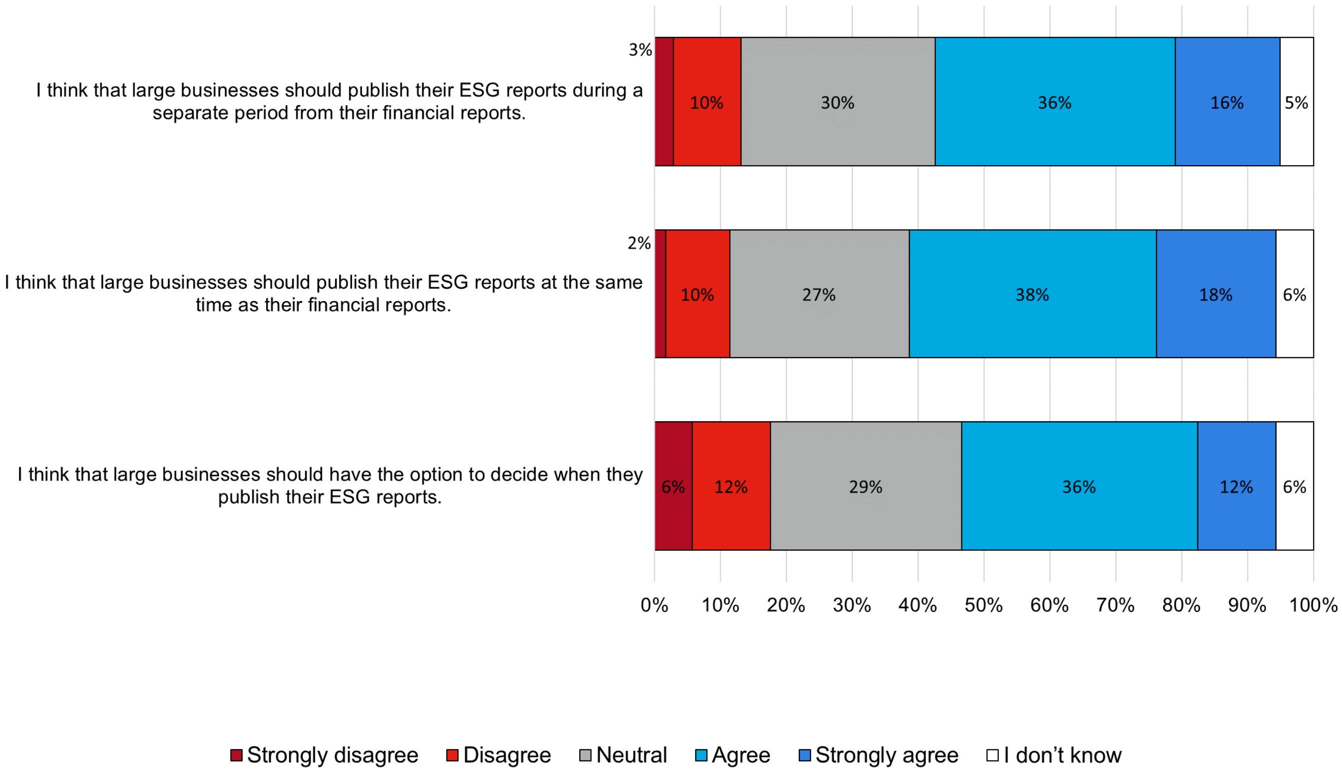


N value	176
Of the 504 employees/potential employees that completed the survey, 176 answered this question.	

87% of respondents felt that large businesses should publish ESG reports at least once a year, with 39% feeling this should be done on an annual basis, 25% felt it should be every six months, and 23% felt it should be every quarter. Only 6% felt it should be every two years, and 8% felt that businesses should have the option to decide.

Q E31 To what extent do you agree or disagree with the following statements?

Figure 114: Timing of Publication of ESG Reports Relative to Financial Reports



N value	176
Of the 504 employees/potential employees that completed the survey, 176 answered this question.	

In terms of when ESG reports should be published, respondents generally felt less strongly that large businesses should have the option to decide when this should be, rather it should be at a designated time, either during a separate period from their financial reports, or at the same time as their financial reports.

The statement with which respondents agreed most strongly was '*I think that large organisations should publish their ESG reports at the same time as their financial reports*,' with which 56% agreed or strongly agreed, and the smallest amount of any option, 12%, disagreed or strongly disagreed. This statement also had the smallest proportion of 'neutral' responses, at 27%, whilst 6% of responses were 'I don't know.'

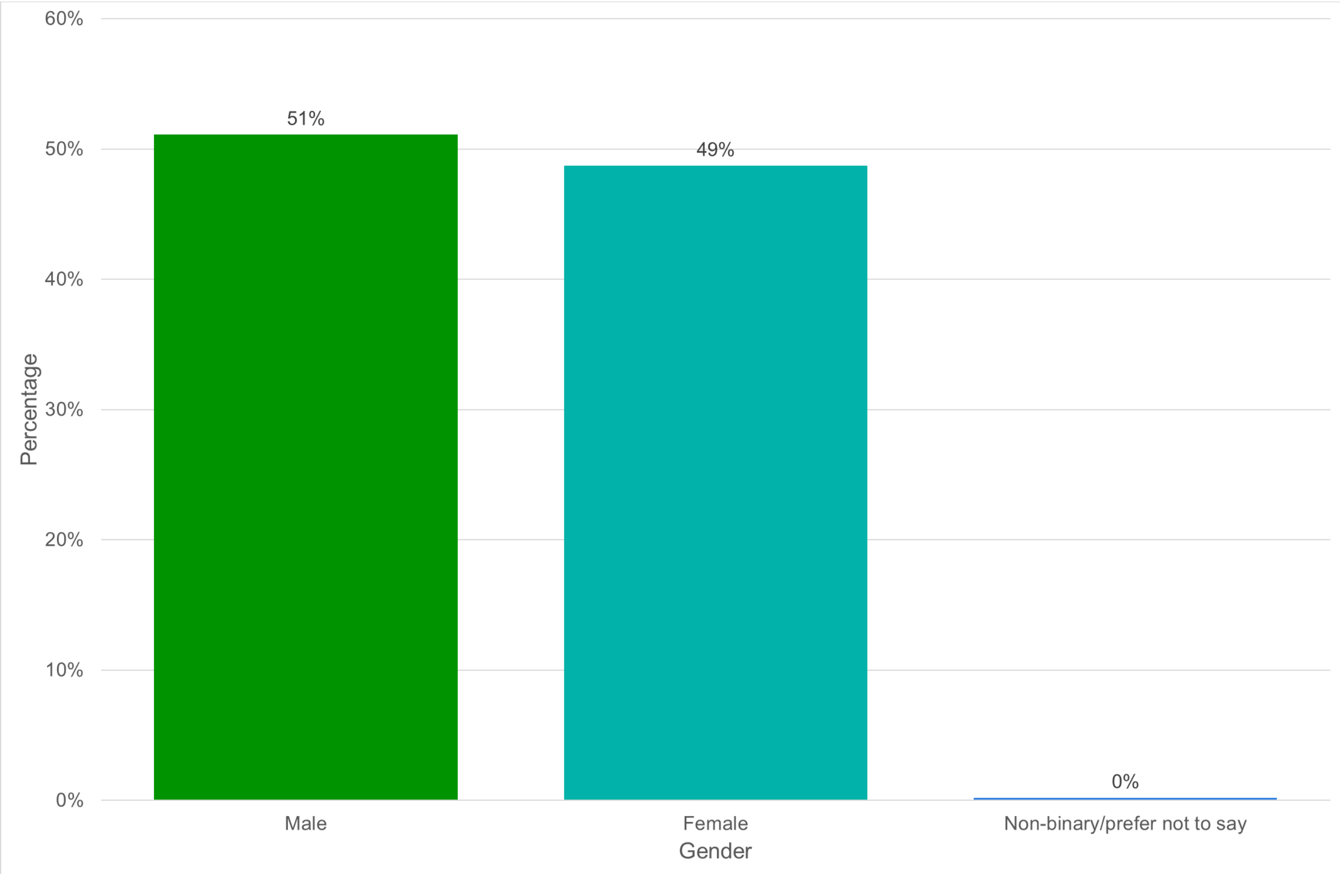
The least popular statement was '*I think that large organisations should have the option to decide when they publish their ESG reports*,' with which 48% of respondents agreed or strongly agreed, and 18% disagreed or strongly disagreed. 29% were neutral, and 6% were unsure.

54% of respondents agreed or strongly agreed that '*large organisations should publish their*

ESG reports during a separate period from their financial reports,' and 13% disagreed or strongly disagreed. This statement had the greatest proportion of 'neutral' responses, at 30%, and the fewest 'I don't know' responses, at 5%.

Q E32 Are you…? (Specify gender option)

Figure 115: Gender of Employees

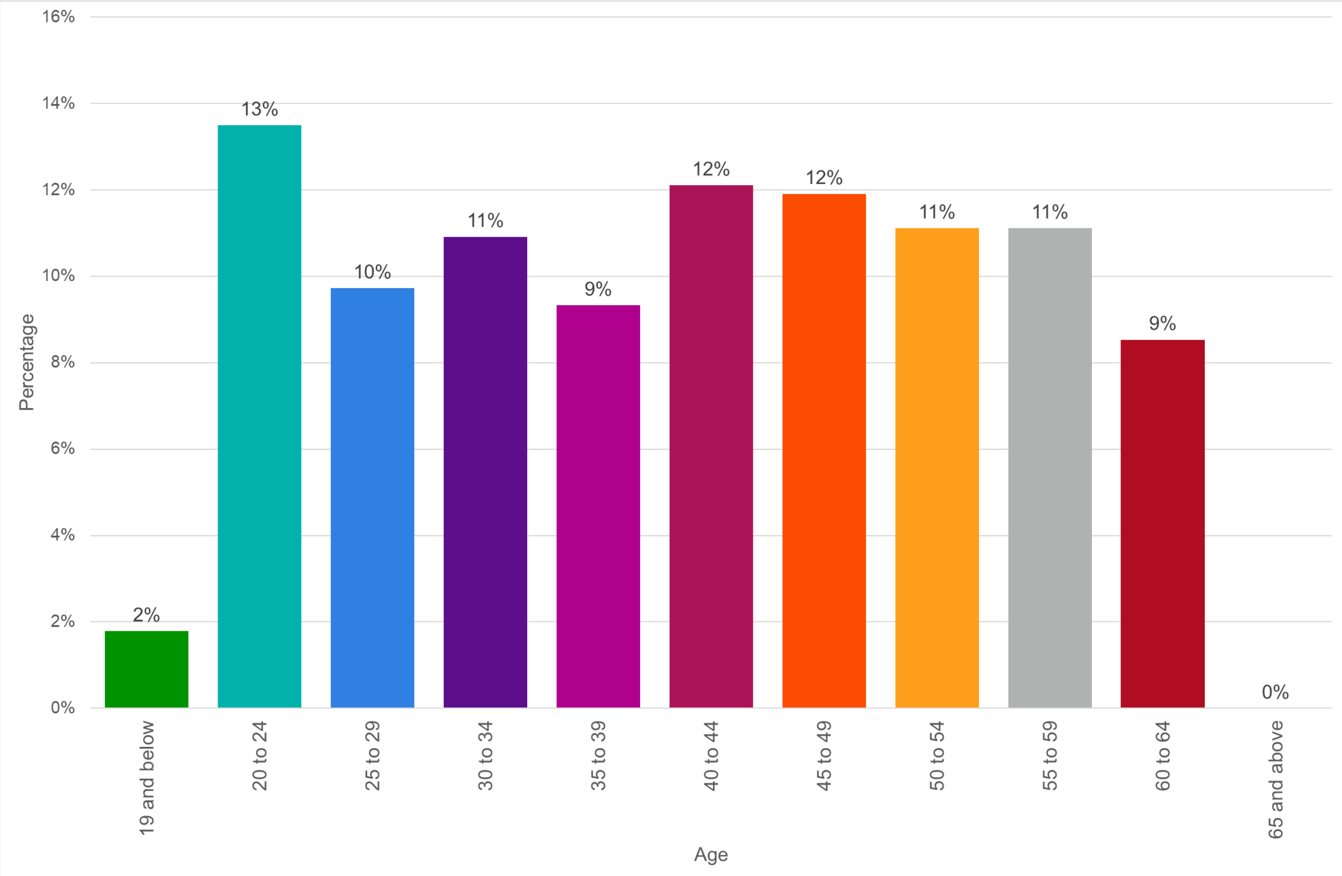


N value	503
Of the 504 employees/potential employees that completed the survey, 503 answered this question.	

51% of respondents were male and 49% were female.

Q E33 How old are you…?

Figure 116: Age of Employees



N value	504
Of the 504 employees/potential employees that completed the survey, 504 answered this question.	

A fairly even range of ages was represented, the most prevalent age group being 20 to 24, at 13%. 2% were 19 and below; 10% were 25 to 29; 11% were 30 to 34; 9% were 35 to 39; 12% were 40 to 44; 12% were 45 to 49; 11% were 50 to 54; 11% were 55 to 59, and 9% were 60 to 64. There were no respondents aged 65 and above.

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