Comparing ESG Reporting Frameworks and Recommending How to Choose

ESG & Sustainability Transformation

Hung NINH

12/2023

ESG Transformation

Comparing ESG Reporting Frameworks and Recommending How to Choose

As mandatory environmental, social, and governance (ESG) reporting disclosures become more commonplace, companies need to identify the right information to report on and how to do it properly. ESG frameworks guide us, but with so many options available, it can be difficult to know which one to choose. In this article, we'll explore the differences between ESG reporting frameworks and help companies decide which one might be right for their needs.

If you haven't started ESG reporting (don't worry, you're not alone), don't try to reinvent the wheel from centuries ago – align your reporting with one of the following global reporting frameworks. This will save you time, and effort, and make your reports more reliable and accessible.

What is an ESG reporting framework?

The ESG reporting framework is a set of guidelines and standards used to produce sustainability reports in a clear, structured, and actionable manner. ESG frameworks should not be confused with ESG standards. While frameworks provide answers on how ESG reporting relates (The How), standards provide answers about what they relate to (The What).

The reporting framework allows companies to provide a transparent and consistent picture of how their companies are performing in terms of sustainability, including environmental, social, and in their governance structure, hence the 'ESG' framework.

Why is a reporting framework necessary?

The framework supports companies with ESG reporting with several key purposes such as:

- More transparency with stakeholders
- Gain insights into opportunities for improvement
- Always comply with mandatory reporting requirements

To make the most of these benefits, sustainability reports must be accessible, practical, and actionable.

The ESG reporting framework allows organizations with different levels of expertise and starting points in sustainability to compile and publish their initiatives in the most comprehensive and accessible way possible, understood both internally and by external stakeholders.

How does the reporting framework work?

There are three main ways that ESG frameworks tend to work, namely:

- Questionnaires – Published companies are usually given a set of questions relevant to their industry. These questions often require input metrics, such as current emissions figures and greenhouse gas emissions history, or may require feedback on issues related to sustainability in the company's value chain. While companies are not required to produce a detailed report, the questionnaires are designed to encourage a high level of transparency and disclosure.
- Leveraged information reports – Often referred to as "reverse reporting," in this method, a third party conducts research on a company and prepares a report, which is then presented to the company for review of potential changes before it is released publicly. Although this approach is less demanding for companies, the accuracy and

level of detail in reporting may not be as extensive as when the company conducts the research itself.
- Reporting frameworks - reporting frameworks are the preferred choice among the three types of ESG standards. These frameworks provide detailed guidelines designed for specific industries, allowing companies to create their own reports. One of the advantages of using a reporting framework is the flexibility it provides in terms of the level of detail required for each topic. This allows for a wide range of published results that can be customized to meet the needs of the company.

Examples of how reporting frameworks work

CDP is a nonprofit organization that collects environmental data from companies and municipalities. Companies report their environmental impact through CDP's Online Response System (ORS). The data is then scored by independent experts and used to generate CDP ratings.

There are three main questionnaires for businesses: climate change, water security, and forests. Companies are scored only on questionnaires that are relevant to their business. For example, a company operating in the oil and gas industry will only be scored on a climate change questionnaire.

In addition to business questionnaires, CDPs also have industry-specific questionnaires for companies in industries with high environmental impact. These questionnaires ask more detailed questions about a company's environmental impact.

The CDP score is a letter point, "A" is representative of a company's best environmental performance. Companies with higher scores are seen as more environmentally responsible.

Convergence of frameworks and standards

Frameworks and standards are like two sides of the same coin when it comes to ESG reporting. Frameworks provide the big picture, while standards provide details. By using both, companies can create ESG reports that are both informative and actionable.

International organizations are providing frameworks, e.g. CDPs, they are aligning their framework with international standards. This is good news for companies, as it means they will be able to use a single framework to meet the requirements of many different standards. This can save time and money, and it can also help ensure that companies are reporting their ESG data in a consistent and comparable manner.

ESG framework example

Companies with a wide variety of ESG frameworks can choose to use at their disposal. In fact, there are more than 600 reporting frameworks globally, but it is important to understand that relying on a single framework may not be enough to publish all the necessary information.

Larger corporations can use several frameworks to cover the full scope of their sustainability initiatives. For example, in their latest sustainability report, cloud computing giant VMware mentioned considerations from six different reporting frameworks.

Below, we present some of the most common frameworks that businesses can access to use. However, companies should conduct research to determine which one might work best for them.

CDP

CDP (formerly 'Carbon Disclosure Project') is a non-profit organization founded in 2000. It operates the largest disclosure system globally for companies and cities.

Their role is to collect and analyze data on environmental performance and provide insights to improve sustainable operations. Companies submit information to CDP by filling out the CDP Questionnaire – on one or more subject platforms; climate, water, supply chains, and forests.

Climate scores generated by CDPs can be fed into EcoVadis, a sustainability rating provider, to classify companies into various levels – Bronze, Silver, Gold, or Platinum.

In collaboration with the SME Climate Hub, CDP launched a new climate disclosure framework in 2021. The framework helps businesses track and report their progress toward commitments, as well as demonstrate climate leadership in their respective industries.

Focus: The approach is primarily focused on the letter "E" in ESG, with a focus on addressing the "G" aspect related to environmental concerns such as climate change, water, and forests.

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is an independent organization – headquartered in Amsterdam with regional offices around the world – that helps businesses, governments and other organizations understand and communicate their sustainability impacts.

The GRI standard is widely recognized as a global standard for ESG reporting and is used by thousands of companies, governments, and organizations worldwide.

The standards provide a comprehensive framework for reporting on an organization's ESG performance and cover a wide range of topics, such as greenhouse gas emissions, water use, fair labour practices, human rights, anticorruption, and community engagement. These standards provide specific guidance on how to disclose information for each topic, including what information to include, how to measure and report on performance, and how to ensure transparency and accuracy.

The data reported under GRI feeds Sustainalytics, which provides research, ratings, and data to investors and companies.

Focus: GRI takes a holistic approach to ESG issues with equal importance on environmental, social, and governance factors. Emphasis is placed on stakeholder engagement to determine materiality.

Sustainability Accounting Standards Board (SASB)

As another not-for-profit organization, SASB standards are designed to help companies identify and report on sustainability issues related to finance and of course relevant to their industry.

By using SASB, companies can provide investors with more useful and comparable information about their sustainable performance, which can help them make more informed investment decisions. It effectively connects businesses and investors on the financial impact of sustainability.

Together with the Global Reporting Initiative (GRI), SASB is one of the most widely used frameworks for sustainable development reporting. In January 2021, BlackRock CEO Larry Fink recommended that companies follow SASB for industry-specific ESG disclosures.

In late 2020, SASB and GRI announced a partnership, aimed at creating better transparency and trust between reports.

Since August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation has assumed responsibility for SASB Standards. ISSB has committed to building on industry-specific SASB Standards and leveraging SASB's industry-based approach to develop a set of standards.

Focus: SASB aims to align institutions and investors on the financial impact of ESG. SASB is strong in key Environment (E) topics relevant to each industry; selective Social (S) topics; it may be limited on Governance (G).

International Sustainability Standards Board (ISSB)

The International Sustainability Standards Council (ISSB) is an independent, private-sector body established by the International Financial Reporting Standards Foundation (IFRS) that seeks to develop "high-quality standards for financial reporting and sustainable development, easy to understand, enforceable and universally accepted."

ISSB's goal is to provide investors and other market participants with consistent information about the risks and opportunities associated with the sustainability of companies, to help them make informed decisions across a wide range of industries.

The International Sustainability Standards Council (ISSB) was approved in February 2023, global sustainability reporting standards were recently published in June 2023.

The first two International Sustainability Standards Boards are:

IFRS (International Financial Reporting Standards) S1 General requirements for financial disclosures related to sustainability.

Climate-related disclosures IFRS S2, which has now been announced at the end of the second quarter of 2023.

Their goal is to help global investors better assess the long-term value of listed companies, with sustainability reports released alongside financial standards reports.

ISSB President Emmanuel Faber said: "The standards will help achieve this goal with a new reporting language aimed at reforming business culture, organisations and processes.

Combat climate change and demonstrate good environmental practices against potential greenwashing claims.

The final draft of S2 on climate declaration has a special appendix explaining how brands and manufacturers should specifically address this issue.

It instructs brands and manufacturers to report "percentages of third-party certified raw materials according to environmental and/or social sustainability standards," declaring the percentages covered by each standard.

The number of suppliers who deal directly with them must also be declared: "tier one supplier", such as with an apparel company such as a manufacturer of finished products, cutting and sewing facilities, and "second-tier suppliers", such as "manufacturers, processing facilities, and suppliers who exploit raw materials (e.g. factories, dyeing plants and washing plants, various manufacturers, tanners, embroiderers, printer displays, farms and/or slaughterhouses)."

As soon as these standards are established, investors and other stakeholders will require comparable and transparent ESG data that can require companies to provide information that aligns with these standards.

Science-Based Targets Initiative (SBTi)

SCIENCE BASED TARGETS

SBTi's reporting framework provides guidelines on how organizations should report their progress, including what data they should collect and how they should measure their emissions. The framework also includes specific requirements for reporting on different types of emissions, such as Scope 1 (direct) and Scope 2 (indirect) emissions, as well as Scope 3 (indirect) emissions related to the organization's value chain.

The SBTi reporting framework also requires organizations to report on their progress toward achieving science-based goals, including any challenges or barriers they encounter along the way. This information is used by SBTi to evaluate program effectiveness and identify areas that may need additional support or guidance.

Focus: Reporting on progress on emissions reductions consistent with the goals of the Paris Agreement.

UN Sustainable Development Goals (SDGs)

SUSTAINABLE DEVELOPMENT GOALS

Although not a reporting framework in the traditional sense, the United Nations Sustainable Development Goals (SDGs) are a set of 17 global goals aimed at addressing the world's most pressing economic, social, and environmental challenges.

The SDGs provide a common language and framework for organizations to align their strategies and activities with the global sustainable development goals and report on their contributions to achieving the goals.

Some reporting frameworks, such as CDP, GRI, and SASB, partner with these 17 goals, and organizations can announce their progress towards them using these frameworks. Governments can leverage this data to monitor national progress and develop relevant policies.

Taskforce on Climate-Related Financial Disclosures (TCFD)

The Task Force on Climate-Related Financial Disclosures (TCFD) is a global initiative established by the Financial Stability Board (FSB) in 2015 to improve and enhance reporting on climate-related financial risks and opportunities by companies and financial institutions.

TCFD has developed a set of recommendations for voluntary climate-related financial disclosures, which were released in 2017.

The recommendations provide a framework for companies to disclose climate related risks and opportunities in their financial statements, helping investors, lenders, and other stakeholders make more informed decisions. TCFD's recommendations are widely recognized and supported by businesses, investors and regulators worldwide as an effective means of enhancing transparency and accountability on climate-related financial risks and opportunities.

In 2018, CDP redesigned its climate change questionnaire to align with TCFD recommendations, and now CDP's climate change questionnaire contains more than 25 TCFD-aligned questions.

Focus: TCFD is a "top-down" structure with companies reporting on governance, strategy, risk management, metrics and objectives.

How to decide which framework to use

In today's world, there are many ESG reporting frameworks to choose from. Each comes with its own unique set of metrics and reporting requirements, which help figure out which framework (or combination with which one) works best for your business. This is not simple.

Complicating matters further, the development of ESG reports is still evolving, due to the introduction of standards such as IFRS and new regulations such as the Corporate Sustainability Reporting Directive (CSRD). All of these can make choosing quite difficult to determine the most appropriate reporting framework for your company.

Overall, there are about a dozen of the most popular ESG reporting frameworks, each with its own metrics and reporting requirements. They can be confusing when trying to sort out which ones – or when you try to combine them – that would work best for your organization, especially with the ESG reporting sector undergoing rapid change due to the development of IFRS standards and new regulatory requirements aimed at green washing.

One obvious factor that you need to consider is the type of ESG information your organization is seeking to report and what framework will best support that. Additionally, in a November 2022 blog post, John Niemoller, CEO of environmental, health, and safety management software provider Perillon, listed the following considerations for choosing from among ESG frameworks:

- Take a look at your industry. Research the frameworks commonly used by companies that do the same business as you.
- Look at what your competitors are using. Using the same framework they use can help you compare benchmarks against them.
- Consider the main audience you target for your ESG report. Investors, customers, employees, and other stakeholders often want to see different information about ESG initiatives. Your choice of framework can be guided by your main audience and their information needs.
- Look at the new regulations. Climate-related disclosure regulations and other types of ESG reporting can also affect reporting framework choices.

In addition to specific regulatory requirements, there are other factors to consider about the geographic areas in which your company operates. For example, a report on ESG reporting standards jointly published by consulting firms EY and Oxford Analytica in 2021 said different countries and jurisdictions "have different legal structures (state regulators) that govern corporate disclosure, as well as various liability records." Those differences could also affect "the nature and acceptance of both voluntary and mandatory disclosures" on sustainable development and ESG issues, the report added.

Keep in mind that because different reporting frameworks are created for different purposes, businesses — especially large companies or corporations — often use more than one framework. Helpfully, framework-designing organizations are collaboratively working to better facilitate incorporation. For example, the IFRS Foundation and GRI are collaborating to coordinate their standards-setting activities and increase interoperability between their frameworks. In addition, CDP plans to incorporate the new IFRS standard on climate-related disclosure into its reporting platform.

ESG frameworks, such as CDP, GRI, and SASB provide businesses with a roadmap to achieve sustainability goals and provide stakeholders with the information they need to make informed decisions about their business operations. While fragmentation is a growing concern with ESG reporting, hampering their consistency and reliability, efforts are underway to address this challenge and foster collaboration among companies, investors, consumers, and governments, to accelerate progress towards a more sustainable future for all.

Recommendations:
It is no longer the 0.4 era, we are living in the era of 4.0 technology revolution with AI, Blockchain, Machine Learning, 5G, IoT, Clound and comprehensive digital transformation. It is wrong not to take advantage of the technological strengths and expertise available to a truly professional independent consultant. Unlike the traditional manual way that takes a lot of effort, businesses will first be consulted to identify the needs and starting points of businesses on the sustainable development roadmap to be designed an appropriate roadmap. Ensuring the entire organization is confident about its personnel and interdisciplinary ESG knowledge will play a critical role in the success of ESG practices in general and ESG reporting in particular.

International experts will advise business leaders to select the appropriate set of standards or reporting frameworks for their needs, industry, scale, and business model. It can be said that this is important but difficult, even for companies in developed countries, in our experience.

As mentioned above, standards often require competing data conflicts, and combining multiple standards can lead to chaos in traditional reporting. But when you adopt advanced SaaS technology, this is completely solved, no matter which of the hundreds of standards you choose globally.

The current trend is that standards and frameworks will be regularly upgraded, changed according to internal needs, requirements from partners, government requirements, or industry associations, and especially to combat green-washing, and improve transparency of ESG reporting. No problem, the system partner will always support updates and upgrades.

With the complexity and diversity of ESG factors that cover the entire business operation, supply chain, and local community. Along with sensitivity to internal metrics, size, and number of branches. Unlike financial or business metrics, sustainability factors are often difficult to quantify. The process of collecting the right parameters, enough parameters and data to measure, from different sources and formats, and then evaluating and analyzing in-depth to make ESG appropriate decisions in the next steps, certainly takes a lot of time and resources.

The database will be automatically collected and updated in real-time through specialized software. The system will evaluate, translate according to a unified reference system, classify, and map to finally produce a professionally presented report in many different formats.

One of the ESG elements in the reporting process itself is data safety and control, especially for sensitive information. Business leaders fully master the system through the function of decentralization, decentralization of access, and modification.

Different from the traditional way of making reports that are laborious and time consuming, and affect the daily operations of businesses; Now, with digital technology, you only need to do it for the first time, then quarterly or annually, businesses can export ESG reports with just one click.

With this report, the company can easily identify and trace the source and disclose information transparently to stakeholders, in order to improve the stages and problems that have not met expectations. ESG reporting demonstrates vision, resources, consistency, and especially transparency at a level that is superior to the general level.

ESG reporting, once independently audited, is like a passport that guarantees the highest authority on the sustainable development of any organization or business in the world, regardless of size, sector, and industry. ESG reporting according to international standards creates absolute verifiable confidence for customers, partners, and even investment funds that rigorously provide green credit packages and long-term companionship with the most favourable conditions only for market leaders.

To learn more about ESG and sustainability-related models, don't hesitate to contact **YTT Consulting**!