Targeting transparency
How Switzerland’s largest companies manage and report on sustainability
About the study

Besides the analysis in line with previous years, for this third study EY Switzerland surveyed the largest Swiss companies to gather insights into the current state of sustainability management (see section 2).

In addition, our study aims to provide an overview of sustainability reporting of the 110 largest Swiss companies, offering a comparison over recent years and looking at changes in the Global Reporting Initiative (see section 3).

Further, the study explores current developments (see section 4) and provides an outlook (see section 5).
About the study

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Embedding sustainability in the business model contributes to long-term success

A majority of the companies surveyed have embedded sustainable practices in their business strategy and believe this to be a future success factor. This clear commitment is at least partly due to the fact that 87% of the respondent companies report on sustainability and can therefore be considered as leading companies in this field.

Responsibility lies primarily with the executive board

For a clear majority of the companies surveyed (83%) the executive board is the major driver in defining sustainability strategy and goals. In addition, half of the respondents mentioned the board of directors and a third the CEO as a driving force in sustainability practices. Responsibility for reviewing sustainability performance lies mainly with the executive board (67%), followed by the board of directors and CFO (each at 54%) and the sustainability team (46%). Around two thirds of the companies view the support of the sustainability teams as key for defining sustainability strategy and goals.

Integration in the business strategy

For the companies surveyed the key goal of an effective sustainability strategy is to add value. Other important objectives are to secure a competitive advantage and address stakeholder expectations.

Companies believe that analysts consider sustainability for their evaluations

50% of the companies surveyed and two thirds of the SMI Expanded companies (64%) surveyed think that analysts consider environmental and social factors when evaluating companies. Only 21% do not think that analysts consider such information.
Analysis of sustainability reporting

The number of sustainability reports as well as the number of disclosed performance indicators increased slightly

Among the 110 largest companies in Switzerland, the percentage of organizations issuing a sustainability report increased from 53% in 2012 to 54% in 2013. In the segment of the SMI Expanded companies, the percentage increased from 68% (2012) to 70% (2013). Compared to the previous year this increase is moderate but constant. In addition, greater transparency regarding sustainability performance can be observed as several companies increased the number of disclosed indicators. The percentage of companies issuing a comprehensive sustainability report increased from 45% to 49% while the percentage of basic sustainability reports decreased from 8% to 5%.

Most of the reports still do not have external assurance

Around one third of the largest Swiss companies seek external assurance on their report. Compared to the previous year, this number remains nearly unchanged. For the SMI Expanded companies the percentage decreased from 50% for 2012 to 43% for 2013, as two companies decided not to obtain external assurance for their reports on a yearly basis.

GRI Guidelines remain the most important standard - G4 on the rise

The Guidelines of the Global Reporting Initiative (GRI) remain the most widely used standard for sustainability reporting worldwide. Around three quarters of the 110 largest companies in Switzerland and SMI Expanded companies apply the GRI guidelines. The fourth version of the Guidelines (G4) published in May 2013 is already applied by 10 of the 110 largest companies (six of the SMI Expanded). Many companies have expressed their intention to base their next sustainability reporting on the new requirements.

National and international developments promoting sustainability reporting

Various Swiss and international developments promote the importance of sustainability reporting. The SIX Swiss Exchange launched a new sustainability index in June 2014, the SXI Switzerland Sustainability 25 Index. At a global level the proposal of the European Commission amending the Accounting Directives, the fourth generation of GRI Guidelines (G4), the Sustainability Accounting Standards Board (SASB) as well as the Integrated Reporting Framework of the International Integrated Reporting Committee (IIRC) demand more transparency and credibility of companies and thus contribute to the growing importance of sustainability reporting.
Survey on sustainability management at Swiss companies
In the corporate context, sustainability management means taking an integrated approach to risks and opportunities related to environmental, social and economic factors. There are several ways in which sustainability can be embedded in the corporate strategy and governance of a company. EY Switzerland conducted a survey among the 110 largest Swiss companies and the 50 companies in the SMI Expanded (a total of 118 companies in scope of this study) to gather some insights on the current status of sustainability management in Switzerland.

**02.1 Approach and survey participants**

In May 2014 EY Switzerland sent a survey to the companies included in the scope of this sustainability reporting study. A total of 24 responses were received from the 118 companies (response rate of around 20%). In addition, three companies expressly declined to participate.

The survey was designed to elicit the views of executives and was sent primarily to CFOs. 13% of the individuals responding were CFOs and three quarters had a sustainability-related responsibility (sustainability officer, member of the board responsible for sustainability, etc.). In three instances, the executive surveyed was a general secretary, a member of the corporate development team and a member of the internal relations team, respectively.

The majority of the respondents (87%) represent companies already reporting on their sustainability performance and can therefore be seen as leading companies (see section 3).
Sustainability - “business as usual” for leading companies
According to the survey responses, around 30% of respondents have fully embedded sustainable practices in their business strategy and an additional 54% consider it to be closely linked to the corporate strategy. This high number of companies with sustainability embedded in their strategy reflects the profile of the respondents (leading companies reporting on sustainability with sustainability practices implemented accordingly).

Most of the companies surveyed have embedded sustainability practices in their business and believe it to be an important future success factor

Almost all respondent companies believe that sustainability has to be part of the management agenda to ensure future success.

Adding value and competitiveness are key objectives of an effective sustainability strategy
Sustainability is deemed to be embedded in a company’s strategy when it can provide proven value to both the company and its stakeholders. 88% of respondents chose adding value as a key objective of a sustainability strategy. This is linked to the fact that for many companies the CEO (33%) or executive management (83%) has overall responsibility for sustainability (see question below on sustainability governance).

Other key objectives identified by the majority of the companies surveyed were obtaining competitive advantage and being responsive to stakeholder requests (67% each), identifying and mitigating risks (58%) and attracting customers and investors (54%). In addition, half of the companies said that a sustainability strategy should attract and retain staff (50%), comply with regulations (42%) and identify cost savings (29%). Additional objectives such as reputation, taking responsibility and ecological reasons were mentioned.
The sustainability department plays a key role in identifying relevant sustainability topics.

The challenge lies in selecting the strategy and reporting focus on sustainability topics that are most material for the company and its stakeholders. According to the respondents the relevant sustainability topics are mainly identified by the sustainability departments (75%). Materiality and risk assessments are mentioned by a majority of the respondents (71% and 63%, respectively) as tools used to determine the most important sustainability issues. Additionally, more than half of the companies polled (58%) engage their stakeholders and half of the respondents (50%) take into account the opinion of the management and board. With the expected increase in strategic relevance of sustainability, responsibility for identifying and prioritizing sustainability topics could shift to higher levels of the hierarchy. However, when the sustainability strategy is fully embedded in the business (in accordance with question 1), the management and board’s opinion plays a more significant role in identifying and prioritizing material issues. In addition, respondents mentioned analysis by their risk team and different divisions of the company as well as mega trend and best practice analysis as further tools used to determine relevant sustainability topics for their company. The results show that identifying relevant sustainability topics is mostly an operational responsibility as the top management and board are not mainly involved.

**What are the principal objectives of a sustainability strategy and according efforts?**

- To add value: 68%
- To obtain competitive advantage: 67%
- To be responsive to stakeholder requests: 67%
- To identify and mitigate risks: 58%
- To attract customers and/or investors: 54%
- To attract and retain staff: 50%
- To comply with regulations: 42%
- To identify cost savings: 29%
- Don’t know: 4%

**How do you identify relevant sustainability topics?**

- Analysis by sustainability department: 75%
- Materiality assessment: 71%
- Risk assessment: 63%
- Stakeholder engagement: 58%
- Management/board opinion: 50%
- Analysis by third party: 38%
Customers and employees are the main driving force for companies to implement a corporate sustainability strategy

Increasing expectations for a sustainability strategy of a company originate from a number of different actors with sometimes divergent needs. The survey shows that respondents see customers as the group with the most influence on sustainability strategy, followed by employees, society at large, shareholders and policy makers. However, NGOs, analysts and suppliers also have an impact on the sustainability strategy. These findings are in line with a global study by EY and the Global Reporting Initiative (GRI) who conducted a survey before and during GRI’s Global Conference on Sustainability and Reporting. The results show that customers and employees are the group with the most influence on sustainability strategy for companies.1

1 See EY and Global Reporting Initiative (2014), “Sustainability reporting – the time is now”
Responsibility lies with the top management

A clear majority of the respondents (83%) named the executive board as the major driver in defining the sustainability strategy and goals. This underlines the growing importance of sustainability as a key item on the executive agenda, especially in light of the fact that 50% of the respondents mentioned the board of directors and 33% the CEO. However the support of sustainability teams is still key at many companies (63%). One company mentioned their internal steering body as responsible for defining sustainability strategy and goals.

Responsibility for sustainability is shifting to the executive board

Reviewing sustainability performance is mainly the task of the executive board (67%) followed by the board of directors and the CFO (each at 54%) and the sustainability team (46%). The CEO was mentioned by 29% of the respondents. In addition, two companies mentioned the chief risk officer and the reputation risk committee and one their internal steering body as responsible.

The responses to the two questions specified above regarding sustainability governance recognize the importance of the executive board in sustainability management. However, we can observe a gap between the 83% stating that the executive board defines the strategy and the 67% reporting that the executive board reviews sustainability performance. This may diminish the relevance of the sustainability goals and the implementation of the strategy in some companies. Interestingly, the sustainability team was mentioned less frequently regarding the review of the sustainability performance (~17%) so it cannot be assumed that the task is usually delegated to the sustainability department. The CFO is responsible for the review of the sustainability performance in more than half of the companies, even though the CFO plays only a minor role in defining the strategy.

Who defines the sustainability strategy and goals?

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive board</td>
<td>83%</td>
</tr>
<tr>
<td>Sustainability team</td>
<td>63%</td>
</tr>
<tr>
<td>Board of directors</td>
<td>50%</td>
</tr>
<tr>
<td>Chief executive officer</td>
<td>33%</td>
</tr>
<tr>
<td>Chief financial officer</td>
<td>4%</td>
</tr>
<tr>
<td>Marketing team</td>
<td>0%</td>
</tr>
</tbody>
</table>

Who reviews the overall sustainability performance?

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive board</td>
<td>67%</td>
</tr>
<tr>
<td>Board of directors</td>
<td>54%</td>
</tr>
<tr>
<td>Chief financial officer</td>
<td>54%</td>
</tr>
<tr>
<td>Sustainability team</td>
<td>46%</td>
</tr>
<tr>
<td>Chief executive officer</td>
<td>29%</td>
</tr>
<tr>
<td>Marketing team</td>
<td>4%</td>
</tr>
</tbody>
</table>
Sustainability information is mainly used for sustainability reports

Almost two thirds of the respondents (62%) review their sustainability performance on an annual basis. This matches the usual reporting cycle for the publication of sustainability reports. However, 21% of the respondents review sustainability performance every six months and 13% even do so quarterly. This shows that specific and reliable data needs to be available regularly as the basis for sustainability management that enables companies to take management decisions and actions at an early stage in order to meet their sustainability objectives.
Sustainability information is of relevance to financial analysts

With the increase in the number of companies reporting on their sustainability performance, the providers of financial capital - and in particular long-term investors - use sustainability information to better inform their decision-making. 50% of the largest companies responding to the survey and 64% of the SMI Expanded companies believe that analysts consider environmental and social factors in evaluating the company. Only 21% do not think that analysts consider such information.

Excluding the companies for which this question is not applicable, a total of two thirds of the respondents share this opinion. “Tomorrow’s investment rules”2, a global study recently released by EY, gathered opinions from 163 institutional investors. The results are in line with our survey and suggest that the majority of investors use non-financial information when assessing investments and evaluating their current holdings. The study also revealed that for nine out of 10 investors, non-financial performance information played a pivotal role at least once in their decision-making in the last 12 months. Our survey shows that companies consider sustainability information not to be highly - but relatively - important for analysts and investors.


Do you believe the analysts who cover your company consider sustainability performance in your company’s evaluation?

How important do you think sustainability topics are for analysts’ evaluations?

<table>
<thead>
<tr>
<th></th>
<th>5 = Very important</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1 = Not important</th>
<th>Not applicable or no answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>8%</td>
<td>38%</td>
<td>29%</td>
<td>4%</td>
<td>21%</td>
<td></td>
</tr>
</tbody>
</table>
Analysis of sustainability reporting
The results of the study are explained in this section. To improve comparability, two segments were examined separately. The first segment contains the 100 largest companies, the five largest banks, and the five largest insurers headquartered in Switzerland (see section 3.1). The second group comprises the 50 SMI Expanded companies (see section 3.2).

For each segment, we looked at the number of sustainability reports, the form of reporting, whether the guidelines of the Global Reporting Initiative (GRI) were applied and whether companies had sought external assurance (see also section 6). The analysis is based on the companies’ most recent annual reports and sustainability reports (available as of July 2014). Section 3.3 offers an overview of general developments in GRI reporting in Switzerland and internationally.

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3 The 100 largest Swiss companies, headquartered in Switzerland, according to Handelszeitung “Die grössten Industrie-, Handels- und Dienstleistungsunternehmen in der Schweiz 2013” [the largest industrial, trade and service companies in Switzerland in 2013]. The survey did not consider reports of subsidiaries controlled by a parent in Switzerland or abroad as they could potentially be included in the parent’s reporting scope.

4 The five largest Swiss banks, headquartered in Switzerland, according to Handelszeitung “Die grössten Banken in der Schweiz 2013” [the largest banks in Switzerland in 2013]. The survey did not consider reports of subsidiaries controlled by a parent in Switzerland or abroad as they could potentially be included in the parent’s reporting scope.

5 The five largest Swiss insurers, headquartered in Switzerland, according to Handelszeitung “Die grössten Versicherungsgesellschaften in der Schweiz 2013” [the largest insurers in Switzerland in 2013]. The survey did not consider reports of subsidiaries controlled by a parent in Switzerland or abroad as they could potentially be included in the parent’s reporting scope.


03 Analysis of sustainability reporting

03.1 The largest companies, banks and insurers

60 of the 110 largest companies, banks and insurers published reports for the year 2013 (54%). This increase compares to 49 reports (44%) published for 2010, growing to 56 reports (51%) for 2011 and 58 reports (53%) for 2012.

Besides the number of reporting companies, the way companies report also changed slightly over the last year. In 2013, 54 (49%) of the largest companies issued a comprehensive sustainability report based on the GRI Guidelines and incorporating 10 or more relevant key performance indicators. The number of basic sustainability reports (containing around five key performance indicators in line with GRI) decreased from nine reports (8%) for the years 2011 and 2012 to 6 reports (5%) for the year 2013. All of the companies choosing this approach opted to include their sustainability disclosures within the annual report. 57% of the reporting companies (34 companies) used their annual report as a platform for their comprehensive sustainability report, while 20 companies (33%) published a stand-alone sustainability report.

Of the 60 reports issued for 2013, 46 were prepared in accordance with the GRI Guidelines (77%) compared to 67% in 2010.

Highlights in 2013 with regard to application levels in previous version of the GRI Guidelines G3.0 and G3.1 were as follows:

- One company adopted the GRI Reporting Framework for reporting purposes, but did not implement all of the requirements. In 2011 and 2012 the figure was three companies (5%).
- Two companies (3%) declared the use of the GRI framework, but did not provide details on the application level.
- 10 reports (17%) were presented according to application level B/B+ as well as C/C+, whereas in 2012 there were 11 of each (19%).
- 13 reports (22%) fulfilled the criteria for the highest application level A/A+, compared to 17 in 2012 (29%). This decrease is due to the fact that some reports which met the requirements for application level A/A+ in 2012 are now compiled according to the new GRI G4 version (G4). Of the 13 A/A+ reports, 10 received external assurance.
In addition, regarding the application of the latest GRI G4 the following conclusions can be made:

- Already 10 leading companies reported using G4 in 2013. This corresponds to around one fifth of the largest 110 companies reporting in accordance with the GRI Guidelines.
- The “In accordance” option G4 Core and G4 Comprehensive were met by four companies each (7%). The “In accordance” options are described in greater detail in section 6.
- Two companies (3%) declared the use of the GRI G4 version, but did not provide details on the application level.

It is to be expected that most companies currently reporting according to G3/G3.1 will transition to G4 over the next two years as the GRI transition period comes to an end. Further comments on the changes to G4 can be found under the “Fourth generation of GRI guidelines (G4)” in section 4. Overall, the comparison with the previous year shows a slight tendency toward disclosure of more information and indicators.

The number of companies seeking external assurance for their reports is the same. As in 2012, 21 reports received external assurance (35% in 2013, 36% in 2012). In 2011, 20 reports (36%) were assured.
03 Analysis of sustainability reporting

35 of the 50 SMI Expanded companies published sustainability reports for 2013. At 70%, this translates into more than two thirds of the companies. Whereas 64% of the companies published reports for 2010, the number increased to 70% in 2011 (35 reports) and decreased due to a change in the composition of the SMI Expanded in 2012 to 68% (34 reports).

70% of the SMI Expanded companies published a sustainability report and 43% of them opted for external assurance.

Of the 35 reports issued for 2013, 25 (72%) were prepared in accordance with the GRI guidelines. The study revealed the following additional points with regard to the application level:

- One company (3%) adopted the GRI Reporting Framework for reporting purposes, but did not implement all of the requirements. In 2012 there were three companies (9%).
- One company met the GRI requirements without declaring the application level (3%). In 2011 and 2012 all companies declared the application level.
- Three companies met the criteria for application level C/C+ (8%). In the previous year, four did (12%).
- As in the previous year six companies qualified for application level B/B+ (17% for 2013, 18% for 2012).
- Eight reports (23%) satisfied the requirements for application level A/A+. This decrease (in 2012 there were 35% of the reports) can also be explained by the fact that some companies reporting according to G3/3.1 in 2012 already report now according to the latest GRI G4 version. Seven out of eight reports with application level A/A+ were subject to external assurance. In the previous year, external assurance was provided to 12 out of 12 reports.

All of the basic sustainability reports were included in annual reports compared to around half of the comprehensive sustainability reports (52% in 2013). Around one third of the companies in this segment published stand-alone sustainability reports in the three previous years (31% for 2011 and 2010 and 35% for 2012). For 2013 this number increased to 37% (13 reports).

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### Number of sustainability reports

<table>
<thead>
<tr>
<th>Year</th>
<th>No report</th>
<th>Basic report</th>
<th>Comprehensive report</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>36</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>2011</td>
<td>30</td>
<td>12</td>
<td>58</td>
</tr>
<tr>
<td>2012</td>
<td>32</td>
<td>10</td>
<td>58</td>
</tr>
<tr>
<td>2013</td>
<td>30</td>
<td>6</td>
<td>62</td>
</tr>
</tbody>
</table>


### Integration in the annual report

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic report included in the annual report</th>
<th>Comprehensive report included in the annual report</th>
<th>Separate report</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>22</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>2011</td>
<td>47</td>
<td>52</td>
<td>50</td>
</tr>
<tr>
<td>2012</td>
<td>50</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>2013</td>
<td>37</td>
<td>37</td>
<td>37</td>
</tr>
</tbody>
</table>

Regarding the application of the latest GRI G4 the following conclusions can be made:

- Six companies of the SMI Expanded are now reporting according to GRI G4.
- Three companies report according to “In accordance” with option Core and three companies “In accordance” with option Comprehensive (each 9%).
- More information on the G4 changes can be found under the “Fourth generation of GRI guidelines (G4)” in section 4.

Only 43% of the reporting companies gained external assurance for their 2013 reports (15 reports). In 2010, 11 reports (34%) were assured compared to 16 in 2011 (46%) and 17 in 2012 (50%). The slight decrease in the number of assured reports reflects the fact that two companies chose not to obtain external assurance for their reports on a yearly basis.
The Global Reporting Initiative (GRI) Reporting Framework is the most widely used standard for sustainability reporting. As this study reveals, around three quarters of the sustainability reports of the largest companies (77%) and of the SMI Expanded companies (72%) are based on this reporting standard. This section provides an overview of how GRI reporting has developed at an international level as well as in Switzerland.⁸

### Global development

The number of GRI reports published from 2000 to 2013 shows a significant increase in sustainability reporting. Whereas in 2000 only 43 companies published a sustainability report in accordance with GRI Guidelines, there were already 3,259 in 2013.

A breakdown of reports by region for the year 2013 shows that Europe leads the way, confirming last year’s trend. 37% of the reports are from European countries, compared to 25% from Asia and 13% from North America.

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Development in Switzerland

Switzerland also follows the global trend, with a significant increase in the volume of sustainability reports prepared according to the GRI Guidelines. Between 2001 and 2003 very few Swiss organizations published a sustainability report. However, after 2004 the number of reporting companies has increased exponentially in line with the global development of sustainability reporting. In 2012, 85 companies already reported sustainability information, joined by an additional five companies in 2013 for a total of 90 reporting companies.

In 2013, 90 Swiss companies published a sustainability report according to the guidelines of the Global Reporting Initiative

The breakdown of Swiss reports by industry shows that banks and insurers are the most represented industry in Switzerland, accounting for 19% of reports (17 reports). They are followed by retail and consumer products with 16 reports (18%) and the technology industry with 11 reports (12%), life science and chemicals with nine reports (10%) and power and utilities with six reports (9%). The breakdown by industry remains largely unchanged compared to the previous year with the exception of retail and consumer products (up from 15% to 18% in 2013) which is now almost as strong as the financial services industry in percentage terms.

In our study, we analyzed how sustainability reporting by the largest Swiss and SMI Expanded companies has developed over the last few years. The results, coupled with the significant expansion of the GRI database of reports by companies of all sizes, show that publishing sustainability reports has become increasingly established among companies and is considered good practice.
The trend towards integration of sustainability in business models and reporting is the response to pressure from various stakeholders for more credibility and transparency. This is further strengthened by a number of Swiss and international developments, which are explained in this section. Starting with a focus on sustainability reporting, this section looks in detail at the fourth generation of the GRI guidelines (G4), the Framework for Integrated Reporting of the International Integrated Reporting Committee (IIRC) and the Sustainability Accounting Standards Board (SASB). In a next step, the newly launched SXI Switzerland Sustainability 25 Index will be explored before reviewing the latest status of the Proposal of the European Commission.

Fourth generation of the GRI guidelines (G4)\(^9\)

The guidelines of the Global Reporting Initiative (GRI) are the world’s most widely used sustainability reporting guidelines. The year 2013 saw application of the previous versions - G3.0 and G3.1 - as well as the latest version of the Guidelines G4 (published in May 2013). Last year’s study summarized the significant changes in the G4 Guidelines compared to the versions G3.0/G3.1. As discussed in section 3, eight Swiss companies fully applied the G4 Guidelines for the reporting year 2013, and another two companies used them as a basis for their reporting. All eight companies reporting according to G4 disclosed a materiality analysis as required by G4. Half of them had already presented a materiality analysis in the previous year, while the other half published it for the first time for the G4 report.

Regarding the conversion from G3.0/3.1 to G4, four out of the 10 companies changed from A+ to G4 (three companies to G4 Comprehensive and one to G4 Core) and one company from B to G4 Comprehensive. In addition, three companies that did not disclose the application level previously or have only used GRI as a basis for their reporting, applied G4 (two applying G4 Core and one G4 Undeclared). Further, two companies applied the GRI Guidelines (G4) to their sustainability reporting for the first time. According to the GRI database 257 out of the 736 GRI reports published worldwide from January to July 2014 applied the G4 Guidelines, corresponding to 35% of the published GRI reports for 2014 to date.\(^10\) A great wave of conversions to G4 is expected over the next two years. According to GRI, companies have a two-year transition period and all reports published after 31 December 2015 should be prepared on the basis of G4.

Integrated Reporting Framework <IR> by the International Integrated Reporting Committee (IIRC)\(^11\)

The International Integrated Reporting Committee requires companies to disclose not only financial and non-financial information but also the interrelatedness between these aspects and therefore developed guidelines for the preparation of an integrated report. The process behind this Integrated Reporting Framework (<IR> Framework) and its objectives, basic concepts and principles were already explained in last year’s study. In the meantime the final version of the standard was published in December 2013. This final version integrated various comments from the consultation phase and contains some minor changes compared to the previously published draft. For example, the definition of integrated reporting was sharpened in the final framework. Integrated reporting is now described as a process that is based on integrated thinking and leads to a transparent and comprehensive communication in an integrated report. An integrated report can be a stand-alone document or (also new) a recognizable and accessible part of another report. The integrated report is primarily intended for long-term investors but also for other relevant stakeholders.

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\(^9\) [https://www.globalreporting.org/reporting/g4/Pages/default.aspx](https://www.globalreporting.org/reporting/g4/Pages/default.aspx), accessed on 21.07.2014


As the pilot program has demonstrated, the transformation process required to implement an integrated way of thinking and reporting is a major challenge for companies. This is also because the <IR> Framework complements other existing reporting standards and does not prescribe any specific indicators or measurement methods. While numerous companies from countries such as the Netherlands or the United Kingdom have committed to the <IR> Framework and actively participate in this broad international development, commitment to an integrated reporting approach is still an exception among Swiss companies (Syngenta, for example, is one of the only Swiss companies committing to the IIRC guidelines).

**Sustainability Accounting Standards Board (SASB)**

A relatively recent initiative is the US non-profit organization Sustainability Accounting Standards Board (SASB) founded in 2011. It develops sustainability reporting standards for specific industries including sets of indicators that are based on sector-specific materiality analysis. The SASB aims to integrate relevant sustainability information in the reporting of listed US domestic and foreign companies to the Securities and Exchange Commission (SEC). The SASB wants to develop sustainability standards for 88 industries in 10 sectors by 2015. In addition to the first standards for sustainability reporting in the health and finance industry, the SASB has published guidelines on information and communication technology as well as for the non-renewable resources sector. Other industry-specific standards are being developed.

**SXI Switzerland Sustainability 25 Index**

In June 2014 the SIX Swiss Exchange launched a new equity index, the SXI Switzerland Sustainability 25 Index. This index contains the stocks of the 25 most sustainable and most liquid companies in the SMI Expanded. Sustainalytics, the independent research partner of SIX, evaluates the sustainability performance of all securities in the index universe, considering environmental, social and governance aspects (ESG approach). In these ESG areas the most important industry-specific indicators and data of the companies are recorded and evaluated. The 25 companies with the best sustainability evaluations are included in the index. The weighting in the SXI Switzerland Sustainability 25 index is based on the free-float market capitalization, each individual component is weighted with a maximum of 15%. The index is reviewed and adjusted once a year in September.

**Proposal of the European Commission amending the Accounting Directives**

The EU wants to encourage companies to disclose non-financial information. In April 2013 the European Commission and Council proposed to amend the Accounting Directives in order to implement a regulatory disclosure requirement of non-financial information for certain companies. This proposal was discussed at various levels in the last year. On 15 April 2014 the EU Parliament adopted a slightly modified directive limiting the sustainability reporting obligation to large public-interest companies with more than 500 employees. This affects around 6,000 mostly listed companies across the EU. These companies would have to

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disclose information regarding certain environmental, social, labor, human rights as well as bribery and corruption issues. In addition, information regarding the diversity strategy must be disclosed. Ideally, companies should refer to international frameworks, but no specific standard is prescribed. The proposal is based on a “comply or explain” approach. This means that if companies do not disclose the required information, they have to justify the reasons for the omission. An external audit of the report is not required. However, Member States have the option to extend the audit requirement as well as the number of companies affected. The adoption of the proposal by the Council of the European Union is scheduled for the third quarter of 2014.
05 Outlook
The previous analysis has shown the following results:

- Due to stakeholders’ ever-increasing expectations – reflected for example in international regulatory efforts – the integration of sustainability into companies’ strategies will continue to gain in importance in the future.
- As part of this process, there is growing awareness that integration contributes to a company’s success.
- Sustainability reporting can be an important factor in demonstrating the integration of sustainability in the strategy and business processes outside the company and in showing how value is added for various stakeholders.
- Reporting should focus on the relevant company’s issues and take a holistic view in evaluating the financial and non-financial value. As the example of the <IR> Framework shows, considerable effort is required by the company for this purpose.
- If companies wait too long to integrate financial and non-financial metrics, they could fall behind their competitors at international level.
Definitions

Sustainability
The most frequently used definition of sustainability is related to the description of sustainable development included in the Brundtland report, i.e., development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Although there are many possible definitions, “sustainability” in a business context is generally considered to include three aspects that have to be taken into account in equal measure:

- Economic sustainability, which demands economic action geared towards long-term prosperity.
- Environmental sustainability, which is concerned with preserving the natural world, the environment and the planet’s resources.
- Social sustainability, which is about community participation and distributive justice.

In a business context, the term “Corporate Social Responsibility” (CSR) is also often heard. There is a great deal of overlap between “sustainability” and “Corporate Social Responsibility” and they are usually used synonymously. As a result, the titles of the published reports can vary even though they all cover the same points. “Sustainability reporting” is used as a general term throughout this study.

Sustainability reporting
Organizations use sustainability reporting to present their performance in this area. After determining what progress has been made with regard to sustainable development goals, they have to communicate the conclusions to internal and external stakeholders. Reports cover the organization’s economic, environmental and social impacts. A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions. Organizations need to be aware that the different stakeholders often have different expectations from sustainability reports:

- Management is keen to improve sustainability performance and reporting quality as a way to avoid risks and enhance reputation.
- Investors need assurance that their investees address sustainability risks appropriately.
- Companies require information about their suppliers’ sustainability impact.
- Consumers are increasingly considering sustainability aspects when making purchasing decisions.
- As a result of public pressure, governments are making companies accountable for the direct and indirect cost of their business operations (e.g., cost for the environment).
- Employees want to work for a responsible company.
- Environmental groups, human rights organizations and the media are increasingly questioning the impact of corporate activities and are asking for more information.

This study uses the term “sustainability report” to refer to two different types of report. The category “comprehensive sustainability reports” includes those that are based on the GRI Guidelines or that incorporate 10 or more relevant key performance indicators (KPIs) (in line with GRI) to offer an integrated view of the organization’s sustainability performance. This category can also include reports that are published every two years. The category “basic sustainability reports” encompasses publications that contain some sustainability indicators (around 5 KPIs in line with GRI) and/or the development of sustainability initiatives and targets over time.

Not included in this study are individual sustainability chapters in the annual report that do not mention KPIs or details of specific developments over time, as well as information provided on a company’s website that is not referenced in the annual report.

The study also examines what form reporting takes. Three categories were defined: “basic sustainability report included in the annual report”, “comprehensive sustainability report included in the annual report” and “separate sustainability report”.

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Global Reporting Initiative

The Global Reporting Initiative (GRI) is an organization based on a multi-stakeholder network. The organization developed the Sustainability Reporting Framework, which is the most widely used guidance of its kind around the world. For 2013, companies reported in line with the third generation of the Guidelines (G3.0/ G3.1) as well as the latest generation of the Guidelines (G4). This version will definitively replace the third generation as of 31 December 2015.

The GRI guidelines define principles to determine the content of the report as well as information on a company’s high-level strategic understanding of sustainability. These are complemented by disclosures on management approach and performance indicators. The GRI Reporting Framework also contains Indicator Protocols for the economic, environmental and social aspects as well as product responsibility, labor practices and human rights. Sector Supplements provide additional industry-specific guidance. All of the elements are considered to be of equal weight and importance.

The application levels C, B and A of G3.0/G3.1 indicate the extent of application. The main differences among the levels are the number of indicators used and the scope of disclosures on organizational strategy/profile and management approach. Level C means that the minimum GRI requirements are met, while level A represents compliance with all requirements. A plus (“+”) is awarded at each level if external assurance is provided.17

Under G4 an organization has two options: “core” or “comprehensive” reporting. The “core” option requires only key elements of a sustainability report. The report must include at least one indicator per material aspect according to the materiality assessment. The “comprehensive” option builds on the “core” option and requires a higher level of detail regarding the standard disclosures. In particular additional information has to be disclosed regarding remuneration, training and diversity of the governance body and their role in the development of vision and values. Furthermore, companies are required to report on all indicators related to material aspects. Besides the removal of the application levels, the “+”, previously signaling external assurance, has also been discontinued. G4 adds a column to the GRI Content Index to show specifically for each indicator if it has been externally assured.18

This study investigates whether the sustainability reports are based on the G3.0/G3.1/G4 GRI Guidelines and, if so, which application level or “In accordance” option was used.

External assurance

External assurance by an independent third party gives the reader confidence that the data and information is correct and that the report provides a reasonable and balanced representation of the sustainability performance. Organizations are free to choose the scope and depth of the assurance engagement, however assurance reports must always disclose the scope and basis of the engagement. Applying internationally recognized standards, such as the International Standard on Assurance Engagements (ISAE) 300019 or the AccountAbility 1000 Assurance Standard (AA1000AS)20, safeguards the quality of the assurance engagement. External assurance offers the reporting organization a number of benefits, including:

- Greater transparency and credibility with stakeholders, which in turn improves internal and external acceptance of the organization’s adherence to principles of responsible conduct.
- Reduced risk that reports will fail to meet stakeholders’ needs and/or that the report will contain incorrect or irrelevant information.
- Constructive feedback in connection with the assurance engagement, which boosts the quality of information and helps pinpoint potential improvements as a way to enhance good business practice and strategy.
- Processes optimization and efficiency gains thanks to reliable data, which supports targeted sustainability investments and activities.

For the purposes of this study, reports were only classified as having received external assurance if they had been verified using generally accepted assurance standards or other good practice guidelines.

With a global network of sustainability professionals, EY is there to support you anywhere in the world. We can guide you through individual steps or a general improvement process, whether that means analyzing your organization’s current situation, developing a comprehensive sustainability strategy, implementing and examining the measures defined or helping you ensure reliable communication. As a member of relevant national and international organizations (including GRI, Global Compact, FEE), we are always up to date and ready to act, whatever the current environment of sustainability standards and trends.

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