Stakeholder Capitalism Metrics Initiative: Partner Case Studies (Part 2)

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Contributors
Preface

As regulators look set to mandate separate sustainability reporting requirements, we encourage all companies to join the Forum’s Stakeholder Capitalism Metrics initiative, calling for convergence around a common global standard.

This white paper is the second in a series of case studies profiling the experiences of some of the world’s largest companies as they report against the World Economic Forum’s Stakeholder Capitalism Metrics (SCMs). In May 2022, we published case studies focusing on The Adecco Group, Bank of America, Ginkgo Bioworks and Wipro. In this second collection, we profile the experiences of Ecopetrol, HEINEKEN, JLL, Philips, SABIC and Schneider Electric.

Two years after the launch of the metrics in the World Economic Forum’s white paper Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, the number of companies adopting both the core and expanded metrics continues to grow. To date, 183 global companies, with a combined market capitalization of more than $6.5 trillion, are adopting the metrics into their reporting materials. Of these, 121 companies have disclosed against the SCMs in their mainstream reports for either one or two years, while the remaining 62 have committed to reporting on them.

Meanwhile, the Forum is making substantial progress towards achieving one of the initiative’s key aims: to accelerate convergence among leading standard-setters towards a shared global sustainability reporting standard.

The SCM Coalition, led by the Forum, engaged with the preparatory working group of the International Sustainability Standards Board (ISSB) – a new entity created under the International Financial Reporting Standards (IFRS) Foundation – and is continuing the dialogue with the ISSB’s technical teams as they press ahead with the standard-setting process. The Forum’s metrics will form part of the ISSB’s “exposure draft” in 2023 on cross-thematic disclosures and metrics. The coalition is also engaging in regular conversations with the European Union (EU), the US Securities and Exchange Commission (SEC) and G20 workstreams led by South Africa, China, India, Indonesia and Saudi Arabia.

As regulators in Europe, the US and elsewhere stand poised to finalize and implement mandatory reporting on environmental and social issues, the private sector finds itself at a critical inflection point. There is a risk that different jurisdictions will each go their own way, complicating attempts to build comparability and consistency regarding sustainability disclosures and greatly adding to companies’ reporting burden.

The Stakeholder Capitalism Metrics have already gathered considerable momentum, demonstrating to regulators around the world a unified corporate voice calling for a single, streamlined set of sustainability disclosures that are material to all businesses. We would encourage all companies that have not yet adopted the metrics to do so now, without delay.
Executive summary

This white paper presents case studies of six public companies reporting on the Forum’s Stakeholder Capitalism Metrics. We interviewed the heads of ESG/sustainability or their team members for their personal insights and advice from the front line of sustainability reporting.

Case study 1 | Ecopetrol

Ecopetrol, Colombia’s state-owned energy company, has reported against the Forum’s metrics for two years in its integrated report. Insights from this case study include:

- **Impact created by the SCMs**: As they are based on existing metrics, the SCMs are easy to integrate with existing frameworks such as GRI and could form a “comprehensive building block” in the foundation of future ESG reporting.

- **How the metrics have driven internal transformation**: Stakeholders told Ecopetrol its integrated report was too long – the Forum’s core metrics helped the company focus on reporting topics that are most material and that will generate value.

- **Advice to fellow practitioners**: “Choose to report the information you know is going to generate value for your stakeholders – go for quality over quantity.”

- **Advice to regulators and standard-setters**: “Please stop getting so creative – use what’s out there!” The ESG reporting burden has become “really unmanageable”. Regulators must create a single global sustainability reporting framework that is rigorous, comprehensive and science-based.

Case study 2 | HEINEKEN

When HEINEKEN, an international brewer employing 81,000 people across 70 countries, did a gap analysis, almost 80% of the Forum’s metrics were covered in the company’s top materiality list.

- **Impact created by the SCMs**: HEINEKEN welcomes the simplicity and comprehensiveness of the SCMs. “They are the first real prototype of an internationally recognized framework that will drive more consistent and comparable reporting.”

- **How the metrics have driven internal transformation**: The metrics go beyond ESG to capture commercial metrics relating to employment, economic contribution, investment and tax. This delivers "an annual dashboard of comparable data on both sustainability and prosperity that will provide a snapshot of how healthy our company is”.

- **Advice to fellow practitioners**: “The sooner you start reporting the better. Encourage your colleagues to get involved, because collaboration improves the quality of disclosures.”

- **Advice to regulators and standard-setters**: HEINEKEN would like to see a set of international sustainability standards that are reasonable in scope and material to both preparers and investors, based as much as possible on existing reference points, and with a clear set of definitions and methodologies. “Listen to all the parties and try not to be too academic.”
Global property services firm JLL is motivated by the opportunity to help the real estate sector reduce its contribution to global carbon emissions – almost 40% according to the International Energy Agency. The expectations of shareholders, clients and employees are also shaping the company’s reporting.

- **Impact created by the SCMs:** The Forum’s expanded metrics are less output-driven and more impact-driven – “That has real value, that’s where they differentiate themselves. They push us to do more than the other reporting frameworks.”

- **How the metrics have driven internal transformation:** The Forum’s core metric on water consumption and withdrawal in water-stressed areas has led the company to encourage its teams and clients to agree water management plans and targets. It may even influence where the company rents office space in the future.

- **Advice to fellow practitioners:** As reporting becomes mandated, there could be less transparency, because people will not want to disclose more than they have to. “A lot of work needs to be done internally to communicate the benefits of transparency” – especially when it comes to reporting on impacts.

- **Advice to regulators and standard-setters:** “Any move to consolidate the different reporting frameworks would be a real game-changer.” Aside from reducing the reporting burden on companies, it would ensure the sustainability reporting of different companies is comparable.

Philips, a global health technology company, is a leader in the analysis, reporting and execution of sustainability-related measures and was among the first 60 companies to adopt the SCMs.

- **Impact created by the SCMs:** The great strength of the SCMs lies in their conciseness and clarity. “If you blend the Forum’s core 21 metrics with GRI’s core metrics, you will go a long way towards setting minimum global sustainability standards.”

- **How the metrics have driven internal transformation:** Accurate reporting on the environmental and social impacts of its operations – for example, by adopting the Forum’s expanded metric on resource circularity – points customers towards the most impactful products on the market and drives the company’s innovation agenda to design more sustainable solutions.

- **Advice to fellow practitioners:** “If your leadership is not committed and engaged, it will be a painful process.” The EU’s new Corporate Sustainability Reporting Directive, which will become law in 2024, will focus the minds of board members.

- **Advice to regulators and standard-setters:** Align and focus. The EU should adopt the IFRS Foundation’s work as a basis and build only on that where it is needed, focusing on the topics that are most impactful. “If the EU decides on 137 disclosure requirements by 2024, that’s almost mission impossible.”
### Case study 5  
**SABIC**

SABIC, one of the world’s leading chemicals companies, based in Saudi Arabia and operational in more than 50 countries, is at the forefront of ESG reporting in the Middle East.

- **Impact created by the SCMs**: Reporting against the SCMs is helping SABIC work with other value-chain leaders to build a new, diversified economy that will exist in 10 or 20 years’ time.
- **How the metrics have driven internal transformation**: Reporting against the Forum’s metrics has increased the value of transparency within the company, leading to conversations and progress on difficult issues.
- **Advice to fellow practitioners**: It is important to implement a bottom-up approach to secure full support from the entire organization, and to ensure that each company function owns its ESG disclosures.
- **Advice to regulators and standard-setters**: Create disclosures that are comparable and that use the same protocols to capture the data. “If the IFRS Foundation starts with the Forum’s work and broadens it out to a global standard, that would be a big step forward.”

### Case study 6  
**Schneider Electric**

Schneider Electric is a multinational energy company based in France, employing more than 130,000 people in 100 countries. It has been issuing disclosures on sustainability for the past 15 years.

- **Impact created by the SCMs**: The metrics have made “an extremely valuable contribution to the debate” about the need to drive comparability and convergence between existing ESG standard-setters towards a common global standard.
- **How the metrics have driven internal transformation**: The Forum’s metric on land use and ecological sensitivity contributed to Schneider’s new approach to biodiversity, as it adapted its reporting and requested all sites to set specific biodiversity action plans.
- **Advice to fellow practitioners**: Sustainability is not about reporting or compliance or philanthropy. It is a strategic issue you need to address to make your company resilient and enable it to thrive in the market of the future.
- **Advice to regulators and standard-setters**: The draft EU standards are too complicated and will result in a “huge burden” of reporting that will see companies spend more time writing compliance reports than making the planet a better place. The minimum the EU, the US SEC and the IFRS Foundation must do is to agree on the climate metrics that are common between them, including definitions of what should be reported and how.
Insights from partners: how the metrics drive internal transformation and the wider impact

We have analysed the experiences of the 10 partner companies interviewed in the course of these case studies to identify ways in which the metrics drive internal corporate transformation and create impact in the wider world. Our insights are presented below.

How the metrics drive internal corporate transformation

Facilitate greater internal alignment, integration and engagement

Bank of America – a leading player in helping create the Forum’s metrics and drive their adoption across the business community – found that the priority the metrics place on converging all environmental, social and corporate governance (ESG) disclosures into a single set of reporting standards has led to a “wholesale internal re-engineering to get all the processes aligned to a single reporting outcome”. Key to this convergence was involving the bank’s chief accounting officer (CAO) and his team in the reporting process from the beginning. The CAO now takes responsibility for briefing on all the bank’s non-financial disclosures – “that’s where you want these metrics to be”.

Identify internal gaps and drive tangible results both within and beyond the company

French multinational energy company Schneider Electric, which has been reporting on sustainability for the past 15 years, was challenged by the Forum’s core metric on land use and ecological sensitivity – not something the company had measured historically. This metric helped prompt Schneider to rethink the topic of biodiversity, adapt its reporting and request all its sites to set specific biodiversity action plans.

Meanwhile, when global real estate services firm JLL looked at the Forum’s core metric on water consumption and withdrawal in water-stressed areas, it was inspired to encourage its teams and clients to agree water management plans and targets. Such a metric may even influence where the company rents office space in the future.

Strengthen integrated financial and non-financial reporting

For Bank of America, the SCM process offers the company “the backbone for all our ESG reporting”, aligning sustainability disclosures in a way that enables them to be integrated with the bank’s annual reports. Its 200-page sustainability reports are rapidly becoming a thing of the past. “We’re still on that path to get it all consolidated into a single body of reporting in the annual report – but the Forum’s metrics process has provided discipline to get it all moving in the right direction.”

Change company culture and drive greater transparency

SABIC, a Saudi-based global chemicals company, found that a key outcome of the process it created to report against the Forum’s metrics was an increase in the value of transparency within the company. This has required “a lot of internal awareness raising”. Previously, some company members queried why they had to report on, for example, hazardous products or sensitive areas. But they have come to realize that embracing a transparent reporting process for these issues – without at first necessarily setting targets – forces the company to have conversations about, and make progress on, difficult issues.
How the metrics create impact in the wider world

Quantify societal impact

The Adecco Group, a global talent solutions company, said the Forum’s expanded metrics under the theme of skills for the future are of strategic importance because they enable the company to “highlight the holistic value creation of our business beyond its financial value”. The company prizes its People metrics for their narrative power – they help tell a story about enabling people’s lifelong employability and fulfilment, not simply one of profitability.

Meanwhile, Bank of America observed that, as the metrics are aligned with the UN’s Sustainable Development Goals (SDGs), they enable companies to track their contributions towards achieving those goals.

Enable comparability through simple, credible metrics

As one of the world’s largest brewers, HEINEKEN is no stranger to sustainability reporting. The company conveyed that the principal advantage of the SCMs is their capacity to help the company report its progress on sustainability in a way that is consistent and comparative in relation to its peers. “The Stakeholder Capitalism Metrics were really welcomed both within the firm and by our stakeholders because they are comprehensive, cover all the core topics, are industry-agnostic and fall very naturally in line with our strategy.”

The primary motivation for Ginkgo Bioworks, a recently listed US biotech company, to report against the Forum’s metrics is “to earn people’s trust”. As a company that is relatively new to reporting, Ginkgo said that “it still feels like the Wild West in terms of what companies can do with ESG reporting”. It was attracted to the SCMs because they hone down the choice to a tight set of 21 core metrics curated for their simplicity and rigour.

Focus on commercial materiality

Wipro, a leading global information technology company based in India, sees the added value of the Forum’s metrics in their ability to “bring a financial angle to sustainability – they seek to quantify impacts and frame sustainability in the language of business risks and returns”.

HEINEKEN agrees. The inclusion in the SCMs of Prosperity metrics that address employment, economic contribution, investment and tax is interesting because it pulls together a lot of information that is normally scattered and presents it like a balance sheet or health check. “The Forum’s metrics deliver an annual dashboard of comparable data on both sustainability and prosperity that will provide a snapshot of how healthy our company is.”

Facilitate “learning by doing” through a practitioner-led process

Adecco values the multistakeholder approach that the Forum took to developing its metrics. This has resulted in a set of disclosures that reflect the perspective of practitioners rather than regulators or academics. “The Stakeholder Capitalism Metrics process is being driven by people who actually have to work on it and know the challenges – it’s grounded in reality.”

For Ecopetrol, Colombia’s state-owned energy company, the Forum’s metrics are a good foundation for companies starting their ESG reporting, because they work as a comprehensive building block in the sustainability disclosure journey.
Offer additional perspectives through expanded metrics

Philips, a global health technology company based in the Netherlands, was among the first organizations to report against the SCMs. It told us that the Forum’s expanded metrics encourage companies to report more on their impacts, as well as on complex areas such as circularity and the living wage. The company has set itself the ambitious target of generating 25% of its revenue from circular products, services and solutions by 2025 – up from just 7% in its baseline year of 2015. A transition towards a circular economy could reduce global emissions by 40% in 2050, according to the Ellen MacArthur Foundation.

JLL also finds value in the Forum’s expanded metrics; for example, on Paris-aligned greenhouse gas (GHG) emissions targets and the estimates of “societal cost of carbon” required by the metric on the impact of GHG emissions. The company said: “They definitely push us to do more than the other reporting frameworks. They are much less output-driven and more impact-driven. That has real value. That’s where they differentiate themselves.”

Drive global alignment and convergence

Schneider Electric is convinced that the Forum’s metrics initiative has contributed to the process of aligning standard-setters: it has made “an extremely valuable contribution to the debate at a time when many stakeholders realized the value of sustainability but also the lack of common ground, comparability or baseline for reporting”. Meanwhile, Philips said: “If you blend the Forum’s core 21 metrics with the Global Reporting Initiative (GRI)’s core metrics, you will go a long way towards setting minimum global sustainability standards.” And HEINEKEN said: “We really welcome the Stakeholder Capitalism Metrics – they are the first real prototype of an internationally recognized framework that will drive more consistent and comparable reporting.”

All the companies interviewed call on global standard-setters to converge around a common set of international sustainability standards. Ecopetrol, which has been conducting integrated reporting since 2009, felt that the demand for ESG reports has now become “really unmanageable”. Their message to the standard-setters is to the point: “Please stop getting so creative! We can’t have any more metrics – use what’s out there.”
State-owned Ecopetrol is the largest company in Colombia and one of the leading integrated energy groups on the American continent, with a presence in nine countries. As part of its technology, environmental, social and governance (TESG) agenda, the company is leading initiatives in decarbonization, renewable energy, water management and stewardship, local development and digital transformation.

Ecopetrol is now in its second year of reporting against the World Economic Forum’s SCMs, which feature in the company’s latest integrated report. The sustainability issues of greatest materiality to the company are climate change, water management and stewardship, and local development.

While the company has found it easy to integrate the Forum’s core metrics into its existing GRI-based reporting framework, it is experiencing overload in terms of the demand for sustainability reporting. Consequently, Ecopetrol is calling on regulators to ensure alignment on a single global standard as a priority. A second priority is to develop rigorous methodologies to account more comprehensibly for the “valued impacts” of social and environmental measures.

For this case study, we interviewed Maria Villa, from Ecopetrol’s Corporate Responsibility team, which oversees, among other things, environmental, social and governance (ESG) reporting and stakeholder engagement.

One of the main purposes of the Forum’s metrics was not to reinvent the wheel, it was to draw on existing metrics. So it’s great that reporting against the Stakeholder Capitalism Metrics doesn’t require a lot of re-engineering.

Maria Villa, Corporate Responsibility, Ecopetrol
1.2 Key takeaways

- Ecopetrol features the Forum’s SCMs in this year’s integrated report; the most material sustainability issues for the company are climate change, water management and stewardship, and local development.
- Investors are focused on climate metrics and governance; but as a state-owned business and Colombia’s largest employer, Ecopetrol also has responsibilities towards local communities – so social metrics are equally vital.
- As frameworks have multiplied, the ESG reporting workload has become overwhelming – streamlining sustainability standards into a single global framework is an urgent priority.
- To avoid overload, Ecopetrol reports only against sustainability metrics that can be demonstrated to generate value for the company and its stakeholders.
- Ecopetrol plans to evaluate or monetize the impacts of its environmental and social measures and metrics, and it is looking into methodologies to do so.
- Rigorously measuring Scope 3 emissions is another major challenge. Ecopetrol’s decarbonization department is conducting this analysis, working closely with the vice-presidencies of finance and strategy.
- Ecopetrol has prioritized the role of tech to help deliver on its TESG agenda; for example, by implementing the online database Mero, through which all departments input, revise and approve their non-financial data for disclosure.
- Ecopetrol strongly advises standard-setters to collate a single global sustainability reporting framework using existing standards, rather than invent new metrics.

1.3 Rationale for reporting: prioritize climate-focused investors plus a long-term commitment to local communities

In 2022 Ecopetrol launched its 2040 business strategy, which defines three business priorities: hydrocarbons; the energy transition; and energy transmission, infrastructure and telecommunications. Ecopetrol’s traditional business as an oil and gas company means that environmental metrics are the most material to its shareholders. “Investors are very focused on climate-related indicators and on governance,” says Maria Villa. Ecopetrol’s integrated report includes disclosures against not only the SCMs but also the (former) Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD), the UN’s Global Compact and the Dow Jones Sustainability Indices (DJSI).

Other stakeholders, such as the state and local communities, are more interested in the company’s social performance, she adds.

As a state-owned enterprise that is one of the country’s largest employers and delivers 11% of Colombia’s national budget, Ecopetrol is acutely conscious of the role it plays in society and its responsibilities towards local communities. “The country expects a whole lot more from our company than just selling oil,” says Villa, adding: “We have commitments to deliver social welfare on the ground near our operations – that’s why local development is one of the elements most material to our company.”

The type of local development in which Ecopetrol engages includes investing in transport infrastructure, education and a special focus on generating jobs and skills outside the oil and gas sector as the energy transition gathers pace. The company also takes its commitments to its 18,000-strong workforce very seriously, especially in the wake of the COVID-19 pandemic.

The country expects a whole lot more from our company than just selling oil – that’s why local development is one of the elements most material to our company.

Maria Villa
Although the Colombian government does not yet oblige companies to report on their sustainability performance, ESG reporting will become mandatory for all listed companies in Colombia in 2024. Consequently, Ecopetrol is striving to become aligned with all the main standards on the market. But “the workload can be overwhelming – our department spends 12 months a year reporting,” says Villa. “It’s also too much for other departments such as finance, HR, production and exploration – we can’t keep asking them for information throughout the year,” she adds.

Companies across the oil and gas sector are reporting similar challenges relating to ESG disclosures, she says. Nevertheless, the value chain as a whole is becoming more expert in its sustainability reporting, with a general trend towards greater transparency. However, reporting rigorously on Scope 3 emissions will remain “a challenge for everybody for some time”, according to Villa. Meanwhile, with regards to the SCMs, the expanded People metrics pose the “greatest challenge”, according to Villa. Although Ecopetrol reports on diversity and inclusion, freedom of association, pay equality and wage levels, the company is still internally evaluating how to monetize the impacts of these HR measures. “We don’t as of yet have a specific model to do that,” says Villa.

1.4 Solutions: focus on value and technology

Ecopetrol’s solution to ESG reporting overload is to measure every metric against a common criterion: Does the metric generate value for the company and does it generate value for other stakeholders? “We are disciplined and focused,” says Maria Villa, “we don’t just fill gaps for the sake of it; we believe there are aspects that don’t generate value and pertinence is important.”

For Ecopetrol, value is not simply financial but relates to facilitating the company’s wider societal goals, as well as its alignment with the UN’s 2030 Agenda for Sustainable Development and the Paris Agreement on climate. When choosing what to disclose, the company looks to satisfy its stakeholders and report on the metrics that provide valuable information to them. The multiplicity of reporting standards obliges Ecopetrol to choose what its most pertinent and relevant to its stakeholders, while discarding those metrics that add complexity without bringing much value.

We are working with our suppliers to help them measure their Scope 1 and our Scope 3 emissions – it’s a major endeavour.

Maria Villa

We are very rigorous when it comes to deciding on sustainability metrics. We don’t just fill gaps for the sake of it – the metric has to generate value to our stakeholders and value to our company.

Maria Villa

Ecopetrol has prioritized the role of tech to help deliver on its TESG agenda. “We believe we will achieve all our goals by leveraging technology,” says Villa, “so we’ve embedded technology at the heart of the sustainability pillar of our 2040 corporate strategy.” Starting this year, Ecopetrol is using an online platform called Mero to collect all TESG data for disclosure. “We now have one place that holds all the indicators and information that measure our sustainability agenda, with all the necessary evidence to be disclosed to stakeholders,” she says. The system has three different types of user access related to data functions (input/review/approval), with different people responsible for each step or function. “We coordinate, but everyone actively participates and data producers are accountable,” says Villa.

We’ve done integrated reporting since 2009, but it’s still a challenge to report non-financial as well as financial information.

Maria Villa
Impact, learning and advice

Ecopetrol started out by trying to report on every sustainability indicator required. But the feedback from stakeholders was that the report was far too long. So for its latest integrated report, the company has decided to base its reporting on GRI’s essential metrics and the Forum’s core metrics. “Our discussion was around how to disclose information expected from our stakeholders and material to our company, as well as how to focus our reporting on that,” says Villa.

Data collection used to be unsophisticated, done through means such as emailing Excel spreadsheets, but innovative technology has provided agility and traceability to the process.

The new online platform Mero has greatly streamlined the collection of sustainability information, including the necessary supporting evidence. The corporate responsibility team shares a detailed reporting timeline with all departments every October to ensure Ecopetrol’s integrated report can be delivered by the following March. “Every vice-presidency in the company has delegated someone for corporate responsibility reporting, who is our focal point – that ensures efficiency and data reliability,” says Villa. Leadership is also important: “Our CEO is very, very ESG-driven – it is a priority for him and the board of directors, so transparency and disclosure come from the top,” says Villa.

Choose to report the information you know is going to generate value for your stakeholders – go for quality over quantity.

Maria Villa

Advice for regulators

Maria Villa says Ecopetrol is keen to start reporting on the expanded metrics offered by the SCMs, although she thinks there is still more work to be done to reach agreement on a common means of evaluating and monetizing the impacts of such metrics. Ecopetrol is closely following the discussions on impact valuation and intends to continue using recognized standards rather than pursuing its own methodologies.

The demand for ESG reports has now become “really unmanageable,” says Villa. She calls on the standard-setters to use existing metrics rather than creating new ones, and encourages the EU and US SEC to work towards a single global sustainability reporting framework that is rigorous, comprehensive and science-based.

Villa also requests that regulators consider national contexts. For example, Colombian law requires public listed companies to present their financial reports to shareholders in the first quarter of the calendar year (i.e. by March). So a company such as Ecopetrol, which produces an integrated report, must collate all its non-financial disclosures by the same deadline – which is much earlier in the year than for European or US companies. Villa’s request is that regulators account for such timelines when making their demands on sustainability reporting.

Please stop getting so creative! We can’t have any more metrics – use what’s out there.

Maria Villa
Villa found it straightforward to integrate the Forum’s SCMs into Ecopetrol’s existing GRI-based reporting framework. “One of the main purposes of the Forum’s metrics was not to reinvent the wheel, it was to draw on existing metrics,” says Villa, “so it’s great that reporting against the Stakeholder Capitalism Metrics doesn’t require a lot of re-engineering.” The Forum’s metrics are a good foundation for ESG reporting, according to Villa, because they work as a comprehensive building block in the sustainability disclosure journey.

In terms of added value, Villa appreciates the perspectives offered by the Forum’s expanded metrics, which other sustainability reporting frameworks do not capture. Ecopetrol is in the process of establishing social and environmental impact valuation metrics, but more guidance is needed on methodologies to capture the monetary or societal value of those impacts.

There is a series of really interesting expanded metrics that we would like to report on, which are still not part of other platforms.

Maria Villa
HEINEKEN values the consistent and comparable reporting offered by the Forum’s metrics

2.1 Introduction

HEINEKEN is an international brewer and marketer of more than 250 premium beers and ciders. The company employs 81,000 people and operates more than 180 breweries in 70 countries. As one of the first companies to adopt the Forum’s SCMs, HEINEKEN reported against all the core metrics in its 2021 integrated annual report.

HEINEKEN updated its matrix of material issues in 2020, based on three criteria:

- Does the issue have a significant current or potential impact on our business or vice versa?
- Is the issue of significant interest to our stakeholders?
- Is it an issue over which we have a reasonable degree of control when it comes to our impacts?

The outcome of this process revealed that the company’s priority environmental concerns, in terms of stakeholder interest and business impact, are water security, carbon emissions, and resources and circularity, while the top social concerns are responsible drinking, sustainable and responsible sourcing, diversity and inclusion, and a fair wage.

When HEINEKEN did a gap analysis comparing its position to the core SCMs, almost 80% of the Forum’s metrics were covered in the company’s top materiality list. “We already had a strategy, action plans, targets and reporting process aligned to this list,” says Olga Smirnova, Manager of Sustainability Reporting for HEINEKEN, whom we interviewed for this case study. “It was good to know that the issues we had selected were in line with what the world is looking at,” she adds. That said, the company continues to push its reporting boundaries by exploring what the Forum’s expanded metrics have to offer, for example, in terms of evaluating the environmental and social impacts of value chain partners.

We really welcome the Stakeholder Capitalism Metrics – they are the first real prototype of an internationally recognized framework that will drive more consistent and comparable reporting.

Olga Smirnova, Manager, Sustainability Reporting, HEINEKEN
2.2 Key takeaways

- Water security is a top concern for HEINEKEN – as with carbon emissions, around 90% of the company’s water consumption is in its value chain, but measuring this is proving complicated.

- Another challenge the company is facing is how to measure the impact on biodiversity of its use of agricultural raw materials – there are currently very few agreed reference points.

- HEINEKEN welcomes the commercial angle that the Forum’s Prosperity pillar adds to the mainstream ESG reporting process – but measuring the societal impact of, for example, corporate tax contributions remains a work in progress.

- Initiatives such as the Forum’s metrics and the IFRS Foundation’s work are increasing demand for data on issues such as Scope 3 emissions – this in turn will trigger badly needed market-based IT data solutions.

- Since 2016, HEINEKEN has produced an integrated report that captures both financial and non-financial information – this process of integration has improved the rigour, timeliness and actionability of the company’s sustainability data.

- When it comes to reporting against the Forum’s metrics, HEINEKEN’s advice to its peers is simple: the sooner you start reporting the better. And the more you engage with and encourage your colleagues to contribute (especially in finance functions) the higher the quality of the disclosures.

- HEINEKEN would like to see its peer organizations reporting against the same set of metrics, to build up a set of comparative data so that companies can learn from each other.

- The advantage of adopting the Forum’s metrics, in HEINEKEN’s view, is that they are both simple but comprehensive, cover all the core topics, are industry-agnostic, and fall in line with existing corporate strategy and reporting. By combining ESG and Prosperity metrics, the process delivers a unique snapshot of corporate health.

2.3 Rationale for reporting: frame a consistent picture of performance while pushing into new areas of impact

The principal advantage of the SCMs for HEINEKEN is that they help the company to report its progress on sustainability in a way that is consistent and comparative in relation to its peers.

Investors have shown a particular interest in climate reporting, ramping up the pressure on HEINEKEN to report in line with the framework of TCFD. Meanwhile, the company’s non-governmental organization (NGO) and community investors are more interested in social metrics, such as employees’ terms and conditions.

Investors expressed interest in HEINEKEN reporting against TCFD, which we adopted in our 2021 reporting.

Olga Smirnova

Naturally for a drinks company, water security is a critical issue. Most of HEINEKEN’s water consumption comes from its value chain. As with many companies, it is very challenging to obtain consistent third-party information, especially from smaller suppliers that often lack developed reporting processes. For water, this is even more complex than for carbon, because the technologies and methodologies for measuring water are not yet as mature as they are for carbon. “It’s a very complicated problem,” says Smirnova, “we’re doing pilots with them and we’re going into our direct suppliers’ data – it’s a work in progress.”

Information about water consumption in the value chain is even less readily available than data on carbon.

Olga Smirnova
New challenges that are emerging include the impact on biodiversity from using agricultural raw materials. “There are still very few established reference points, but the topic is evolving very fast,” says Smirnova. Although the Taskforce on Nature-related Financial Disclosures (TNFD) is making progress, there is no consensus yet on definitions or methodologies. Smirnova predicts that the Forum’s core metric on land use and ecological sensitivity – which measures land owned, leased or managed in or adjacent to key biodiversity areas – will evolve.

The metrics in the SCM’s Prosperity pillar – such as rate of employment, economic contribution, capital investment, R&D expenses and total tax paid – also present a new challenge for HEINEKEN to report against. “To produce the numbers is only the first step,” says Smirnova, “we still need to learn how to interpret the data.” For example, the Forum’s metric on total tax paid (adapted from an existing GRI metric) is framed as a corporate contribution to “community and social vitality”, which would suggest that the more tax paid, the better. “But we need to better understand the actual impact of those taxes,” says Smirnova.

In terms of process, rather than have the sustainability department hunting down data, HEINEKEN has allocated reporting responsibilities to individual corporate functions, such as HR, production and so on. This has proved popular. “They are experts in the area and have all the content,” says Smirnova, “and the process is much more efficient and effective when sustainability priorities are a part of regular functional activities. And of course, they’re happy to share what they are proud of.” Strong support from senior leadership has helped, as this ensures that corporate functions prioritize the reporting of sustainability data.

Measuring Scope 3 emissions is another challenging area. “We have specific teams working with our suppliers on this and we source data from them directly, so we only have to use assumptions and extrapolations in limited cases,” says Smirnova. The technologies and methodologies for gathering and entering data on Scope 3 are still lacking. But, according to Smirnova, “Developments like the Forum’s Stakeholder Capitalism Metrics and the IFRS Foundation’s work are creating a big demand for this kind of data, and this will trigger new market-based IT data solutions.

HEINEKEN began integrating its financial and non-financial information into a single report in 2016. Since then, the company has honed its sustainability disclosures from 180 indicators down to the 30 most material ones, to add more quality and depth in areas such as impact. Smirnova sees this as a very positive evolution because it shows how sustainability is connected to the company’s wider management and financial performance. “The Stakeholder Capitalism Metrics fell very naturally into this flow,” she says. And while there are different levels of assurance for financial data (“reasonable assurance”) and non-financial data (“limited assurance”), this is viewed as a minor issue by stakeholders, who strongly support the integrated reporting process.
A key question is the extent to which the SCMs will help companies prepare for meeting the new regulatory requirements. “There is no direct one-to-one connection,” says Smirnova, “but in some cases the Forum’s metrics will overlap; for example, when they refer to accepted reference points such as the Greenhouse Gas Protocol.”

HEINEKEN is closely observing the development of the new European Sustainability Reporting Standards (ESRS) currently being drafted by the European Financial Reporting Advisory Group (EFRAG). “We will have to report under this new EU legislation and it’s quite prescriptive in terms of reference points and methodologies,” says Smirnova. By contrast, the process being led by the IFRS Foundation is more principles-based: “They give more room for using different reference points, making it easier for companies outside the EU to find alignment,” she says.

**Impact, learning and advice**

“The Stakeholder Capitalism Metrics were really welcomed both within the firm and by our stakeholders because they are comprehensive, cover all the core topics, are industry-agnostic and fall very naturally in line with our strategy.”

Olga Smirnova

In terms of advice to peers, Smirnova recommends that companies invest in educating and encouraging their workforce, to build greater consistency, rigour, quality and timeliness in sustainability reporting. This is important to ensure the information is actionable, says Smirnova, “because if the information is late or it’s not good enough, management cannot take the right decisions when they make their investment allocations for the coming years.” Equally, colleagues may have considerable untapped knowledge and expertise to offer. “We found a lot of existing processes that we just hadn’t deployed actively in ESG reporting,” says Smirnova.

“Engaging early on with the financial function will pay dividends, because they understand the importance of reliable, timely, actionable data delivered with rigour to the ‘right drumbeat’. And of course, getting the support of the top leadership is vital to inspire the organization and put sustainability at the top of the priority list.”

Above all, says Smirnova, “The sooner you start reporting the better. Encourage your colleagues to get involved, because collaboration improves the quality of disclosures.”

Olga Smirnova

For the standard-setters, HEINEKEN would like to see international sustainability standards that are reasonable in scope and material to both preparers and investors, based as much as possible on existing reference points, with clear definitions and methodologies. “Listen to all the parties and try not to be too academic” is Smirnova’s advice.

From an industry-wide perspective, HEINEKEN would love to see its peers reporting against the same set of metrics, so that the sector can build up a set of comparative data and companies can learn from each other, through existing forums such as the beverage industry’s environmental roundtable. This in turn requires convergence between standard-setters – starting, for example, with the IFRS Foundation and the Forum merging their metrics into a priority set.
HEINEKEN takes a highly focused approach to sustainability reporting – especially when it’s a voluntary process. “We are very critical, we don’t just jump onto every reporting framework or benchmark just for the sake of it,” says Smirnova, adding: “With all this alphabet soup of standards, we are very close to reporting fatigue.”

For HEINEKEN, however, the SCMs proved their worth. “The Forum’s metrics were really welcomed both within the firm and by our stakeholders because they are both simple and comprehensive, cover all the core topics, are industry-agnostic and fall very naturally in line with our strategy,” says Smirnova. She adds: “For me, the metrics are the first real prototype of an internationally recognized framework that will drive more consistent and comparable reporting.”

One of the most interesting aspects of the SCMs, in Smirnova’s view, is that they do not simply cover classic sustainability metrics on social and environmental issues; they also add Prosperity metrics that address employment, economic contribution, investment and tax. “This is very interesting for our readers,” says Smirnova, “because it pulls together a lot of information that is normally scattered and presents it like a balance sheet or health check.” As a body of comparable information is built up in the years to come, HEINEKEN will be able to map its progress using this dashboard of concise data to give a snapshot of the health of the company.

The Forum’s metrics deliver an annual dashboard of comparable data on both sustainability and prosperity that will provide us a snapshot of how healthy our company is.

Olga Smirnova
JLL seizes the opportunity provided by ESG reporting to help clients reduce climate impacts

3.1 Introduction

JLL is a leading global professional services and investment management firm dedicated to helping clients create value through owning, occupying, developing and investing in real estate. A Fortune 500 company, listed on the New York Stock Exchange, it employs nearly 100,000 people based in 80 countries around the world.

Sustainability is central to the company’s purpose: “We shape the future of real estate for a better world.” The company is committed to assessing both business and societal impacts across the three issue areas of its sustainability programme: “climate action, healthy spaces and inclusive places”.

The company reports against a range of sustainability frameworks, including GRI, the UN’s SDGs, SASB, TCFD and the Forum’s SCMs. It is on CDP’s A List for climate change leadership and action and was voted America’s best employer for diversity by Forbes in 2021.

In its 2021 global sustainability report, JLL disclosed against the full set of Forum core metrics and also some expanded metrics that explore impacts and outcomes. In the US, the company issues an integrated report that goes beyond simply reporting metrics to analyse how financial and non-financial activities can be integrated to create value more broadly.

For this case study, we interviewed: Richard Batten, Chief Sustainability Officer; Tom Branczik, ESG Reporting Lead, Global Sustainability; Dan Eddy, Data Analyst, Global Sustainability; and Tom Roundell Greene, Senior Director, Global Sustainability.

3.2 Key takeaways

- JLL’s rationale for sustainability reporting is driven by the opportunity it sees to help the real estate sector reduce the 40% share of global carbon emissions for which the built environment is responsible. The expectations of shareholders, clients and employees are also shaping the company’s reporting.

- Having reported on climate for 12 years, JLL is exploring ways to capture the societal and business impacts of its sustainability programme, but there are no consistent or relevant frameworks available.

- The company is tackling the challenge of reporting Scope 3 emissions by collaborating with its clients and building a shared data platform on which its value chain can input data on their actual emissions.

- Transparency and accountability are equally important: JLL recently engaged its global internal audit team to review its sustainability reporting process. As a result, the company has developed a robust governance structure, with clear accountability relating to data verification, approval and sign-off, boosting stakeholder confidence in the reporting process.
Increasing regulation may, ironically, lead to less transparency, as companies seek to report only data that is legally required or that can be guaranteed as 100% accurate. Companies need to work hard to communicate the benefits of transparency even when the data is imperfect.

JLL’s advice to fellow practitioners is: focus on good governance, process, controls and data quality as these will help you deliver impact and ensure you have the information you need to be compliant.

JLL’s request for standard-setters is to offer more guidance on environmental impact metrics and methodologies, and above all to ensure greater consistency and comparability among reporting frameworks, to reduce the burden on companies.

For JLL, the added value of the Forum’s metrics is that they help guide the company to report in new areas, especially in terms of biodiversity and environmental impacts.

As a real estate company, JLL is acutely aware that the built environment is responsible for almost 40% of global carbon emissions, according to the International Energy Agency (IEA). Nearly 98% of JLL’s total carbon footprint arises from the spaces its clients occupy. “We manage 1,200 times the space we occupy ourselves,” says Richard Batten, the company’s Chief Sustainability Officer. “This gives us massive reach to shape the future of real estate for the better,” he adds. For JLL, carbon emissions are its most material metric, and the company has set ambitious targets: 100% net-zero carbon emissions by 2030 within its own office space, and net zero across its entire value chain by 2040. For this 2040 target, JLL is aiming to decarbonize by 95%, allowing just 5% of emissions to be offset – aligning itself on a 1.5°C warming pathway as defined by the Science Based Targets initiative (SBTi).

We have a huge opportunity to help the real estate industry meet the challenge of net zero, and we can do that by supporting companies, communities and wider stakeholders such as cities and governments to meet their carbon goals.

Tom Branczik, ESG Reporting Lead, Global Sustainability, JLL

The company is also subject to growing expectations from three sets of stakeholders: shareholders, clients and employees. “Shareholders are now becoming more activist in the boardroom,” says Batten – “they are definitely shaping some of this discussion.”

Clients increasingly expect JLL to participate in certain frameworks, such as CDP, EcoVadis and SBTi. Meanwhile, points out Batten, “Over 60% of our workforce are Gen Y and Z. If we want to attract and retain them, we need to prove our sustainability credentials.”

Over 60% of our workforce are Gen Y and Z. If we want to attract and retain them, we need to prove our sustainability credentials.

Richard Batten, Chief Sustainability Officer, JLL

From capturing outputs to measuring societal impacts of emissions

JLL is at the forefront among its peers in terms of its climate targets and reporting. Having reported on climate for 12 years, the company is now exploring ways to capture not just outputs but also impacts.

In its global sustainability report for 2021, JLL made a public commitment to assessing its most material sustainability impacts, encompassing both “societal impacts … that positively or negatively affect the environment and society, and business impacts … that project back on JLL through risks and opportunities that affect our financial performance”.

The Forum’s expanded disclosures aim to tackle the issue of impact. Its metric on Paris-aligned greenhouse gas emissions targets is straightforward enough, as the SBTi can certify a company’s net-zero targets. But the second part of this metric,
which deals with the impact of those emissions, requires companies to disclose the “societal cost of carbon used”.

This is much more challenging as there is no framework available that JLL finds relevant to its business. “We’ve been working with the Value Balancing Alliance and Harvard University on trying to measure the societal impacts of our Scope 3 emissions,” says Batten, “but there is zero consistency of approach and on how it’s going to be delivered.”

Batten wants to push even further, beyond societal impact to assessing social value. “Impact is only part of the journey – I believe we’re on a route to creating social value,” he says, “and you can’t assess value until you’ve assessed impact.”

I believe we’re on a route to creating social value and you can’t assess value until you’ve assessed impact.

Richard Batten

3.4 Solutions: collaboration, technology, transparency and accountability

As JLL seeks to push its reporting into more in-depth areas such as impact assessment and emissions across all three Scopes, solutions such as collaboration, technology, transparency and accountability begin to show their true value.

Tackling Scope 3 through collaborating with clients and sharing technology

“Given our commitment to net zero, communicating our progress across Scopes 1, 2 and 3 is absolutely essential,” says Tom Roundell Greene, Senior Director, Global Sustainability. Scope 3 is a real challenge, especially in terms of securing high-quality data sourced from actual emissions rather than estimates based on assumptions of emissions by revenue, explains Roundell Greene. To address Scope 3, managers need accurate data to establish a baseline and then prove that progress is really happening. “Getting to a level of management-quality data, where you’re able to drive and evidence reductions in Scope 3 emissions, is hard for everybody,” he says.

Getting to a level of management-quality data, where you’re able to drive and evidence reductions in Scope 3 emissions, is hard for everybody.

Tom Roundell Greene, Senior Director, Global Sustainability

JLL is tackling the Scope 3 challenge by collaborating with its clients to create new approaches to managing facilities. “We’re not the only people trying to find solutions,” says Batten, adding: “90% of our top 50 clients have carbon reduction targets similar to ours. They’re on the same journey as us, and they want us to help them.”

Technology plays a key role in improving data quality. The company has developed a live data platform called Canopy, into which both JLL and its clients can input their data. “We are including a data-gathering requirement into our contracts with clients, which will lead to a massive improvement in the quality of data,” adds Roundell Greene.
Building confidence through greater transparency, scrutiny and accountability

While technology is a huge part of the answer to getting better data, transparency is equally vital, according to Batten. “We need the transparency of information that you get from actual data – if you use revenues as a proxy, you’re not going to get the improvement you want,” he says.

Transparency also comes through closer scrutiny. JLL is enhancing third-party scrutiny of the accuracy of all its disclosures, not least because of the tightening net of mandatory reporting. “We’ve just been through a review with our global internal audit colleagues to look at our reporting process to assess how robust it is and where the risks lie in terms of inaccurate disclosures,” says Branczik. As a result, the company has developed a sound governance structure with clear accountability in terms of who takes responsibility for which aspects of data verification, approval and sign-off, as well as clarifying what particular data will be used for.

We need the transparency of information that you get from actual data – if you use revenues as a proxy, you’re not going to get the improvement you want.

Richard Batten

“Our aim is to give people confidence in the information we’re disclosing,” says Branczik, adding: “The internal audit has been really useful, as we can now point to a robust disclosure process to give our stakeholders confidence.” JLL’s eventual aim is to build up non-financial reporting to the same level of assurance as financial reporting.

3.5 Impact, learning and advice

Serving clients better

For JLL, a key impact of sustainability reporting has been the opening up of possibilities to enhance the company’s service proposition to its clients. “When we carry out our TCFD analysis, the growth in the importance of sustainability and the dangers ahead of us in respect of climate mean that there’s an opportunity for us to help clients mitigate that climate risk going forward. That’s now one of our biggest growth areas,” says Batten.

Communicating the benefits of transparency

As sustainability reporting becomes more thoroughly audited and regulated, Branczik raises an interesting concern about transparency: “What I’m worried about is that, as reporting becomes mandated, there will actually be less transparency. People are risk-averse – they don’t want to put out more than they have to. So, if the minimum legal requirement is to disclose X, then companies will just disclose X, no more no less.” Finance and legal functions, for example, will not accept the risk of creating any liability.

While Branczik is clear that it is vital to publish reliable information, he also says that “a lot of work needs to be done internally to communicate the benefits of transparency”. The issue becomes more acute when reporting on impacts. “Understanding and measuring our impact is an inherently complex undertaking, given the absence of established norms,” the company states in its 2021 global sustainability report, which adds: “However, we will not allow the pursuit of perfection to impede our progress.”
**Advice to fellow practitioners**

“You can’t disclose what you’re not doing,” says Roundell Greene. Therefore, companies should view reporting as a way to improve upon their execution of sustainability targets. And the better you report, the better you can deliver. “On the reporting side, good governance, process, controls and data quality are the key things,” he says, adding: “they’ll help you deliver impact and help ensure you have the information you need to be compliant.” Batten, meanwhile, highlights the importance of agility: “Be open to change,” he advises, “because the market is changing quickly.”

Good governance, process, controls and data quality are the key things – they’ll help you deliver impact and help ensure you have the information you need to be compliant.  
Tom Roundell Greene

**Advice to standard-setters**

A specific request from JLL to standard-setters is for more guidance on the best environmental impact metrics and methodologies to use for JLL’s type of business. For example, the processes that the TNFD and SBTi are going through to define indicators on nature tend to focus on manufacturing and consumer goods companies with big supply chains. This approach is not relevant for JLL, a professional services business whose greatest influence is through its clients. “We are often lumped into the wrong industry sector by ratings agencies and asked to disclose information that’s not relevant or material to us,” says Branczik.

Above all, however, JLL’s request to standard-setters is to ensure greater consistency and comparability between sustainability reporting frameworks, to reduce the burden on companies. “We must ensure that the sustainability reporting output of different companies is comparable,” says Branczik, who adds that any move to consolidate the different reporting frameworks would be a “real game-changer.”

Any move to consolidate the different sustainability reporting frameworks would be a real game-changer.  
Tom Branczik
3.6 Added value of the Forum’s Stakeholder Capitalism Metrics

For JLL, the comparability and consistency of data points being disclosed by companies is absolutely vital. Having a clear set of disclosures common to all businesses – as provided by the Stakeholder Capitalism Metrics – is hugely valuable, says Roundell Greene, who adds: “The expertise that comes with the involvement of the Big Four [Deloitte, EY, KPMG and PwC], plus the Forum’s profile, make these metrics very credible.”

JLL’s reporting on climate and the environment is the company’s most robust set of sustainability metrics. Within this area, the Forum’s Planet metrics prompted JLL to look at land use and ecological sustainability in more detail. “We knew we wanted to start saying something about biodiversity, but the Forum’s metrics pointed us in the right direction,” says Branczik.

When JLL looked at the Forum’s core metric on water consumption and withdrawal in water-stressed areas, it led the company to encourage its teams and clients to agree water management plans and targets. Such a metric may even influence where the company rents office space in the future.

JLL also appreciates the Forum’s expanded set of metrics: “They definitely push us to do more than the other reporting frameworks,” says Branczik, who adds: “They’re much less output-driven and more impact-driven, both the planet and people-centric measures. That has real value.” Nevertheless, JLL believes companies still need further guidance on the best methodologies to start reporting on impacts.

The Forum's expanded metrics are much less output-driven and more impact-driven. That has real value. That’s where they differentiate themselves from other reporting frameworks.

Tom Branczik
Philips highlights the conciseness of the Forum’s metrics and calls on the EU to simplify sustainability reporting

4.1 Introduction

Philips is a global health technology company headquartered in the Netherlands, which aims to deliver integrated solutions in the areas of healthy living and prevention, diagnosis, minimally invasive treatments and advanced home care. It employs 73,000 people, with sales and services in more than 100 countries.

The company’s stated purpose is “to improve people’s health and well-being through meaningful innovation”, while its goal is “to improve the lives of 2.5 billion people a year by 2030” – including 400 million people in under-served communities. Philips is a leader on the analysis, reporting and execution of sustainability-related measures and was among the first 60 companies to adopt the Forum’s SCMs.

For this case study, we interviewed Simon Braaksma, Senior Director, Group Sustainability, Royal Philips.

“If you measure your impact on sustainability properly, you can drive innovation.”
Simon Braaksma, Senior Director, Group Sustainability, Royal Philips
4.2 Key takeaways

- Philips’ goal is to improve the lives of 2.5 billion people a year by 2030 – including 400 million people in under-served communities. Hitting this target will be possible only through rigorous tracking and reporting of sustainability metrics.

- The company aims to improve lives by focusing on three of the UN’s SDGs: Goal 3, Ensure healthy lives and promote well-being; Goal 12, Ensure sustainable consumption and production; Goal 13, Take urgent action to combat climate change.

- On ensuring healthy lives, Philips developed its own framework, “Lives Improved”, in conjunction with investors, who now use it for their own disclosures. Philips links performance on this set of metrics to “long-term incentives”, which form part of executives’ remuneration.

- On climate change, Philips became 100% carbon neutral in 2020, while in 2021 it committed to align its entire value chain emissions on a 1.5°C global warming pathway. The company goes beyond simply measuring emissions by monetizing its impacts on the environment through a unique “Environmental Profit & Loss” approach to reporting.

- Philips doubled its circularity by revenue from 7% in 2015 to 15% in 2020 and set a new target of 25% by 2025. A transition towards a circular economy could reduce global emissions by 40% in 2050, according to the Ellen MacArthur Foundation. Driving circularity requires retraining the sales force to discuss new business models with customers.

- For Philips, accurate reporting on the environmental and social impacts of its operations points customers towards the most impactful products on the market and, importantly, drives the company’s innovation agenda to design more sustainable solutions.

- Perhaps surprisingly, Philips’ personal health products (e.g. hairdryers and curlers) generate more value-chain emissions than its large magnetic resonance (MR) and computerized tomography (CT) scanners.

- Philips estimates that to disclose against all 137 of the EU’s proposed sustainability requirements by 2024 would add 100 pages to its management reports – “that’s almost mission impossible”. The company calls on standard-setters to align and focus on what is most impactful.

- For Philips, the great strength of the Forum’s metrics is that they are concise, well defined and well written – a combination of the Forum’s and GRI’s core metrics would go a long way towards setting global sustainability standards.

4.3 Rationale for reporting: recognize the only way to deliver on ambitious targets is through rigorous, quarterly tracking and disclosure

Philips frames its contributions to society and the planet in terms of three of the UN’s SDGs:

- Goal 3: Ensure healthy lives and promote well-being for all at all ages
- Goal 12: Ensure sustainable consumption and production patterns
- Goal 13: Take urgent action to combat climate change and its impacts

The company has framed ambitious targets around each of these goals, targets that would be impossible to hit without accurate measurement and reporting, which in turn requires detailed methodologies and metrics.

To contribute to Goal 3, Philips has set a short-term goal to improve the lives of 2 billion people (including 300 million in under-served communities) by 2025, rising to 2.5 billion and 400 million respectively by 2030. In 2021, the company improved the lives of 1.67 billion people worldwide and 167 million lives in under-served communities.

At the core of Goal 12 is a call to reduce consumption – a challenge that Philips is tackling through a focus on circularity. It is shifting its entire business from the linear model of “Take > Make > Dispose” to the circular model of “Make > Use > Return”. Philips’ outgoing CEO Frans van Houten, who is also Co-Chair of the Platform for Accelerating the Circular Economy (PACE), has called on companies to embrace PACE’s goal of doubling their own circularity by...
For its part, Philips doubled its circularity by revenue from 7% in 2015 to 15% in 2020 and the company has set a new target of 25% by 2025.

In terms of Goal 13, Philips sees climate change as a serious threat to human health, well-being and life on Earth. At the end of 2020, the company became 100% carbon neutral in its operations and sourced all its electricity from renewable sources. Last year, it committed to reducing its entire value-chain carbon emissions in line with a 1.5°C global warming scenario, through a range of initiatives including prioritizing the circular economy. If successful, this major push to decarbonize the company's supply chain would have an impact seven times greater than the reduction of CO₂ emissions from Philips’ own operations.

As a health technology company, Philips has put improving people’s health and well-being at the core of its mission for decades. But when the company turned this mission into a purpose with measurable targets eight years ago, it was challenging. No such disclosures for improving lives existed. The UN, for example, lacked metrics that companies could use to capture their contributions to Goal 3. So Philips developed its own “Lives Improved” framework. The methodology adopts a three-step approach:

1. Determine the installed base of Philips’ health and well-being devices and solutions (e.g. ultrasound, MR and CT scanners)
2. Determine the number of times each product is used per year – and divide that by the standard number of treatments needed per patient to arrive at the number of patients per year benefiting
3. Eliminate any double counting between health- and well-being-related products and solutions

According to Simon Braaksma: “Measuring health impacts is something that’s quite complex and none of our peers did anything in that respect. Our stakeholders, especially investors and NGOs, really wanted us to try and quantify this impact. So we worked together with our investors to create and validate this framework. And now investors are using this set of metrics for their own impact reports – it’s the best example of measuring health impacts that they can find.”

Philips’ Lives Improved set of metrics is now assured to the same level as the company’s financial information and the framework has even been adopted by the company’s competitors. Philips updates data on the framework monthly via custom-made data management software and includes it in the company’s quarterly reviews of the business. To drive continuous improvement on this set of metrics, Philips links performance against it to “long-term incentives”, which form a substantial part of the total remuneration paid to senior management and other company executives.

Our investors and NGO stakeholders really wanted us to try and quantify our health impacts. So we worked together with them to create and validate our Lives Improved framework. And now investors are using this set of metrics for their own impact reports.

Simon Braaksma
A key strategy in Philips’ goal of reducing both consumption and emissions is the company’s focus on circularity. This requires investment in innovative design and business models to ensure that fewer raw materials and less energy are consumed in the production and use of its healthcare and well-being devices. A transition towards a circular economy could reduce global emissions by 40% in 2050, according to research by the Ellen MacArthur Foundation.

“Two years ago we decided to step up our reporting on circularity,” says Braaksma, who adds: “As with Lives Improved, we wanted to report on specific topics to drive change, but no metrics were available.” So Philips developed a key performance indicator (KPI) that expresses circularity by revenue. This is in line with the Forum’s expanded metric on resource circularity under the Planet pillar, which encourages companies to select the most appropriate circularity metric for their business.

We need to make a very significant effort in the company to deliver on our 25% circularity target. It comes down to innovation. If you don’t design for circularity from the start, it’s very difficult to increase the percentage of your revenue that’s circular.

Simon Braaksma

In a circular economy, according to Philips, products, parts and materials are kept at their highest utility and value at all times, circulating between customers. These productive loops maintain value while minimizing waste and the extraction of finite resource reserves. Philips’ circular model of “Make > Use > Return” features five returning loops, which in descending order of value are:

1. Dematerialize/optimize usage
2. Service/upgrade/extend lifetime
3. Refurbish
4. Recover parts
5. Recycle

The company has set itself the ambitious target of generating 25% of its revenue from circular products, services and solutions by 2025 – up from just 7% in its baseline year of 2015. “We need to make a very significant effort in the company to deliver on our 25% circularity target. It comes down to innovation. If you don’t design for circularity from the start – and with energy, materials and waste reduction in mind – it’s very difficult to increase the percentage of your revenue that’s circular,” says Braaksma. Circularity also requires a new business model and training of the sales force to promote not just new devices but also refurbished systems and alternative means of purchasing, such as pay-per-use.

Philips takes a similarly in-depth approach to reporting on its climate impact. As well as disclosing the company’s Scope 3 emissions in terms of tonnes of greenhouse gas emissions, for the past four years it has reported on its “Environmental Profit & Loss” (EPL), which aims to monetize the company’s impacts on the environment. This is very much in line with the Forum’s expanded metrics in the Planet pillar, which include disclosing the “valued impact of greenhouse gas emissions” and the “societal cost of carbon used”.

The company captures its environmental impacts under 10 separate headings, including climate change, ozone depletion, water pollution, particulate matter and land use. It is transparent about its pricing methodology (created by environmental consultancy CE Delft), which is based on the price citizens are willing to pay for not having to be exposed to additional environmental pollutants, expressed in euros per 1kg of emissions. For example, the climate change impact is priced at €0.06/kg CO₂-equivalent, which equates to €60 per tonne.

To arrive at the EPL data for the year, Philips combines this monetized metric with the estimated lifetime of each product. The company also factors in the sustainability of power grids in its key markets – because consuming a kilowatt of power in Norway will have less impact on the climate than consuming a kilowatt in, say, China.

If Mother Earth were to send an invoice to Philips for the resources we consume, this is basically our environmental profit and loss. What’s great about all of this is that it points you directly to the most impactful products that you put on the market and this in turn drives your innovation agenda.

Simon Braaksma
Philips monetized its environmental impact in 2021 at €2.16 billion, of which the customer-use phase accounted for the vast majority (80%). However, this figure does not include the company’s domestic appliances division, which contributed €2.59 billion of environmental impact in 2020. What is revealing about disaggregating this data is that, while many people may assume that Philips’ medical solutions such as MR and CT scanners consume the most electricity, it is actually haircare products such as dryers and curlers that generate the most emissions. This is because they are sold in large quantities, they have to generate heat (which is very energy-intensive), they are used daily and the biggest buyers are markets with a lower proportion of renewables in the grid (e.g. China).

The net result of this analysis then feeds through to Philips’ innovation function. Put simply, if the company wants to hit its science-based targets to keep its supply chain on track for a 1.5°C warming pathway, it will need to design more energy-efficient personal health products.

Simon Braaksma

What surprises many people is that our haircare products, such as dryers and curlers, have a greater environmental impact than our big MR and CT scanners. If we want our supply chain to stick to our science-based target for a 1.5°C pathway, we need to design more efficient hairdryers.

Simon Braaksma

Impact, learning and advice

Advice for standard-setters

Braaksma has recently provided candid feedback to the EU on its standard-setting process. For example, he felt the Technical Expert Group drafting the standards for the European Financial Reporting Advisory Group (EFRAG) went into too much detail, instead of focusing on the topics that really matter. “EFRAG has produced 137 disclosure requirements, each with multiple data points. We’ve estimated at Philips that to include all this, our management reports would increase by about 100 pages,” says Braaksma, who adds: “If the EU decides on 137 disclosure requirements by 2024, that’s almost mission impossible, even for multinationals with a long experience of ESG reporting.”

He argues that industry-specific standards are necessary for disclosing Scope 3 emissions. Healthcare, for example, needs standards that define generic use-case scenarios for, say, MR scanners, while the automotive sector – whose products contain thousands of parts from third-party suppliers – require a different solution.

Braaksma’s two key pieces of advice for standard-setters are:

1. **Align as much as possible.** The EU should start by adopting the IFRS Foundation’s work as a basis and only build on that where it is needed. “Cut the detailed disclosures,” he says.

2. **Focus on what is impactful.** Spell out what is material to specific industries and include industry-specific metrics where required.

If the EU decides on 137 disclosure requirements by 2024, that’s almost mission impossible, even for multinationals with experience of ESG reporting. We’ve estimated at Philips that to include all this, our management reports would increase by about 100 pages.

Simon Braaksma
Advice for peer practitioners

Braaksma has two pieces of advice for fellow practitioners:

1. **It all starts with leadership.** “If your leadership is not committed and engaged, it will be a painful process,” he says.

2. **Get ahead of the regulation.** Now that the European Commission has approved the new Corporate Sustainability Reporting Directive (CSRD), it will become law in 2024. A public listed company that is required to report against CSRD and which fails to do so is committing an economic crime. “No company wants to start a dialogue with the regulator about why they didn’t comply with the rules,” he says.

4.6 Added value of the Forum’s Stakeholder Capitalism Metrics

The great strength of the SCMs lies in their conciseness and clarity, according to Braaksma: “The Forum did very well to limit the number of topics and indicators; they are very well defined and well written,” he says, adding: “The European Commission could learn a lot from that.” While the Forum’s core 21 metrics are a “bare minimum”, and will not, of course, be enough for the EU, if they are blended with GRI’s core metrics, “you will go a long way towards setting minimum global sustainability standards,” says Braaksma. The Forum’s expanded metrics also offer companies encouragement to report more on impacts and important but complex areas such as the living wage and circularity.

Another key factor in favour of the SCMs is that they have been adopted by so many companies already – more than 180 at the latest count. “The fact that you’ve got a limited set of standards that is being reported on by so many of the largest companies in the world makes a lot of sense,” says Braaksma.

If you blend the Forum’s core 21 metrics with GRI’s core metrics, you will go a long way towards setting minimum global sustainability standards.

Simon Braaksma
5.1 Introduction

Saudi Basic Industries Corporation (SABIC) is one of the world’s leading chemicals companies, headquartered in Riyadh, Saudi Arabia. Manufacturing on a global scale, SABIC produces chemicals, high-performance plastics, agri-nutrients and metals. It has significant research resources, with innovation hubs in five key regions – the US, Europe, the Middle East, South-East Asia and North-East Asia. SABIC operates in more than 50 countries and has in excess of 31,000 employees worldwide.

For this case study, we interviewed: Frank Kuijpers, General Manager for Corporate Sustainability, based in the Netherlands; Ashok Menon, Director for Sustainability Strategy and Circular Economy for Asia-Pacific, based in India; and Emma Simo, Senior Manager for ESG and Investor Relations, based in Spain.

5.2 Key takeaways

- SABIC’s ESG priorities are derived from a solid materiality assessment conducted every three to five years, in which climate and the circular economy emerge as central topics, together with health and safety, energy efficiency, sustainable innovation, and governance and integrity.

- Given the centrality of fossil fuels as a feedstock for the material and chemical industries, circularity offers a way to cut emissions during the transition to a lower-carbon economy. The company has a target to deliver 200 kilotons of renewable and recycled feedstock by 2025.

- Regulation is a key factor driving ESG reporting. SABIC believes standardization is the most important task in the ESG space today, given the complexity of dealing with different emerging regulatory initiatives, such as the EU’s new sustainability standards and taxonomy.

- Reporting on Scope 3 emissions is hampered by the challenge of acquiring reliable primary data from both upstream and downstream sources. Downstream is more challenging because of the complexity of SABIC’s wide diversity of product applications.

- SABIC, which is viewed as the leader in sustainability reporting in the Middle East, has created an ESG reporting steering committee to guide its disclosure process and help the company integrate its sustainability reporting with its annual report.

- The company has unveiled a strategy to become carbon neutral by 2050, with an interim target of a 20% reduction in Scope 1 and 2 emissions by 2030, compared with 2018.

- Reporting against the Forum’s Stakeholder Capitalism Metrics has increased the value of transparency within the company, leading to conversations and progress on difficult issues.

- SABIC’s CEO, who has been a firm supporter of more extensive ESG reporting, emphasizes the importance of each company function owning its ESG disclosures.
5.3 Rationale for reporting: help stakeholders and regulators prioritize climate and circularity

Our entire downstream group of customers are making pledges around how much circularity is in their products and they are looking into their Scope 3, which partially is our Scope 1 and 2.

Frank Kuijpers, General Manager for Corporate Sustainability, SABIC

SABIC recently won the Best ESG award from the Saudi Exchange and Middle East Investor Relations Association (MEIRA). The company, which is majority-owned by Saudi Aramco – one of the world’s largest companies – has carved out an impressive reputation for sustainability both in the region and within the global oil and gas industry, particularly in terms of its actions to improve water consumption and health and safety, and its support for Saudi SMEs seeking to diversify into new industry sectors.

Although SABIC has been reporting on ESG issues since 2011, it has sharpened its focus in the past two years by identifying gaps in its data gathering and reporting. Two priorities have stood out in terms of reporting: climate and the circular economy. “Both have huge challenges for companies like ours but also opportunities at the same time,” says Kuijpers, who adds: “Our whole industry has to go through a radical transformation in terms of creating solutions for our customers, as we did over the past decades, while reducing our carbon footprint and increasing the circularity of our business.”

Forum’s metrics help SABIC lead transition towards a new energy economy

Kuijpers sees SABIC as at the forefront of this process: “As a company we are looking at how we can work with other value-chain leaders to build a new economy that will exist 10 or 20 years from today.” Reporting against ESG metrics, including the Forum’s SCMs is “helping a lot here”, he adds.

SABIC’s stakeholders are on the move when it comes to sustainability. “Our entire downstream group of customers – starting with the large OEMs [original equipment manufacturers] – are making pledges around how much circularity is in their products,” says Kuijpers: “They are looking into their Scope 3, which partially is our Scope 1 and 2.” Investors are also putting more effort into helping the industry move towards carbon neutrality and a circular value chain. Kuijpers refers to the court case relating to Shell’s carbon emissions and shareholder pressure regarding Exxon’s strategy on climate change: “We do expect that to come more and more,” he says.

The company is very conscious of the tightening net of regulation. “We definitely find the EU taxonomy challenging,” says Emma Simo: “It’s very complex, there is no guidance and there is a lot of uncertainty – it’s difficult to see how organizations will be able to adapt their organizational structures to truly comply.” SABIC is closely monitoring regulatory developments globally and looking for ways to engage early in the process to ensure frameworks are inclusive for all stakeholders and for different regions, both developed and developing.

“TCFD is becoming mandatory in many countries,” says Ashok Menon. SABIC is able to report against about two-thirds of TCFD’s requirements and is working to plug the gaps regarding risk-assessing all its products and infrastructure. One key change in the past three years has been the need to conduct modelling with a 1.5°C climate warming threshold rather than a 2°C scenario.

Another major focus for the company relates to reporting Scope 3 emissions: “The challenge is in how you get to the level of primary data that is reliable enough to share,” says Menon. SABIC is among the first global chemicals companies to report assured Scope 3 emissions since 2020.
Solutions: SABIC commits to carbon neutrality and publishes human rights programme online

In the Middle East, we are viewed as the leader in sustainability reporting. Our revised carbon emissions targets reflect how the business has evolved since our first set of targets in 2010. We expect pressure on SABIC and the other players in the industry to keep stretching the targets over time.

Frank Kuijpers

For SABIC, the SCMs offer an important process for addressing some of the challenges of ESG reporting. “We’ve used the Forum’s metrics as a way to report as closely as possible to the future ISSB,” says Simo, referring to the International Sustainability Standards Board of the IFRS Foundation, which is formulating a new global sustainability standard with input from the World Economic Forum and global standard-setters.

Although SABIC produces a dedicated sustainability report, its 2021 annual report includes a mapping of the Forum’s metrics against those of GRI. To deliver this reporting, “we are building a very strong structure internally,” says Simo. This includes the creation of an ESG reporting steering committee with representatives from corporate affairs, human resources, investor relations and corporate sustainability. This fits with SABIC’s structure, where board oversight is provided through the risk and sustainability board committee and the executive management led by the vice-chairman and the CEO.

SABIC targets carbon neutrality by 2050

In 2021, the company unveiled its Carbon Neutrality Roadmap, which identifies five pathways to carbon neutrality by 2050:

1. Reliability
2. Energy efficiency and improvements
3. Renewable energy and electrification
4. Carbon capture
5. Green/blue hydrogen

SABIC’s interim goal is a 20% reduction in Scope 1 and 2 emissions by 2030 (compared to 2018). This is pretty much on a par with global chemicals players. Kuijpers cautions that the company still has to be very careful with some of its disclosures. “External stakeholders will push for higher reduction targets,” he admits, “but it is clear that this goal reflects how the business has evolved since its first set of targets in 2010.”

Last year, Saudi Arabia – one of the world’s leading oil and gas producers – unveiled the Saudi Green Initiative, which commits the country to carbon neutrality by 2060. This remarkable commitment – along with the kingdom’s efforts to diversify beyond oil by 2030 and its recent acceleration of economic and social reforms – reflects a belief that sustainability and environmental focus are central to the country’s agenda to remain competitive.

“In the Middle East,” says Kuijpers, “we are viewed as the leader in sustainability reporting.” This reporting has to be seen in the context of the industry and the region. “For instance, the Gulf Cooperation Council (GCC) region has grown relevant not only through its role in reinforcing the world’s energy security, but also through its support for economic and social development. It’s becoming more and more important to make sure that we can at least maintain the level of well-being that we arrived at, at a global scale,” says Kuijpers, adding: “If tomorrow you did not have fossil as a feedstock for materials and chemicals, then we would fall back to where we were in the 1950s. I’m not sure whether we want that.”

This is why circularity is such an important part of SABIC’s carbon neutrality strategy. In its 2021 annual report, the company reports on its “TRUCIRCLE™” initiative, which will soon be able to deliver more than 20 kilotons of certified circular and renewable feedstock a year. The company’s target is to deliver 200 kilotons of renewable and recycled feedstock by 2025.

Last year, SABIC became the first company in the industry to launch a certified circular polycarbonate, produced by recycling post-consumer mixed plastic, reducing the need for incineration and landfills. And at the beginning of 2021, the company began constructing the world’s first commercial unit for advanced recycling.
SABIC’s leading role in promoting human rights

SABIC is committed to respecting human rights in accordance with the spirit of the following frameworks:

- UN Guiding Principles on Business and Human Rights
- International Labour Organization’s Declaration on Fundamental Principles and Rights at Work
- Principles of the UN Global Compact

SABIC’s human rights obligations are enshrined in its code of ethics, presided over by the executive committee, which embraces a culture of respect and includes policies on freedom of expression and fair employment practices that prohibit illegal discrimination. The company has grievance procedures to ensure that all employees, contractors and suppliers are able to raise concerns about human rights without fear of retaliation. And the company reports externally in line with the California Transparency in Supply Chains Act and the UK’s Modern Slavery Act.

In July 2022, SABIC became the first company in Saudi Arabia to publish progress on its human rights programme online.

We are very proud we have been able to push forwards on publishing our human rights programme online. We believe we bring value to the region in showing others an example they can follow.

Emma Simo, Senior Manager for ESG and Investor Relations, SABIC
5.5 Impact, learning and advice

The power of transparency

A key outcome of the process SABIC has created to report against the Forum’s metrics is an increase in the value of transparency within the company. This has required “a lot of internal awareness-raising,” says Simo. Previously, some company members queried why they had to report on, for example, hazardous products or sensitive areas. But they have come to realize that embracing a transparent reporting process for these issues – without at first necessarily setting targets – forces the company to have conversations about, and make progress on, difficult issues.

“It’s better to be in control of your own disclosures than to have others talk about your performance.”
Frank Kuijpers

Each company function must own its disclosures

As part of this internal hearts and minds campaign, SABIC’s CEO emphasized the importance of each company function owning its ESG disclosures, implementing a true bottom-up approach to secure full support from the entire organization. “We can come up with a proposal, we can come up with the education around it,” says Kuijpers, referring to his corporate sustainability function, “but we cannot own the disclosure itself.”

“Our aspiration is to get non-financial information to the same level as financial data. To do that we need to enhance our data quality and credibility through automation and data assurance.”
Ashok Menon, Director for Sustainability Strategy and Circular Economy for Asia-Pacific, SABIC

5.6 Added value of the Forum’s Stakeholder Capitalism Metrics

For Kuijpers, an important area of added value for the Forum’s metrics is standardization – something he describes as “the most challenging topic in this domain of ESG”. What the Forum’s process in creating the metrics clearly showed is that there is no harmonized way of having even 21 core metrics accepted as a global way of reporting.

Kuijpers indicates his frustration at spending a decade or more reporting against similar ESG disclosures that are not comparable because they use different protocols to capture the data. For him, creating a set of comparable ESG metrics is a critical area to address. “It may not be the Forum in charge of standardization,” he says, “but if the IFRS Foundation starts with the Forum’s work and broadens it out to a global standard, that would be a big step forward.”

“The Stakeholder Capitalism Metrics have been the kick-start of how we can get a more holistic view on ESG and ESG disclosure.”
Frank Kuijpers
Schneider Electric calls on companies to view sustainability as a strategic imperative, not a compliance issue

6.1 Introduction

Schneider Electric is a multinational energy company based in France, employing more than 130,000 people in 100 countries. Its purpose is “to empower all to make the most of our energy and resources, bridging progress and sustainability for all”. The company sees electricity as the best and most efficient vector for decarbonization, when combined with a circular economy approach. It views the digitalization of energy technologies as the key to driving sustainability and efficiency.

The company has been issuing disclosures on sustainability for the past 15 years and has developed its own set of company-specific metrics, centred on the externally assured Schneider Sustainability Impact (SSI) scorecard. The SSI comprises six long-term commitments: Climate, Resources, Trust, Equal, Generations and Local. Between them, these commitments feature 12 five-year targets, towards which the company reports its progress every quarter.

Within this context, the company sees the Forum’s Stakeholder Capitalism Metrics as an “extremely valuable” contribution to the debate on the need to drive convergence between existing ESG standard-setters towards a common global standard.

For this case study, we interviewed Frédéric Pinglot, Group Sustainability Performance Director.

The Stakeholder Capitalism Metrics have made an extremely valuable contribution to the debate at a time when ESG became mainstream and many stakeholders realized both the value of sustainability but also the lack of common ground, comparability or baseline for reporting.

Frédéric Pinglot, Group Sustainability Performance Director, Schneider Electric

6.2 Key takeaways

- To achieve its commitment to reduce Scope 3 emissions by 25% by 2030 (vs. 2021), Schneider Electric has asked its thousand heaviest-emitting suppliers to cut the carbon intensity of their own operations in half by 2025.

- At programme launch, two-thirds of the company’s suppliers could not report their carbon footprint, but are now benefiting from Schneider’s expertise in calculating emissions and developing strategies to track and reduce them. In that way, the company’s suppliers also become customers, thereby strengthening partnerships within the supply chain.

- While Schneider has targets for diversity and inclusion based on gender, (dis)ability and age, it is illegal in France to gather data on ethnicity. So the company has had to find local solutions to address ethnic diversity, which vary by country.
In 2020, the company was the first to publish its end-to-end biodiversity footprint using the “global biodiversity score” tool developed by CDC Biodiversité. The Forum’s metric on land use and ecological sensitivity contributed to Schneider’s new approach to biodiversity, as it adapted its reporting and asked all sites to set specific biodiversity action plans.

Schneider’s main advice for peers starting their ESG reporting journey is this: sustainability is not about reporting or compliance or philanthropy. It is a strategic issue you need to address to make your company resilient and enable it to thrive in the market of the future.

The company believes the Forum’s metrics have made a strong contribution to the ESG debate at a time when convergence of different regulators and standard-setters around a common global standard is vitally important.

While Schneider shares the EU’s vision of “double materiality”, the company is concerned that the draft EU sustainability standards are too complicated and will result in companies spending more time writing compliance reports than striving to make the planet a better place.

6.3 Rationale for reporting: ensure Schneider and its suppliers are on track to deliver the goals of the Paris Agreement

Schneider Electric’s 12 five-year targets under its SSI programme include social metrics – such as diversity and inclusion, impact on local communities, and encouraging suppliers to provide decent work to employees – as well as environmental metrics relating to packaging and emissions.

The company has ambitious targets to reduce its greenhouse gas emissions, which are aligned with the new net-zero standard of the SBTi. On Scopes 1 and 2, it aims to achieve net zero as a group by 2030, through cutting its emissions by 90% (compared to 2017 levels) and offsetting the remaining 10% through high-integrity carbon offsets provided by the Livelihoods Carbon Fund.

With regard to Scope 3 emissions, Schneider Electric has committed to reducing its supply-chain emissions by 25% by 2030 (compared to 2021 levels). To achieve this, the company has given its suppliers an ambitious target of reducing their own carbon intensity by 50% by 2025. “The vast majority of our industrial emissions are within our supply chain,” says Pinglot, adding: “So for us to meet our external goals in relation to the Paris Agreement, it’s absolutely critical to address the emissions of our suppliers.”

For Pinglot, it’s vital that not only Schneider Electric but also its suppliers are rigorous in tracking and reporting progress towards these goals. “As long as you don’t measure, you can’t manage,” he says. Pinglot highlighted that Schneider has specific expertise to share with its value chain, in terms of calculating climate footprints, developing corporate strategies for a low-carbon transition, providing energy-efficient digital solutions such as smart metering, and tracking progress.

Two-thirds of our suppliers did not even know their carbon footprint, so we are putting in a lot of effort to train them.

Frédéric Pinglot
Within France, you’re able to measure most indicators of diversity, such as disabilities, gender or age, but not race or ethnicity. The topic of ethnicity is one we need to manage locally because of the sensitivity around this in certain geographies.

Frédéric Pinglot

Challenges with reporting ethnicity

Requests have been on the rise from investors and ratings agencies for ethnicity data on Schneider Electric’s workforce. This is “especially because of social unrest in the US,” says Pinglot. “But in France,” he says, “it’s against the constitution to discriminate among people based on their race or ethnicity.” Although Schneider embraces a strategy to boost the representation of women, people with disabilities, and both younger and older employees, “to have a system where you identify whether a person is Black, Hispanic or white is unimaginable for a French company”, according to Pinglot.

Frédéric Pinglot

Challenges with reporting biodiversity

In 2020, the company was the first to publish its end-to-end biodiversity footprint using the “global biodiversity score” tool developed by CDC Biodiversité. However, the company was still challenged by the Forum’s core metric under the theme of nature loss (land use and ecological sensitivity), which requires companies to “report the number and area of sites owned, leased or managed in or adjacent to protected areas and/ or key biodiversity areas”. This data was not something that the company had measured historically. The Forum’s metric helped prompt the company to rethink the topic of biodiversity, adapt its reporting and ask all sites to set specific biodiversity action plans.

Frédéric Pinglot
Solutions: Schneider’s expert support to help suppliers decarbonize cuts Scope 3 emissions and builds partnerships

Schneider Electric’s first step in decarbonizing its supply chain was to identify the top 1,000 carbon emitters among its 50,000-plus supplier companies. It then sent formal letters to all the selected companies, asking them to commit to Schneider’s programme to halve the carbon intensity of their operations by 2025.

Schneider followed up the letters with a survey to assess the maturity of each supplier on its carbon journey. “It turned out that two-thirds of our suppliers did not even know their carbon footprint,” says Pinglot. “That meant we first had to train the suppliers to measure their footprint and then to define a strategy and help find concrete solutions to reduce that footprint,” he adds. Now, two years into the process, two-thirds of their suppliers have calculated their carbon footprint and one-third have set climate targets. “But it’s still insufficient, so we are putting in a lot of effort to train them,” says Pinglot.

The programme, known as the Zero Carbon Project, has attracted considerable interest from Schneider’s investors. “They’ve been very passionate about it, because it’s very ambitious,” says Pinglot, adding: “The impact that Schneider is having is huge, because we are taking suppliers that didn’t look at CO2 on a journey to align with the Paris Agreement.” Pinglot sees this process as creating a virtuous circle. Schneider is able to ask suppliers to make their own efforts, as well as help them because of its expertise on climate. As a result, the company is building partnerships with its supply-chain companies so that they become both suppliers and customers.

We don’t just ask our suppliers to make their own efforts, we help them through our expertise on climate. This enables us to build partnerships with our supply-chain companies in which they are both suppliers and customers.

Frédéric Pinglot

Impact, learning and advice

Pinglot has two top tips for peer companies and ESG reporting practitioners:

1. **Sustainability is strategic.** Don’t make the mistake of thinking sustainability is just about reporting. “Companies are deploying sustainability programmes not for compliance but because it makes sense for the resilience of the company.” For example, if you don’t take action on diversity, you will damage your consumer reputation, your attractiveness to talent and your capacity to innovate. “Sustainability is not about philanthropy, it’s not about compliance, it’s a strategic issue that you need to address if you want to be resilient and thrive in the market of the future.”

2. **Take baby steps.** Don’t try to build a huge, very ambitious programme right away. Develop measurable metrics specific to your company, because that will enable you to get people within the company on board.

Sustainability is not about philanthropy, it’s not about compliance, it’s a strategic issue that you need to address if you want to be resilient and thrive in the market of the future.

Frédéric Pinglot
In Pinglot’s view, the Stakeholder Capitalism Metrics have made “an extremely valuable contribution to the debate at a time when ESG became mainstream and many stakeholders realized both the value of sustainability but also the lack of common ground”. He is convinced the Forum’s metrics have contributed to the process of aligning standard-setters, with the IFRS Foundation working on its global sustainability reporting standard and the EU updating its Corporate Sustainability Reporting Directive.

“It’s important to address not only the financial impacts for the company but also the impacts the company may have on people and ecosystems. Both pieces of information are critical to determine how sustainable a company is.”

Frédéric Pinglot

However, Pinglot makes an urgent plea for all standard-setters to align around a common set of metrics. The minimum that the EU, the US SEC and the IFRS Foundation must do is to agree on the climate metrics that are common between them, including definitions of what should be reported and how, he says. “Otherwise, it's going to create duplication in reporting and divergence, not comparability.” He adds: “What we want is a worldwide, large-scale adoption of this reporting, so that we can get the data from our suppliers, because they will know which standard to follow.” Without such comparability, future consumers and employees will not be able to make decisions based on the sustainability of a company’s products, services or operations.

One of the big risks I see, especially with what the EU has proposed, is that the expectations are so large that companies are just going to feel a huge burden, which is the worst that can happen to ESG. Companies will spend more time writing compliance reports than striving to make the planet a better place where people can live fulfilled lives.

Frédéric Pinglot

Schneider’s vision is closest to the European one, says Pinglot. “We believe it’s important to address sustainability through a double materiality lens, which means not only looking at the financial impacts for the company but also the impacts the company may have on people and ecosystems. Both of these pieces of information are critical in order to determine how sustainable a company is,” he says.

While Schneider shares the double materiality vision of EFRAG – which embraces all environmental, social and governance topics together, and addresses all stakeholders in the value chain – Pinglot was concerned that the current draft EU sustainability standards are too complicated and ambitious. “One of the big risks I see, especially with what the EU has proposed, is that the expectations are so large that companies are just going to feel a huge burden, which is the worst that can happen to ESG. Companies will spend more time writing compliance reports than striving to make the planet a better place where people can live fulfilled lives.”
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