e-Book #2 of the
HOW TO IMPROVE YOUR CSR SCORE SERIES

Ratings and Frameworks

Where is the Puck Going?

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CSRHub

> *I skate to where the puck is going to be, not where it has been.*
>
> **Wayne Gretsky,**
> *named in 100 Greatest NHL Players*

Wayne Gretsky, the well-known hockey player said, “I skate to where the puck is going to be, not where it has been.” As the CSR/ESG/Sustainability disclosure landscape changes, where is the puck going?

In 2007 we founded CSRHub with a mission to give everyone transparent access to Corporate Social Responsibility (CSR) information. We started with about 70 sources and ratings on around 3,000 companies. Nine years later, we have built the world’s largest aggregation of CSR ratings information. Each month, our big data collection engine ingests the newest data elements on 5,300 topics from over 500 data sources. CSRHub’s patented algorithm analyzes, normalizes, and weights this information, to produce ratings on more than 17,000 companies worldwide.

The system attempts to ingest and combine each source’s perception of how a particular company is performing. The result is a relatively balanced perspective—with a strong voice for non-governmental organizations (who generally monitor relatively narrow areas of CSR) and for investment analysts (who generally track broad parts of CSR). The CSRHub aggregation method enables our users to understand and compare a broad range of competitors, industries, and geographies.

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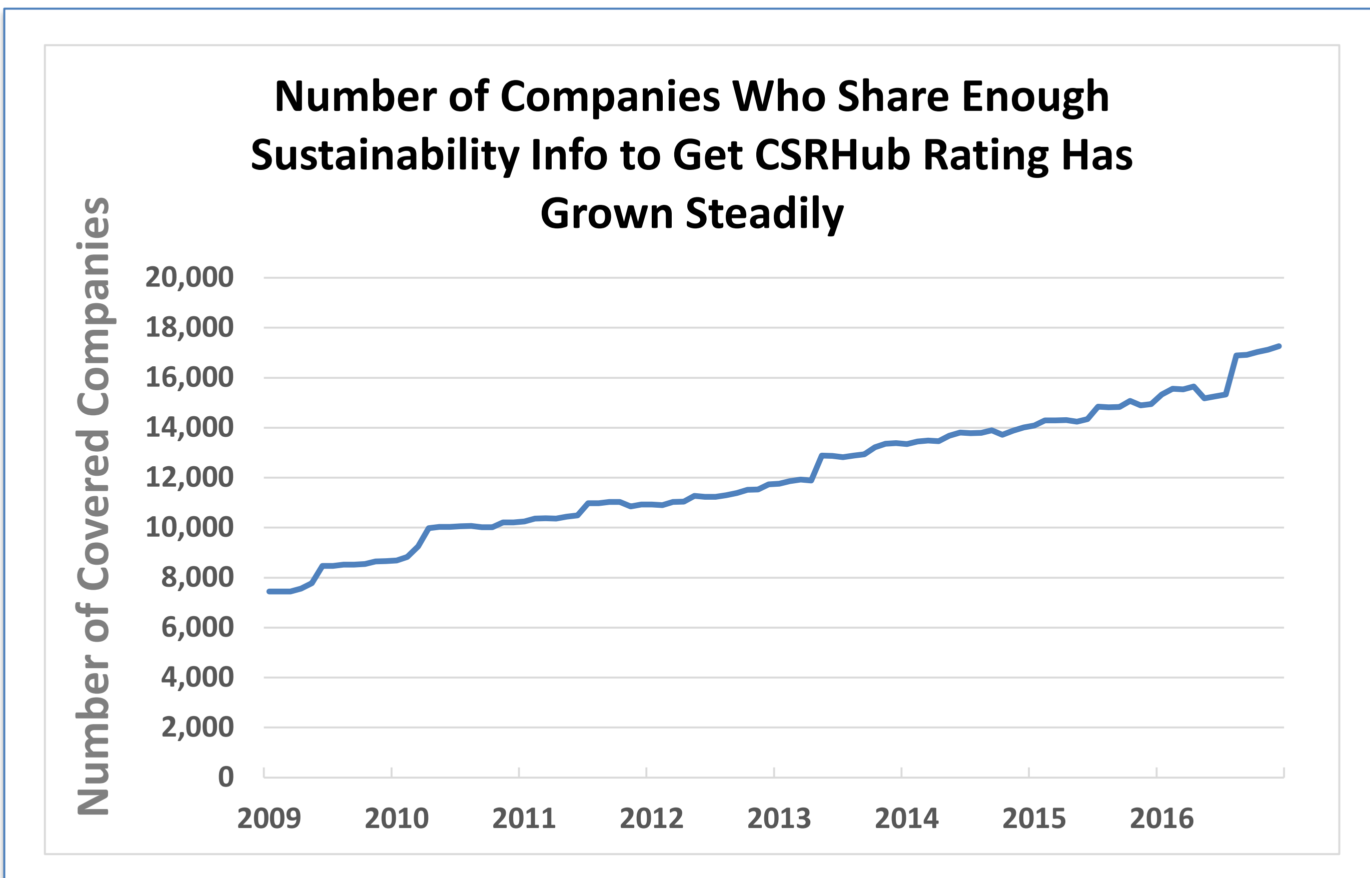
Where Has the Puck Been?

HISTORY

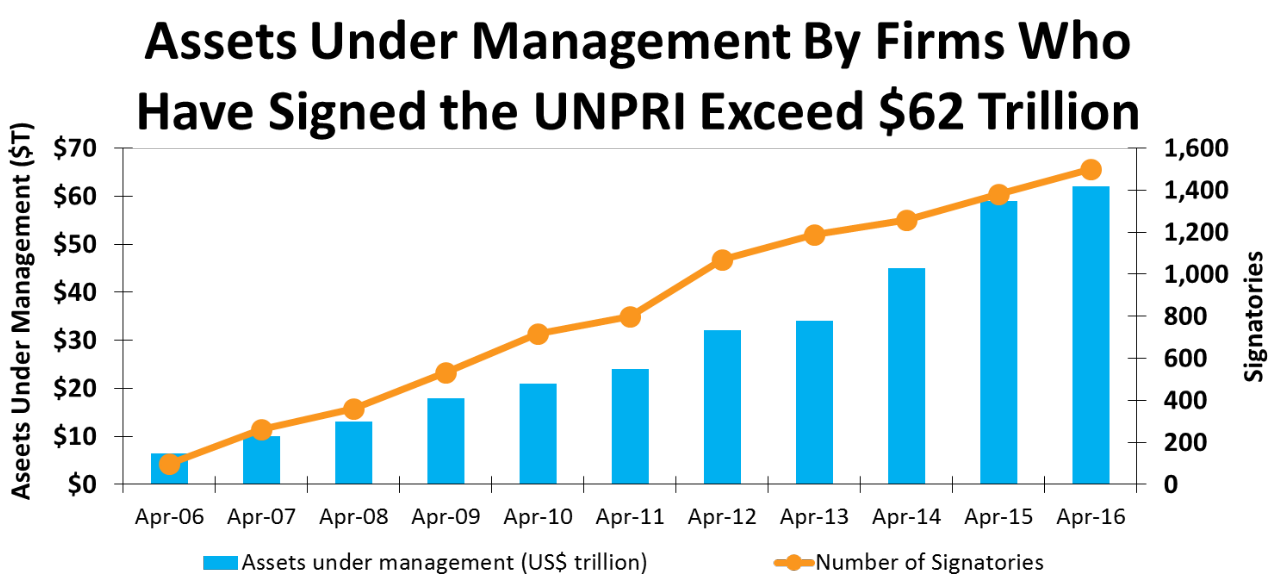
Significant growth

Over the past ten years, there has been significant increase in the number of corporations who disclose sustainability-related information. This growth was driven by growing awareness among consumers, communities, and employees that corporate social behavior directly affected their lives.



Source: CSRHub.

More recently, investors have become interested in corporate sustainability performance. In some cases, this was a response to interest from asset holders such as pension funds, family offices, and individual investors. In other cases, investors began to suspect that certain “non-financial” indicators might be predictors of future stock market performance. Today, more than $62 trillion of worldwide wealth is managed by firms who have committed to the UN Principles of Responsible Investment (UNPRI).

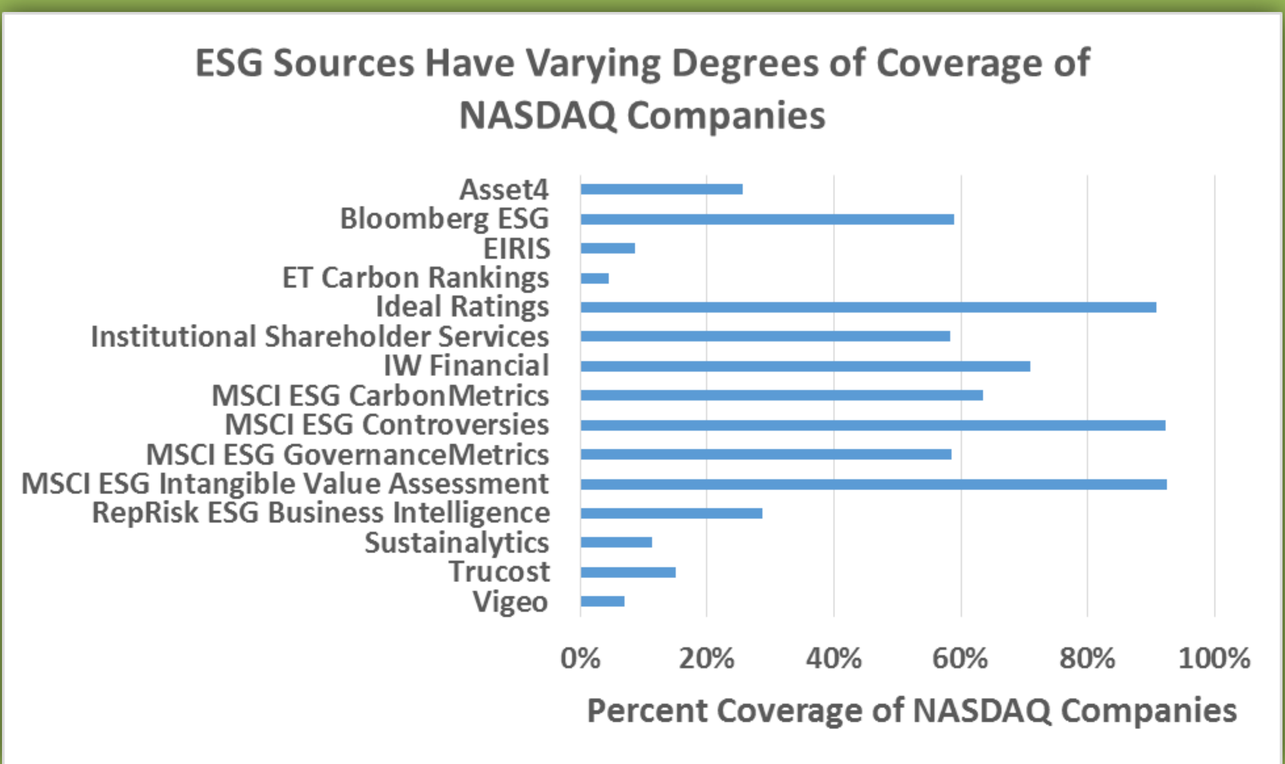


Source: UNPRI.

> *Today, more than $62 trillion of worldwide wealth is managed by firms who have committed to the UN Principles of Responsible Investment (UNPRI).*

Several investment analyst groups gather data and provide ratings on publicly-traded companies. Data gathering firms such as Bloomberg, Thomson, and Factset also gather and distribute non-financial sustainability information. Other non-financial organizations add their ratings on big companies, smaller public and private firms, and government agencies (all groups that are not of as much interest to Wall Street). Most of these ratings have relied on data that companies self-report either through sustainability reports or press releases or through surveys administered by ratings groups.

In an analysis of 15 major Wall Street ESG (Environment, Social, & Governance) research firms' ratings coverage, we found they cover between 5% and 91% of NASDAQ companies. See the varying degrees of coverage in the chart below.



Source: CSRHub.

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Why the Puck Hasn't Gone in the Goal

SELF-REPORTING & SURVEYS

Dependency created gaps and inconsistencies.

The dependency on self-reported data and surveys has created gaps and inconsistencies in sustainability ratings. Fewer than 20% of major companies respond to analyst surveys and these surveys only cover the top 5,000 or 6,000 public firms. The data gathered by one NGO can't be used in a survey response or for the system used by another NGO. Two ESG analyst firms may collect data and report data on the same area differently. Both those who create sustainability data and those who try to use it end up frustrated, confused, and searching for a better approach. For example, a leading ESG analyst firm, MSCI, announced recently that it will no longer use forms to collect data, but rather will rely only on information provided by companies publicly. Many of the company sustainability managers we speak with would prefer not to answer surveys at all—or do so very selectively.

Some groups sought to avoid these inconsistencies by encouraging companies to "assure" their data. These groups gave special prominence to reports from companies who used an outside group to review their sustainability reports:

- Global Reporting Initiative (GRI)
- CDP (formerly Carbon Disclosure Project)
- UN Global Compact (UNGC)

However, the cost of providing an outside review proved high, and only a few companies obtain it.

Assurance Remains Relatively Rare, Even Within Those Who Report CDP

	CDP 2013	CDP 2014	CDP 2015
With Assurance	624	500	945
Without Assurance	1,628	1,517	1,618
% With Assurance	28%	25%	37%

Those who have battled through the challenges of voluntary reporting and multiple frameworks will be relieved to learn that the average ratings of companies who follow the major frameworks is higher than those who don't. For example, of the 2,478 companies traded on the NASDAQ stock exchange, 222 have reported to either CDP, GRI, or the UN Global Compact in 2015 or 2016. As shown below, these reporting companies have much better perceived sustainability performance than those who have not. Further study is required to better understand the source of this correlation. However, following a framework such as GRI seems associated with better perceived sustainability performance.

Comparison of Ratings for Companies That Report to CDP, GRI, or UN Global Compact

		Average CSRHub Rating				
	Number	Overall	Community	Employees	Environment	Governance
Companies w/ 1 report in 2015-16	222	**54**	**56**	**58**	**54**	**48**
Companies w/ no report in 2015-16	2,256	**50**	**55**	**55**	**47**	**44**

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Where the Puck Will Head Next

If sustainability information about a company can help customers, communities, and employees make better business decisions, it should be worth collecting and measuring this information in a consistent and accurate way. If company sustainability performance affects its financial performance, then sustainability data becomes a material part of making investment decisions and it should be shared with investors. Companies report other important metrics to society through financial reports and other types of government-mandated and controlled filings. The puck is moving towards making company sustainability reporting part of financial and regulatory reporting.

> *"The puck is moving towards making company sustainability reporting part of financial and regulatory reporting."*
>
> **Bahar Gidwani**

The test beds for this approach were rules that required companies to disclose their involvement in various foreign countries (Iran, Burma, Sudan) or the use of certain "conflict minerals." Thousands of companies have complied with these rules and thousands more will have to deal with rules designed to reduce the use of child labor or to control the emission of climate-changing gases.

Venerable systems such as GRI have started introducing specific standards for the metrics they cover. The GRI launched its Global Sustainability Standards Board in 2015. Starting in 2018, all companies that use the GRI standard should attempt to comply with the standards this group has set.

Over the past few years, several new reporting groups have emerged. Each has a different focus, but all are based around standards they believe should be integrated into publicly-disclosed reports. Examples include the **Sustainability Accounting Standards Board (SASB)** and **Task Force on Climate-related Financial Disclosures (TFCD)**.

There have also been efforts from government bodies and securities regulators to get involved in this integration process. The **World Federation of Exchanges (WFE)**, the **European Union (EU),** and the **Securities and Exchange Board of India (SEBI)** are each placing requirements on companies to report certain non-financial information.

Unfortunately, each of these systems has taken a different approach on how to get companies to adopt their standards.

- The **WFE** has suggested a list of ESG topics, but is encouraging each exchange to make its own choices about which topics to require.
- The **EU** is allowing each member country to implement its rule in its own way.
- **SASB** and **TCFD** are relying on pressure from investors and regulators to encourage adoption.

An encouraging development is that some groups are referring and will accept work done based on another group's standards. For instance, **SASB**, **GRI**, and the **WFE** have all committed to using the approach to measuring carbon emissions that **CDP** developed.

DIFFERING PHILOSOPHIES

Drivers keeping systems separate.

One of the drivers that has kept systems separate is that they have different underlying philosophies of how sustainability works—and how it should be integrated into society. We believe there are at least five distinct philosophies behind CSR/ESG frameworks: **Managerial, Aspirational, Disclosure, Regulatory, and Alpha Seeking**.

The distinctions between these frameworks are further blurred because they relate to six different uses: **Internal Management, Performance Measurement, External Reporting, Government Mandates, Goals & Commitments, and Product Labeling.**

		Uses						
Framework Philosophy	Description	Internal Management	Performance Measurement	External Reporting	Government Mandates	Goals & Commitments	Product Labeling	Examples
Managerial	Based on a model of sustainability that connects aspects of company activity with society.	Yes		Yes		Yes		Global Reporting Initiative, Science-Based Targets,
Aspirational	Suggests a path for improvement and	Yes		Yes		Yes		UN Global Compact, UN
Disclosure	Provides a method for describing internal activities and external	Yes	Yes	Yes				SASB, CDP
Regulatory	Rules that prescribe disclosures and constrain activities.		Yes	Yes	Yes			EPA Greenhouse Gas, Conflict Minerals
Alpha Seeking	Attempts to identify factors that could allow investors to generate profits.		Yes					MSCI, Sustainalytics, Ideal Ratings, RepRisk, Vigeo

We will speak more about this matrix in future chapters of this e-Book series.

Here is an overview of some of the prevailing frameworks. Note that this list is not intended to be an exhaustive list.

Framework	Description
CDP (formerly Carbon Disclosure Program)	Founded 15 years ago, receives 5,600 company responses to their climate change, water, forests, and supply chain questionnaires. CDP works on behalf of 827 institutional investor signatories with $100 trillion in assets under management. https://www.cdp.net/en
European Union Accounting Directive (EU)	EU will require companies with over 500 employees to report policies, outcomes and risks associated with ESG. Will impact 11,000 companies. Could be different for each of EU's members.
Global Reporting Initiative	Established in 2007, the GRI G4 standard has broad scope of disclosure topics and metrics and is the de facto standard. https://www.globalreporting.org
Global Sustainability Standards Board (GSSB)	Formed by GRI to enhance the uptake of GRI G4. GSSB has derived 39 draft exposure standards and affects both the companies who report using GRI and other organizations that cite GRI (e.g., CDP, WFE).
International Integrated Reporting Framework (IIRF)	The Framework is designed by the International Integrated Reporting Council to establish guiding principles and content elements that govern the content of an integrated report. The IIRC Pilot Programme has 140 businesses and investors from 26 countries. http://integratedreporting.org/resource/international-ir-framework/
Science-based Targets (SBT)	Formed by CDP, the UN Global Compact, the World Resources Institute and the World Wildlife Fund, the group hopes to determine how much carbon reduction companies must do to keep global warming below 2°. More than 150 companies have already joined and 13 have had their emissions targets reviewed and approved.
Sustainability Accounting Standards Board (SASB)	Established in 2011, SASB develops standards for disclosure of material sustainability information in financial disclosures Covers 79 industries (SICs – Sustainability Industry Classification); 18,000+ companies may need to consider SASB's metrics as part of their Reg SK disclosure requirements. https://www.sasb.org/
Task Force on Climate-related Financial Disclosures (TFCD)	TFCD was formed to help companies better disclose their climate-related risk. They are backed by the Financial Stability Board—a G20-lead group that oversees issues of capital, liquidity, and risk.
United Nations Global Compact (UNGC)	Established in 2000, UNGC has 13,000+ signatories in 170 countries aligned with Ten Principles. https://www.unglobalcompact.org/
UN Sustainable Development Goals (SDGs)	Launched in 2015, 17 goals to end poverty, protect the planet and ensure prosperity with specific targets over the next 15 years. http://www.un.org/sustainabledevelopment/sustainable-development-goals/

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If You Want to Score, You Will Need to Change the Way You Play

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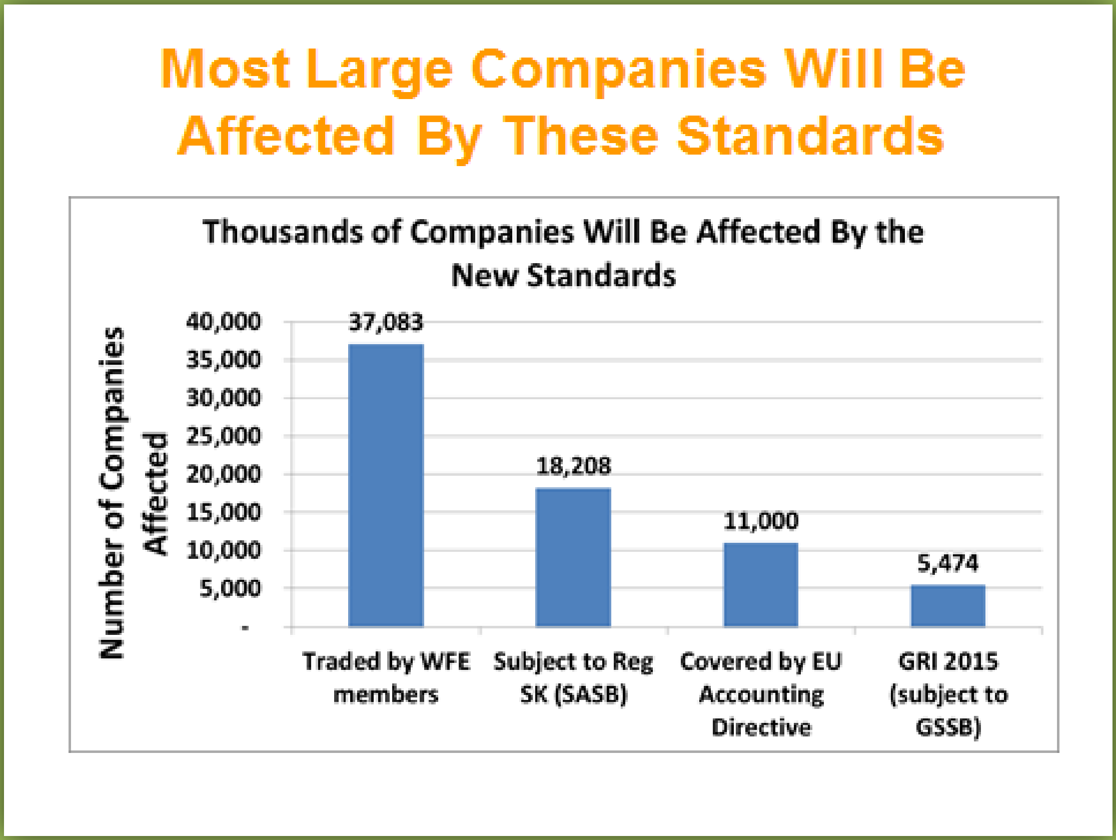
The thousands of companies who have already started reporting sustainability information will be affected by these changes. Even more important, thousands of companies who have never reported non-financial sustainability information will now need to do so. To comply with these new standards, companies will:

- Need new systems that integrate CSR data with mainstream business management tools.
- Require support from Audit and Compliance teams for C-suite assurance.
- Involve suppliers and customers to share data collection while preserving proprietary information.



Source: CSRHub.

In the past, we had inconsistent data on some companies. We may now have more consistent data on many companies. This should allow researchers to connect sustainability practice with business performance and “prove” its value. It may also allow investors to determine which aspects of a company’s non-financial performance are meaningful indicators of its future stock performance. As sustainability metrics become a mainstream part of business operations, sustainability professionals will hopefully receive more organizational resources for reporting, tracking and improving performance.

If your company is not already reporting, it’s best to get started with at least one of the standards we have described. In an age of increasing transparency, you are being rated on what is publicly available, whether you provide a report or not. So it’s best for you to tell your story! Organizations such as Bloomberg rate companies on their level of ESG disclosure. This will continue to raise the bar for the level of disclosure of both material issues and performance.

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Closing Thoughts

"In an age of increasing transparency, you are being rated on what is publicly available, whether you provide a report or not. So it's best for you to tell your story! Organizations such as Bloomberg rate companies on their level of ESG disclosure. This will continue to raise the bar for the level of disclosure of both material issues and performance."

Cynthia Figge

THE AUTHORS

Cynthia Figge is COO and Co-founder of CSRHub. She is a forerunner and thought leader in the corporate sustainability movement who co-founded EKOS International in 1996, one of the first consultancies integrating sustainability and corporate strategy. Cynthia has worked with major organizations including Alaska Airlines, BNSF, Boeing, Coca-Cola, Dow Jones, and REI to help craft sustainability strategy integrated with business. She was an Officer of LIN Broadcasting/McCaw Cellular leading new services development, and started a new "Greenfield" mill with Weyerhaeuser. She serves as Advisor to media and technology companies, and serves as Chair of the Board of Compassionate Action Network. Cynthia has an MBA from Harvard Business School. She is based in the Seattle area.

Bahar Gidwani is CEO and Co-founder of CSRHub. He has built and run large technology-based businesses for many years. Bahar holds a CFA, worked on Wall Street with Kidder, Peabody, and with McKinsey & Co. Bahar has consulted to a number of major companies and currently serves on the board of several software and Web companies. He has an MBA from Harvard Business School and an undergraduate degree in physics and astronomy. He plays bridge, races sailboats, and is based in New York City.

CSRHub provides access to the world's largest corporate social responsibility and sustainability ratings and information. It covers over 17,400+ companies from 135 industries in 134 countries. By aggregating and normalizing the information from 530 data sources, **CSRHub has created a broad, consistent rating system** and a searchable database that links millions of rating elements back to their source. Managers, researchers and activists use CSRHub to benchmark company performance, learn how stakeholders evaluate company CSR practices, and seek ways to improve corporate sustainability performance.

See the

CSRHub Solution.

Get a Demo of CSRHub for a consistent, balanced ratings and rankings view of a company's perceived sustainability performance.

Request a Demo

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