Steering Clear of the Sustainability Reporting Trap

Companies get stuck in box-checking when it comes to sustainability. But there is substantial value to be found in making sustainability a strategy.

Over the last few decades, the business world has had to face up to significant resource constraints beyond access to capital. This is being felt in the increasingly damaging effects of climate change and the diminishing availability of natural resources that are being drawn upon as never before.

This has led to an increase in demand for transparency as companies seek to tell their stakeholders that they are not part of the problem. Consequently an "integrated reporting" movement has come to life through sustainability accounting standards such as Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). Since 2002, more and more listed companies around the globe have been moving towards integrated reporting as a means to provide stakeholders with better information to make decisions on companies and their long-term prospects.

These non-financial constraints are framed within integrated reporting as material issues or materialities i.e. issues that have a significant influence on a company's success and that substantially influence the assessments and decisions of its stakeholders. And these issues vary widely by industry, geography and company, because they are closely aligned with drivers such as footprint, use of resources, brand experience and the business models used. By using sustainability accounting standards such as GRI and SASB to identify and disclose material sustainability information, companies can evidently improve their operational performance and reduce risk.

But to capture the full value potential from the issues that impact one's stakeholders, more is needed than the stereotypical checking of boxes in a sustainability report. Companies that exclusively use their materiality matrix (which is used for deciding which CSR initiatives to invest in) for reporting purposes fall into the "reporting trap" where basic environmental, social and governance (ESG) reporting apparently fulfils the entire sustainability requirements of the Board and the company's shareholders. Failing to transpose materialities into a well executed sustainability strategy will lead to missed opportunities for innovation and engagement of stakeholders.

From Reporting to Result

A company that has built a sustainability strategy out of its reporting is Telenet. This Belgian telecom company specialises in the supply of broadband internet, fixed and mobile telephony services and cable television to customers throughout Flanders and Brussels. Telenet is listed on Euronext Brussels and included in the Bel 20 Iindex.

Starting in 2010, the efforts of Telenet's sustainability reporting activities quickly led to inclusion in the Dow Jones Sustainability Index (DJSI), a prestigious global Top 500 ranking of the most sustainable listed companies from 24 industries. In 2011, Telenet even became 'Best in Class' for the global media industry. And in March 2012, Telenet was also included in the FTSE4Good Index.

This outstanding ESG scoring helped Telenet with its reputation towards investors. More than 85 percent of the large investors in Telenet –including BlackRock, the world's biggest investor with more than US$4.3 trillion in assets under management - have a sustainability evaluation included into their portfolio management process. Unfortunately, the improved scoring on DJSI (from 53 percent to 82 percent) did not lead to a comparable improvement of the company's sustainability reputation with customers, as demonstrated by RepTrak® measurements, nor did it trigger service innovations. In other words, Telenet's perceived sustainability was significantly lagging its actual sustainability performance, and the difference was getting bigger; an inverse form of green-washing.

Figure 1: Telenet's perceived sustainability is lagging the actual performance growth

With the industry leadership in the world's most prestigious sustainability ranking, the risk of complacency became a real threat. To escape this reporting trap, in 2012, a 5-year masterplan was designed by the team of Jan de Grave, VP of Sustainability at Telenet and presented to the executive team. This masterplan – LEAP, 'Linking Environment And Profit' – aimed to cement the company's sustainability policy as an integral part of long-term strategy and included the goal to become one of the Top 10 brands in Belgium by 2017. After careful analysis, three distinct areas for improvement were designated within LEAP to achieve this ambition:

1. Establishing potential for sustainable innovation to become "neighbour of choice" .
2. Training aimed at internal capacity building on business design thinking from societal challenges.
3. Building engaging communications for both internal and external stakeholders.

Sustainability in action

In 2013, the packaging of Telenet's set-top boxes was overhauled into an eco-design version leading to a more sustainable packaging that saved the company over €2 million thus far. This success resulted in a runner–up position in the 2013 Greener Packaging Awards and spilled over to Telenet's majority shareholder Liberty Global, where a similar packaging re-engineering exercise was started soon after with comparable results.

In addition to going green in products, Telenet also sought to engage with budding entrepreneurs, both to support their development and draw on their valuable insights.

In August 2014, the company launched an entrepreneurial accelerator ecosystem, Telenet Idealabs to support aspiring entrepreneurs and promote innovation. Chosen out of 450 applications, Telenet initially selected 10 start-ups focused on innovation domains such as games, e-commerce, big data and social innovation. The majority of the start-ups aimed to achieve positive societal results such as education, circular economy solutions that increase the yield of underleveraged assets and improvement of neighbourhoods.

Telenet measures success for its accelerator in three separate ways: Return on Reputation: Return on Culture and Return on Investment. The return on reputation was instant: the launch of Telenet Idealabs lead to 22.3 million media impressions and almost 14,000 social media interactions. To stimulate the return on culture, exchange programmes and internal trainings were organised in collaboration with the Telenet Idealabs accelerator leading to a >65 percent awareness of the Telenet Idealabs initiative with Telenet employees. As far as the return on investment is concerned, the jury is still out on that. From the ten initial start-ups, in spring 2015 five initiatives were selected for second stage funding. Meanwhile Telenet's sustainability reporting was not forgotten: In September 2014, Telenet was again awarded 'Best in Class' in the global media industry in the DJSI for the third time in a row.

Such companies stand out for their dedication to sustainability in strategy, but also their ability to make the case for sustainability from the boardroom to the frontlines. We will be examining the case of Telenet and others in the **Leading the Business of Sustainability Programme** at INSEAD.

Lessons learned

The key lesson from the Telenet experience is that C-suite managers responsible for sustainability programmes should steer clear of the reporting trap. After getting the basics right in reporting, a strong focus on sustainable innovation is the next frontier. To capture the full value potential a precise formulation of relevant societal issues, a focused internal capacity building programme as well as a strong communication platform is required.

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Recommended additional reading: ***The Type of Socially Responsible Investments That Make Firms More Profitable****, George Serafeim, HBR, April 14, 2015*

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