ADGM Academy Research Centre

Article SERIES

EXAMINING THE POTENTIAL OF TECHNOLOGIES TO SUPPORT SUSTAINABILITY AND INTEGRATED REPORTING

Sustainability reporting is now an established global practice. Regulatory agencies and stock exchanges around the world require companies to disclose information on their sustainability performance. Meeting reporting requirements presents many challenges for companies. Advances in information technology, including artificial intelligence and big data analytics, offer useful tools in preparing and assuring sustainability reports. The ADGM Academy Research Centre, in collaboration with the College of Business and Economics at the United Arab Emirates University, will be hosting a Sustainability Reporting and Assurance Workshop in May. Ahead of that event we are pleased to publish this article by Associate Professor Muhammad Bilal Farooq, UAE University and PhD candidate Kashif Nadeem, D'Annunzio University of Chieti–Pescara based on their keynote talk at the 2022 European SDG Summit.

INTRODUCTION

Sustainability reporting involves disclosure of information on organisational social, economic and environmental sustainability performance. The aim is to satisfy the information needs of a broad range of stakeholders, thereby promoting transparency and accountability. Integrated reporting is based on the premise that financial and non-financial sustainability performance is linked and organisations should publish a single integrated report, as opposed to two separate reports or even two separate sections (financial and non-financial sustainability disclosures) within a single annual report. Today most jurisdictions across the world have put in place regulation, either in the form of legislation and/or stock exchange listing requirements, mandating (or at least strongly encouraging), non-financial reporting,

either in the form of sustainability or integrated reports. Regulators are also pressing reporters to prepare disclosures that comply with the requirements of internationally recognized sustainability reporting standards, e.g., the Global Reporting Initiative (GRI) standards. As a result, reporting rates have risen across the world. However, the quality of these disclosures often comes under the spotlight. The lack of quality is partially due to the lack of tools and resources available to managers to assist them in preparing high quality disclosures. In this article we explore how managers can leverage modern technology at key stages in their non-financial reporting process.

STAGE 1: SETTING THE SCOPE AND OBJECTIVES OF NON-FINANCIAL REPORTS

Reporters will need to consider three issues at this stage. First, managers need to decide on the standards they want to adopt (voluntary reporting jurisdictions) or adhere to (mandatory reporting jurisdictions) when preparing their non-financial reports. This is challenging given the plethora of complex and rapidly evolving standards available to managers. Further, the lack of a common reporting framework and the freedom to mix and match standards and frameworks effects comparability of information from a user's perspective. To address this the Sustainability Accounting Standards Board (SASB), now part of the International Financial Reporting Standards Foundation, have developed an XBRL (eXtensible Business Reporting Language) which may assist in promote greater consistency in non-financial reporting.

Second, managers must decide which aspects of their organisations operations can be reported on. For organisations starting off on their non-financial reporting journey, this will require putting in place systems (including information systems and technologies) necessary to collect and analyse sustainability data and information (see stage 3).

Finally, managers need to consider if their non-financial reporting serves a primarily communication role or if it can also support strategy development (see stage 7).

STAGE 2: MATERIALITY ASSESSMENT

The aim of a materiality assessment is to identify and prioritise issues that are important to an organisation and its stakeholders. These material issues should be reported on thereby ensuring disclosures are balanced, i.e., provide information over material good and bad news. A key component of the materiality assessment is stakeholder engagement, i.e. identifying stakeholders and understanding their concerns and information requirements. Managers can utilize technology to collect data, including engaging with stakeholders. For example, running focus groups, surveys, social media platforms and comment blogs on their websites. A comprehensive materiality assessment can uncover hundreds of issues (including risks) that may potentially be material. This will require sifting through issues to identify/prioritise material issues (filtering out immaterial ones). To do managers can leverage artificial intelligence (AI) and big data analytics (BDA). Given the value of the information generated by a comprehensive materiality assessment, some experts encourage the exercise to be undertaken at least once a year, with limited materiality reviews being undertaken on a quarterly basis.

STAGE 3: DATA COLLECTION AND ANALYSIS

A wide range of technologies can be utilized to collect and analyse sustainability data and information. For example, data filling and classification can be completed with the help of cloud computing. This is particularly useful for reporters with geographically dispersed operations. Integrated platforms are helpful in improving the outsourcing, collection and validation of sustainability related data and information. Similarly, supply chain partners can store and share data using cloud computing. The data itself can be recorded using blockchain technology which can assist with subsequent identification and tracing of records. This may be useful for external assurance (stage 5). Finally, big data analytics is helpful in terms of data screening, analysis and prediction of risks and future trends. This assists in improving the quality of decision making.

STAGE 4: COMPILING THE REPORT

The presentation of sustainability data and information is a key stage in the reporting process. Disclosures need to be readable and understandable for them to be useful. Here data visualisation software (e.g., Microsoft Power Bi, Tableau etc.) can assist managers in greatly improving the presentation of their sustainability related data and information. Data visualisation software essentially allow managers to visualise data. These tools are particularly useful for managers working with large datasets containing hundreds of thousands if not millions of data points. Critically the improved presentation allows stakeholders to better understand the reporter's non-financial performance.

STAGE 5: EXTERNAL ASSURANCE

To promote disclosure credibility reporters increasingly turn towards external assurance over their non-financial disclosures. This credibility enhancement involves ensuring the reliability of the content of the non-financial reports as well as their overall balance (i.e. disclosure over good and bad news). For the former, the use of blockchain (a decentralized, distributed and public ledger) is advocated as promoting data security, transparency, and traceability. Further, recording sustainability data and information using blockchain potentially facilitates the assurance (primarily the reliability) of sustainability and integrated reports.

STAGE 6: DISSEMINATION

Non-financial disclosures are typically uploaded onto websites in either a web based interactive format and/or downloadable PDF files. However, reporters today are being encouraged to provide their disclosures in a digital format. This is in line with trends in traditional financial reporting where the use of XBRL is increasingly common. For example, in Europe the new Corporate Sustainability Reporting Directive replaces the old EU Directive on non-financial reporting and will mandate sustainability disclosures be made in digital, machine-readable format. This will encourage external stakeholders to read/analyse corporate disclosures thereby further driving the demand for and value of non-financial reporting.

STAGE 7: PERFORMANCE IMPROVEMENT

Non-financial reporting consumes considerable time and resources but generates valuable information. Therefore, it makes sense to utilise non-financial reporting to support strategic planning and decision making (in addition to external communication). This requires linking reporting systems with management information systems (MIS) and executive information systems (EIS) responsible for strategy development. This can be done in three ways. First, managers should ensure that key sustainability risks, revealed through non-financial reporting, are included in the organisations risk register and vice versa. Second, the results of the materiality assessment should be submitted to senior managers and board members for consideration during strategic planning meetings. Third, non-financial reports should be regularly reviewed by the leadership team during strategy development sessions.

CONCLUSION

Modern technologies offer exciting opportunities for organizational engaged in non-financial/sustainability reporting. These technologies can be leveraged by managers to assist in preparing high quality disclosures that adhere to the requirements of international sustainability reporting standards, thereby fulfilling both their regulatory obligations as well as fulfilling the information needs of their stakeholders.

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