



Master in Management

FINANCIAL AND ESG REPORTING

Class 3

Fall, 2026



**Lisbon School
of Economics
& Management**
Universidade de Lisboa

Objective of this class:

1. Understand the ESG reporting process and the various decisions made in relation to sustainability reporting at each of the stages.
2. Understand holistic and strategic accountability in relation to sustainability reporting.
3. Evaluate the quality of sustainability/ESG/CSR reporting
4. The consequences of sustainability/ ESG/CSR reporting

Reading:

Supplementary reading:

- Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of management review*, 22(4), 853-886.

ESG reporting process model-introduction

Deegan and Unerman (2011): hierarchical staged process model

- 1) Why does the organisation report? What are the motivations for providing sustainability information?
- 2) To whom is the reported information directed? Who are the stakeholders addressed in the report?
- 3) What information is reported on? What issues are material for the organisation, as well as what information do the targeted stakeholders need and are interested in?
- 4) How is the report compiled? In what form and format is the information disclosed and communicated?
- 5) Whether the report should be assured? And at which level?

Strategic and holistic accountability

- Two alternative ways of understanding organisational accountability in relation to sustainability reporting
- Positioned at either end of a continuum and as such represent two contrasting perspectives



Strategic and holistic accountability

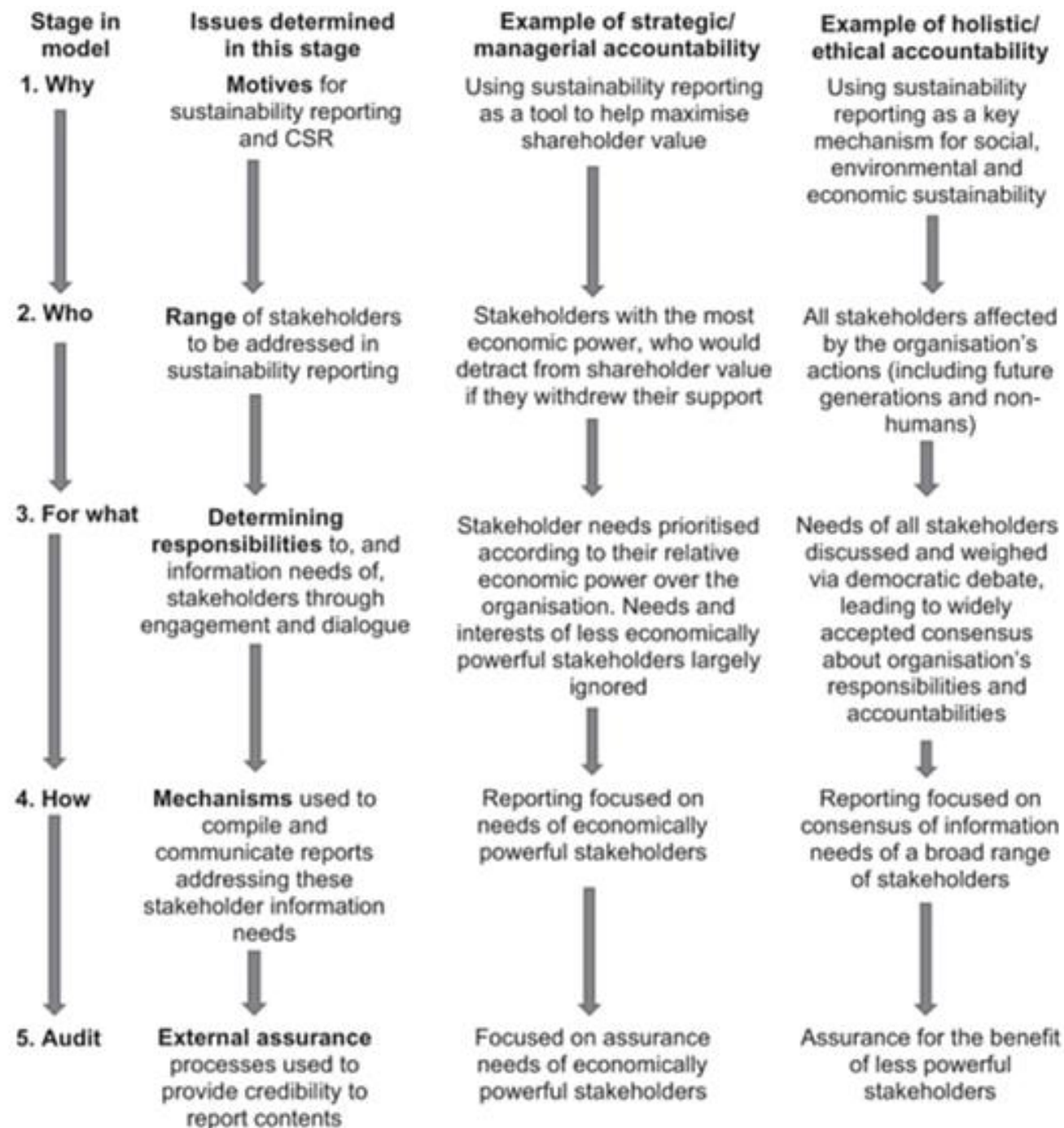
- **Strategic**

- The main role of the sustainability report is to help the organisation achieve its financial goals, usually understood as profit maximisation and the enhancement of shareholder value
- Managers are therefore seen to use sustainability reporting as another tool in their pursuit to ensure that those stakeholders who can affect the achievement of the organisation's profitability will continue to support the management in this aim

Strategic and holistic accountability

- **Holistic**

- An organisation does not direct its reporting to the most economically powerful or influential stakeholders only but reports to a much wider range of stakeholders
- Organisation should be accountable for its activities, including both its use of social, economic and environmental resources as well as the direct and indirect impacts it has on different stakeholders, ecosystems and society in general
- Sustainability reporting enhances the stakeholders' awareness and knowledge of organisational activities, potentially sets opportunities for dialogue and collaborative learning, and thereby helps in transforming the organisation to being more aligned with sustainability



The hierarchical staged process model

Source: Matias Laine et al. (2021), *Sustainability Accounting and Accountability*, 3rd Edition

ESG reporting process model-why does the organisation report?

Why does the organisation report

- Different motivations lead to different kinds of reporting practices
- **Under strategic accountability:**
 - Sustainability reporting is strategically driven by economic and profit motives
 - Sustainability reporting is seen as a tool to gain, retain or maintain the support of those stakeholders that have power to affect the corporation's goals
- **Under holistic accountability:**
 - Ethical reasoning
 - Responsibility to be transparent, to discharge the accountability relationship and also to provide the means by which accountability relationships can be established

Why does the organisation report

- In practice: more complicated
- Very different views within an organisation
- Different individual managers' motivation

Why does the organisation report-theoretical framework

- Theories help us simplify a complex and chaotic reality, and thereby aid in making interpretations
- Help understand why reporting develops in a certain way
- How sustainability reporting practices diffuse, develop and perhaps converge across organisations
- In practice, there could be various motivations in play

Why does the organisation report-theoretical framework

- **Legitimacy theory**

- The underpinning idea of legitimacy theory is an implicit social contract, which is proposed to exist between an organisation and the society it operates in
- Organisations need to prove their worth in society by making themselves and their operations appear to be in line with the values and expectations of the respective society.
- Sustainability disclosures have been argued to be amongst the means organisations can use to appear to be compatible with broader social values¹⁴

Why does the organisation report-theoretical framework

- **Legitimacy theory**

- Substantive management

- Involves implementing tangible changes to align corporate behaviours with social norms (e.g., adhering to proper reporting standards, obtaining assurance, or utilising standalone reports)

- Symbolic management

- Project an image of social responsibility without necessarily translating it into concrete performance (e.g., emphasis to positive developments and achievements while providing limited information on negative issues or bypassing them altogether)

Why does the organisation report-theoretical framework

- **Stakeholder theory**

- Firms should consider the interests and impacts of all their stakeholders, not just their shareholders, in their decision-making processes.
- Stakeholder engagement is essential to enhancing companies' non-financial strategies and sustainable development.
- It suggests that corporate survival depends on the successful management of relationships with stakeholders interested in financial and non-financial performance.
- Stakeholders need to know the impact of corporate non-financial activities on deciding whether to continue providing resources to companies or penalize inadequate performance.

Why does the organisation report-theoretical framework

- **Stakeholder theory**

- Ethical (normative) branch

- Emphasises the equitable consideration of the rights of various stakeholder groups

- Managerial (positive) branch

- Organisations are anticipated to be accountable primarily to powerful stakeholders rather than extending accountability to all stakeholders uniformly

Why does the organisation report-theoretical framework

- **Institutional theory**

- Organizational structures and practices are shaped by the cultural, social, and legal norms of the society in which they operate.
- Organizations seek legitimacy and acceptance by conforming to these institutional norms. This can lead to isomorphism, where organizations within a particular field become increasingly similar over time as they adopt similar practices and structures.
- Under the institutional theory, integrating the GRI or IR framework could represent a shift towards achieving legitimacy, showing compliance with social norms. 18

Why does the organisation report-theoretical framework

- **Signalling/voluntary disclosure theory**

- Sustainability disclosures are considered to be signals that the management is sending to the market.
- How sustainability related issues, activities and impacts could affect the financial performance of the corporation in both the short and the long term.
- Disclosures are seen as signals that a company's senior executives are putting out in regard to how risks are taken into account in the operations.

ESG reporting process model-to whom is the
reported information directed?

Shareholder versus Stakeholders

Stakeholders include any groups or individuals who can affect or are affected by the achievement of the organisation's objectives (Freeman, 1984)



To whom is the reported information directed

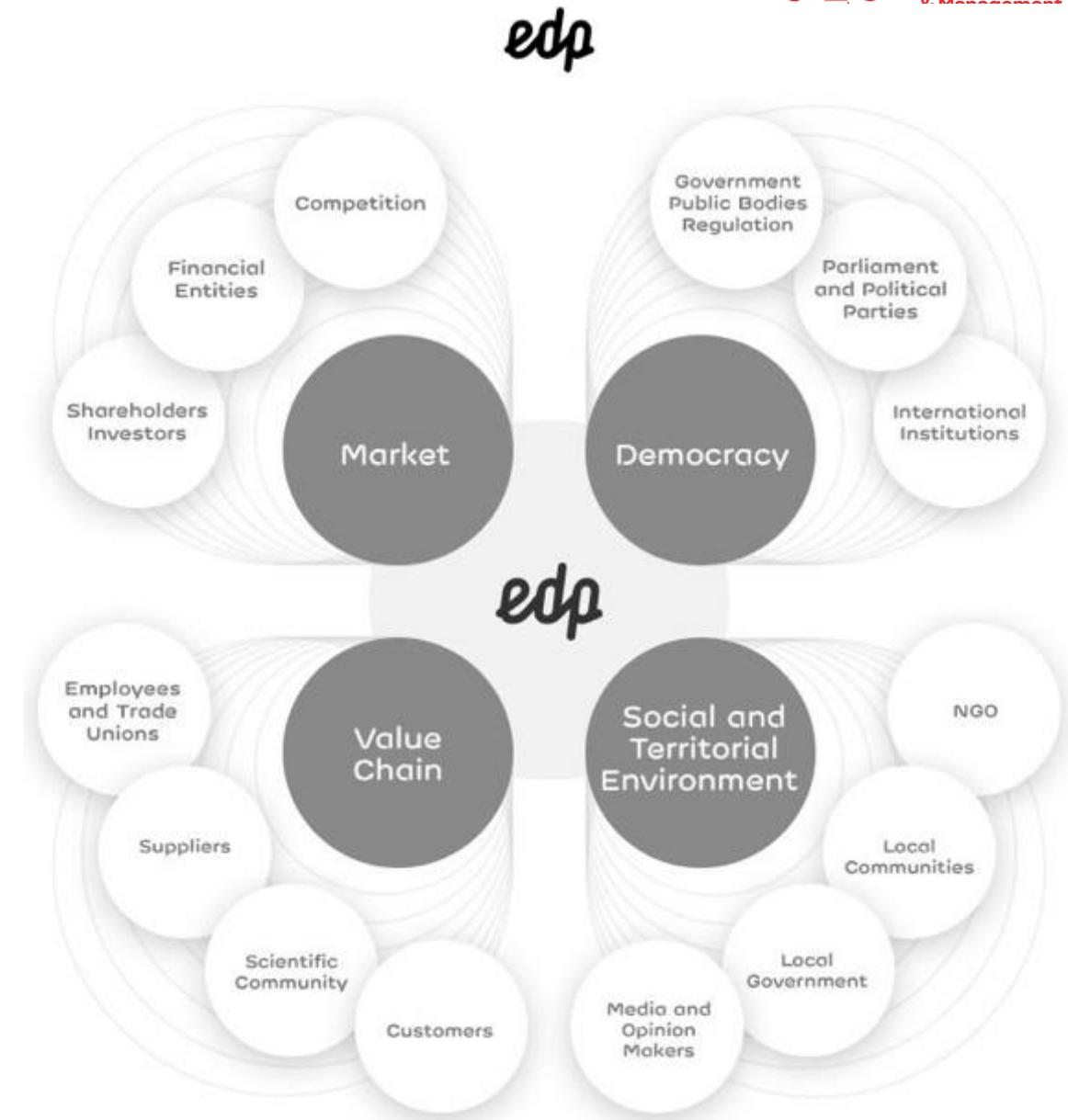
- In practice, no organisation can satisfy all its stakeholders with the sustainability disclosures provided – at least within one written report.
- **Under strategic accountability:**
 - The disclosures tend to be catered for the needs of those stakeholders with the greatest influence on organisation's financial outcome.
- **Under holistic accountability:**
 - Consider a much broader range of stakeholders and the expectations they might have.

Identify stakeholders: Mapping of stakeholders

- Stakeholders are always context-specific and hence unique to each organisation
- Stakeholder mapping helps to identify organisation's stakeholders
- In addition, stakeholder mapping should also include looking into the characteristics of those stakeholders and the relationship they have with the organisation
- Who are the key stakeholders, which groups can have most influence on the organisation, which groups would be most impacted by the organisation's activities, which groups might be the loudest when speaking out...

Mapping of Stakeholders

Example: EDP





Stakeholder engagement and stakeholder management

- How organisational managers then know what the various stakeholders think about and expect of the organisation or some of its specific activities
- **Stakeholder engagement** refers to a process in which an organisation engages with its stakeholders to learn about their expectations, assumptions and viewpoints
- Online, individual events, regular meetings, data analytics (e.g., trends in social media postings)...

Stakeholder engagement and stakeholder management

- Sometimes, stakeholder engagement processes remain at the lower end of participation
- **Stakeholder management** refers to an organisation seeking to influence its stakeholders and to affect their views so that they would be more favourable towards the organisation

Mitchell et al. (1997)

- Stakeholder groups are not equal
- Stakeholder salience: from an organisation's perspective, some stakeholders have more salience than others (Mitchell et al., 1997)
- Main constructs: **power, legitimacy and urgency**
- A stakeholder's relationship with an organisation can change
- The assessment of importance is subjective

Mitchell et al. (1997)

✓ **Power**

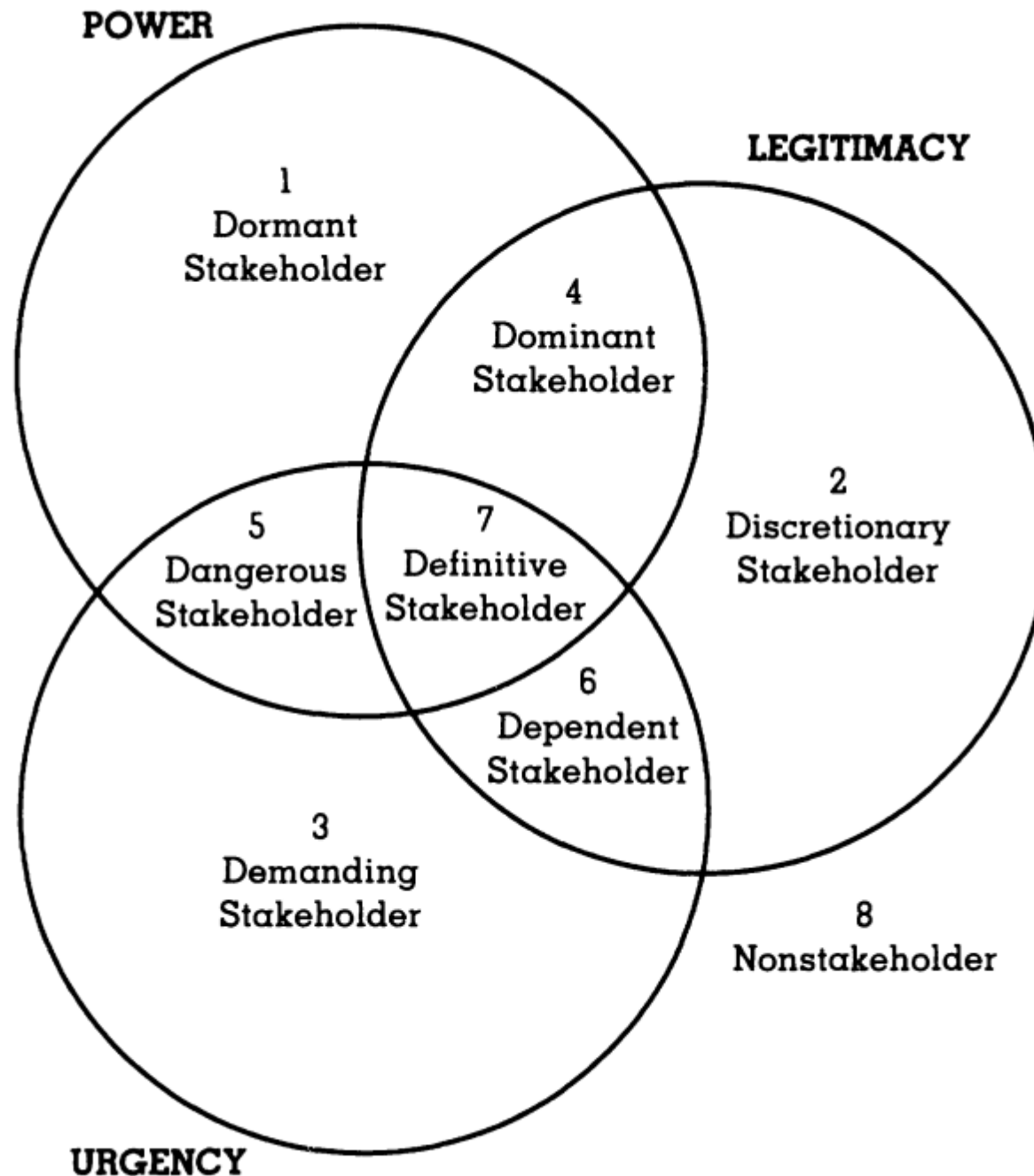
- probability that a party can implement their will or bring about their desired outcomes despite resistance.

✓ **Legitimacy**

- common perception or assumption that an entity's preferences are desirable or appropriate within the social system.

✓ **Urgency**

- measure of attention claims with respect to time to act and criticality of action or penalty for not acting within time.



Source: Mitchell et al. (1997)

Latent – Low priority (1 of 3)

- Dormant – Power but low legitimacy
- Discretionary – Legitimacy but low power
- Demanding – Low power/ legitimacy

Expectant – Potentially high priority (2 of 3)

- Dominant – powerful and legitimate
- Dependant – urgent, legitimate but limited power
- Dangerous – urgent and powerful but limited legitimacy

Salient - High priority (3 of 3)

- Definitive! (Power, legitimacy and urgency)

Mitchell et al. (1997)

Latent – Low priority (1 of 3)

- Dormant – Keep them on your radar. No need to engage but stay aware
- Discretionary – pay attention, and negotiate from strength
- Demanding – Give attention but no action is required, unless their power or legitimacy increases

Expectant – Potentially high priority (2 of 3)

- Dominant – Negotiate, and engage with them regularly and ensure they feel valued
- Dependant – Support their legitimate and urgent needs, negotiate
- Dangerous – Handle them cautiously. Tactically acknowledge, and defend against

Salient - High priority (3 of 3)

- Definitive! (Power, legitimacy and urgency) – Acknowledge, actively engage and cooperate with

Johnson and Scholes (1999)

		Level of interest	
		Low	High
Power	Low	A Minimal effort	B Keep informed
	High	C Keep satisfied	D Key players

A - **Minimal effort**: Observe

B – **Keep informed**: Acknowledge their interest but offer little yields

C - **Keep satisfied**: Acknowledge their powers and respond to their needs as required

D - **Key players**: actively and consistently engage with these; inform, respond to and appeal to if necessary.



STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING



- ① What interest do they have in the outcome of your work? Is it positive or negative?
- ② How are they likely to feel about and react to your project?
- ③ What is the best way to engage and communicate with them?
- ④ What motivates them most of all?
- ⑤ What information do they want from you and how do they wish to receive it?
- ⑥ What would encourage them to support your project?

Determine what stakeholders are interested in- a general guidance

Common stakeholder group	Potential stakeholder interests	Other points to consider
Shareholders and investors	Risk management Financial impacts and dependencies related to sustainability	Expect high-quality information in a concise and comparable form Familiarity with reading corporate reports
Banks and insurers	Risk management (e.g. Equator principles: framework for managing social and environmental risks) Consider ESG matters in making decisions regarding financing of major investment projects Carbon: declining interest to be involved with businesses dependent on coal and oil	May expect private reporting instead of relying on publicly available sustainability information only

Determine what stakeholders are interested in- a general guidance

Common stakeholder group	Potential stakeholder interests	Other points to consider
Employees and trade unions	Have been a key target group for sustainability reporting Social matters, working conditions Sustainability in the supply chain Public reporting used by top management to send messages and motivate employees	Often have access to internal reporting and communication as well as reports prepared for external purposes. For example, sustainability reports can be aimed at attracting high calibre recruits
Supply chain or business to business consumers	Financial performance and/or sustainability performance may be the focus	Those with power and influence in the supply chain may also expect private reporting or attempt to influence the nature of the report

Determine what stakeholders are interested in- a general guidance

Common stakeholder group	Potential stakeholder interests	Other points to consider
Consumers	Variety of concerns and interests among this stakeholder group which may not be aligned Political interest, viral campaigns. Information spreads fast Instead of general policies and broad sustainability reporting, often focused on single incidents or particular products	Seldom read reports, but use social media Reporting may require faster reactions from an organisation. However consumers might obtain information through NGOs who do use sustainability reports
NGOs	Often proxies for stakeholders who cannot raise their concerns: nature, human rights, future generations Also complex topics, such as tax avoidance Challenge the organisation	Some NGOs read sustainability reports, but critically May compare sustainability reporting with information from other sources (possibly to produce external accounts)

Determine what stakeholders are interested in- a general guidance

Common stakeholder group	Potential stakeholder interests	Other points to consider
Local community (including vulnerable communities)	Often localised issues and controversies related to particular production sites and areas Often divergent views within this stakeholder group	May not read corporate reports but instead demand information via other channels

Source: Matias Laine et al., 2021, Sustainability Accounting and Accountability, 3rd Edition

Determine what stakeholders are interested in

Group discussion:

Identify and analyze the stakeholders for your group's chosen company

ESG reporting process model-what information is reported on?

What information is reported on- Materiality and stakeholder engagement

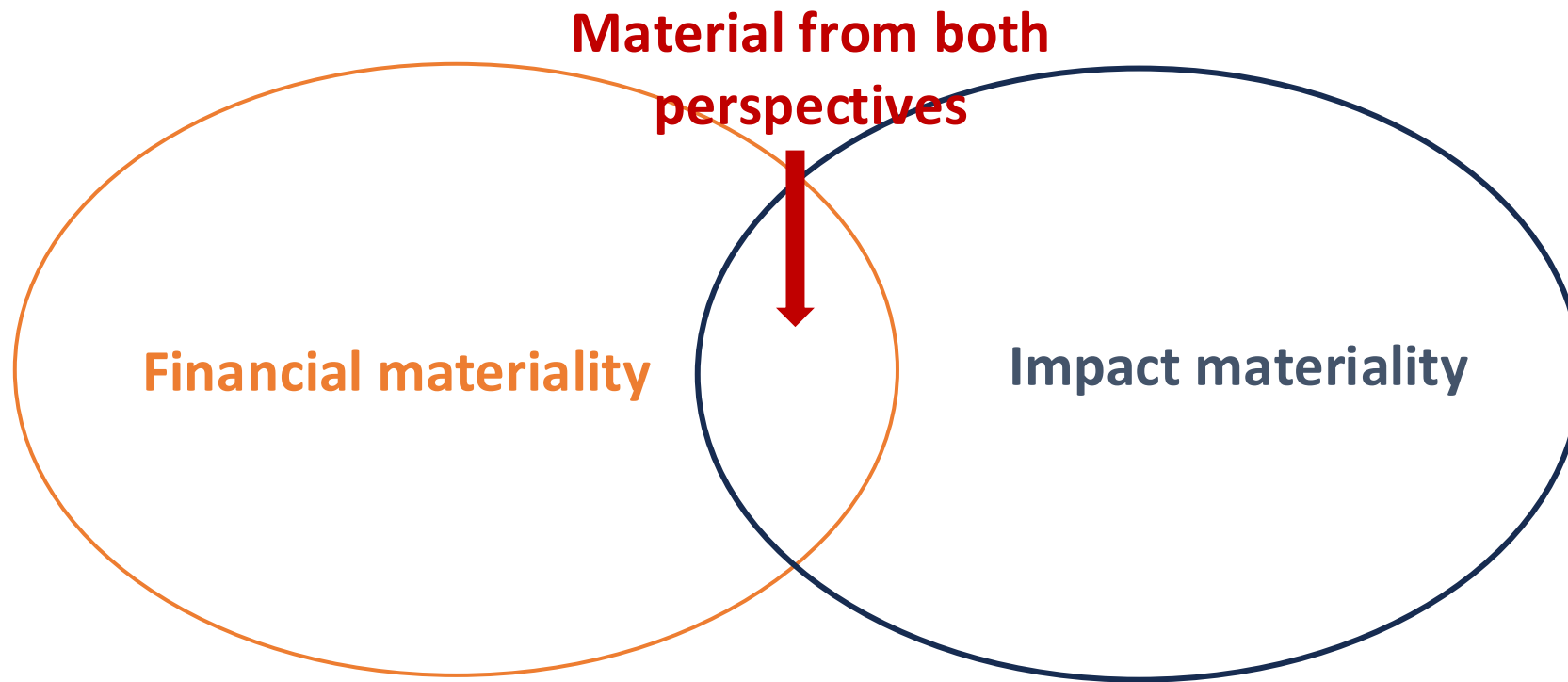
- **Understand the organisation's goals**
 - What does it want to achieve?
 - Where is it on the **sustainability reporting continuum**?
 - Why does it report sustainability information?
 - Who are the **key stakeholders**?
- **Reporting standards matter**
 - Standards and guidelines influence what the organisation reports.
- **Materiality is important**
 - Sustainability covers many topics.
 - A company cannot report everything to everyone.
 - **Materiality helps decide what information is most important to report.**

What information is reported on- Materiality assessment

- Identifying of the most significant sustainability issues for reporting purposes – ideally from the perspective of both the organisation and its stakeholders
- There is no clear single way of performing the assessment, and the definitions of materiality also differ across reporting standards, e.g.,
 - **ISSB/SASB standards:** financial materiality
 - **GRI standard:** impact materiality
 - **EU (ESRS):** both financial materiality to the extent that investors have sufficient information to understand the company's development, performance and position, as well as environmental and social materiality to allow other stakeholders to understand the impacts of the company's operations (double materiality)

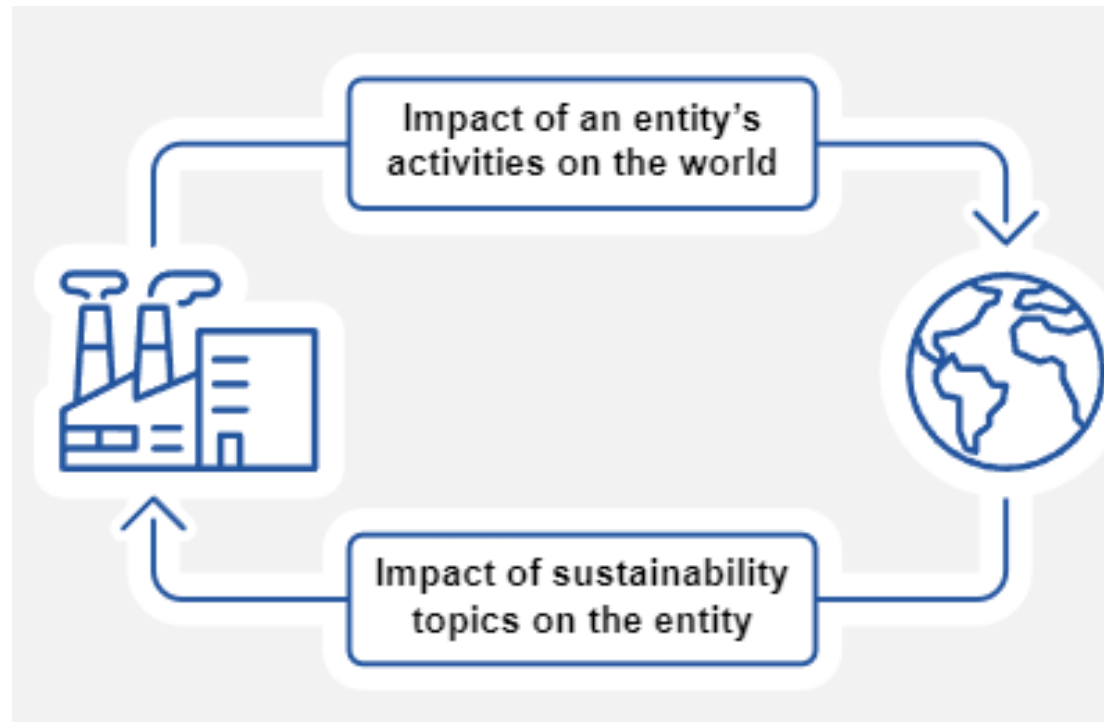
What information is reported on- Materiality assessment

- Double materiality

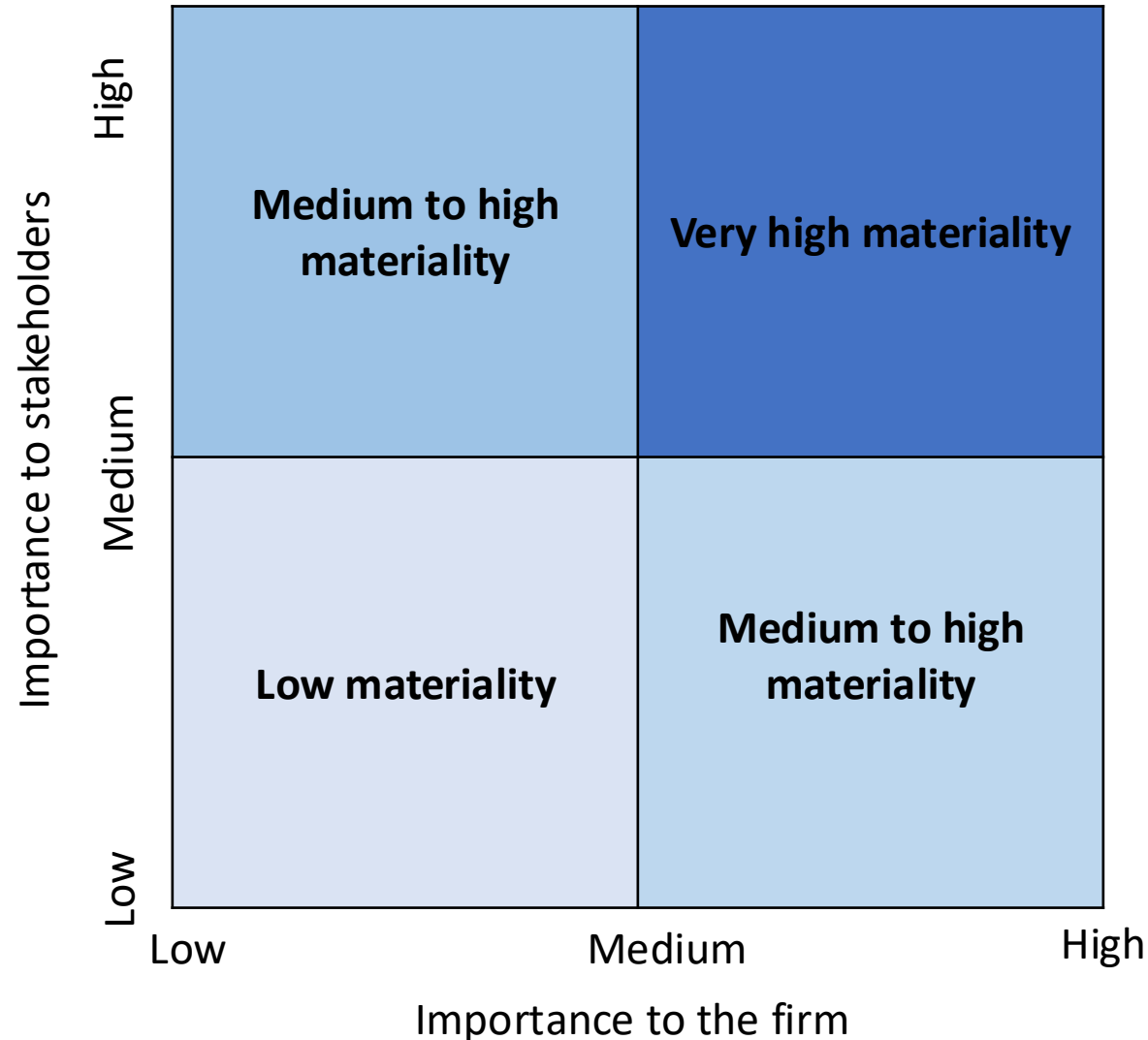


What information is reported on- Materiality assessment

- Double materiality



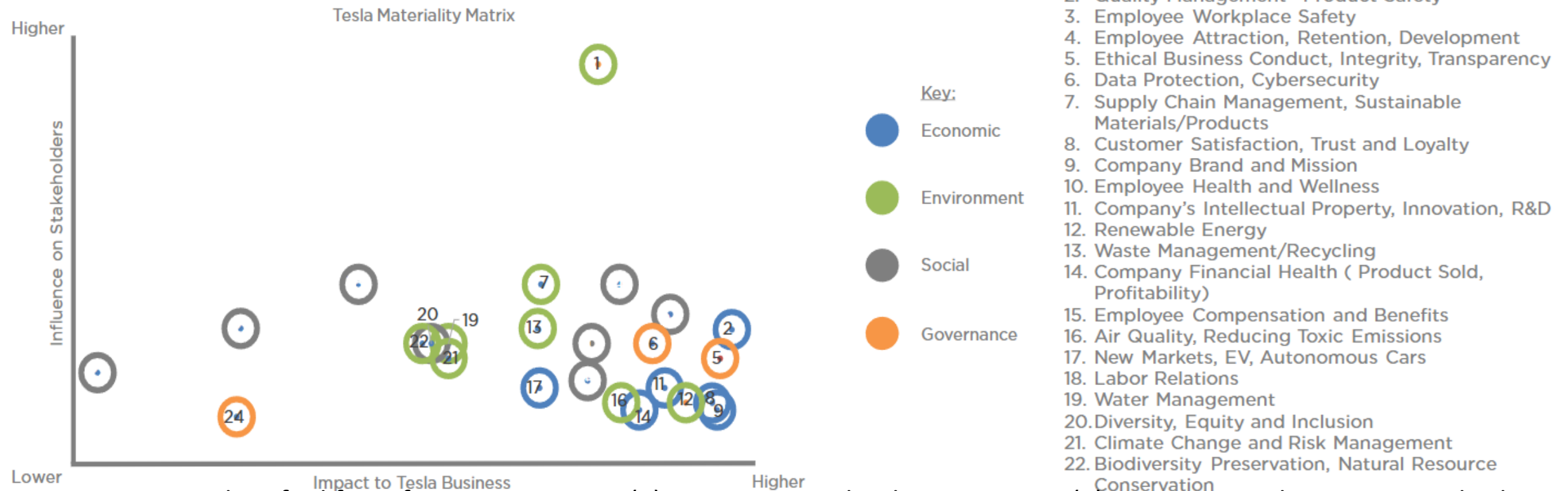
What information is reported on- Materiality assessment



One way to approach the determination of material issues, and as such what information is included in the sustainability report, is to use a **materiality matrix**.

What information is reported on- Materiality assessment

Example: Tesla Materiality Analysis (2021)



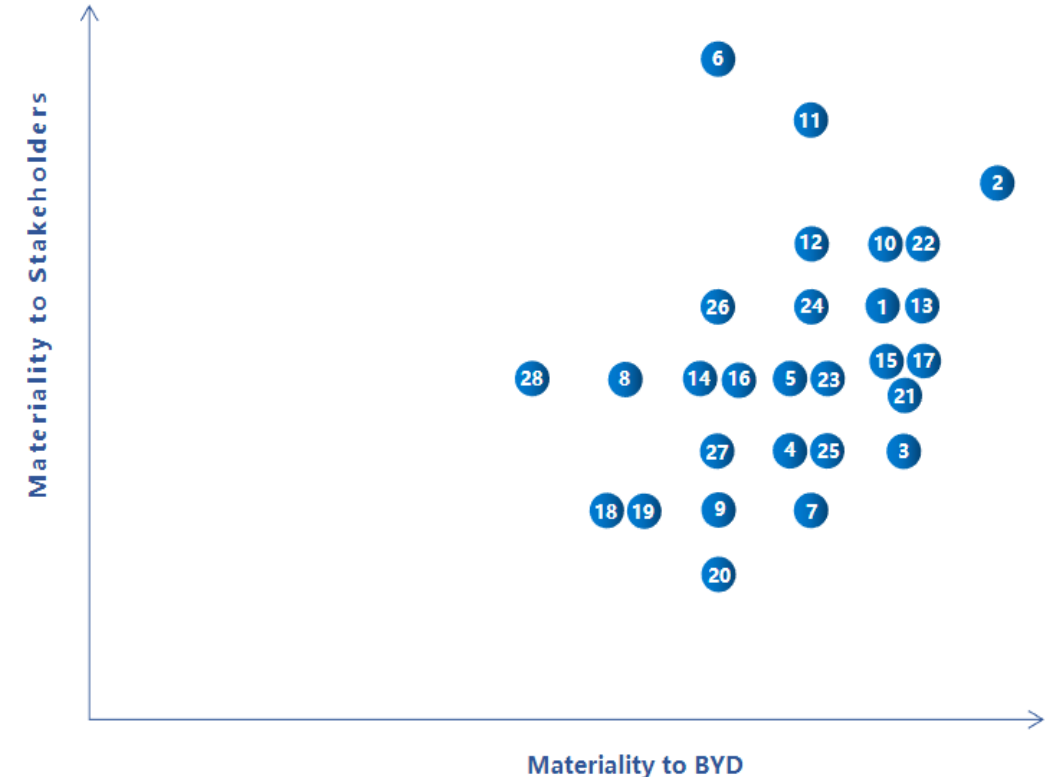
These issues were identified from four components: (1) a competitive landscape review, (2) interviews with investors and other key external stakeholders, (3) industry reports and documented research, such as the World Economic Forum's 2021 Global Risks Report and (4) external ESG frameworks relevant to our industry and regulatory requirements across global capital markets.

What information is reported on- Materiality assessment

Example: BYD Materiality Analysis (2022)

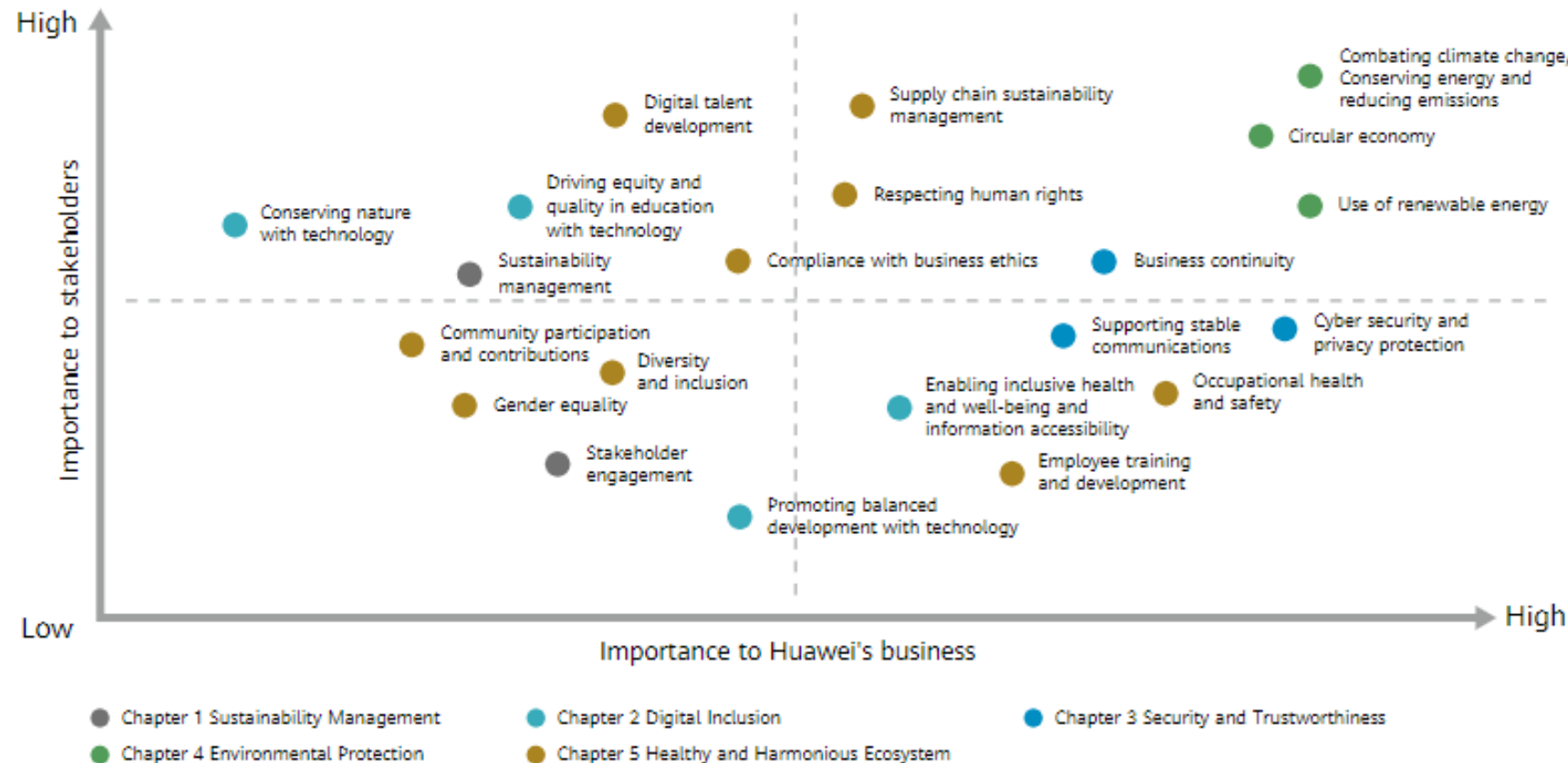
- | | | |
|--|---|-------------------------------------|
| 1. Corporate governance | 10. Product quality | 20. Climate change |
| 2. Results of operations | 11. Service quality | 21. Technological innovation |
| 3. Intellectual property rights | 12. Management of customer relationship | 22. Green product |
| 4. Compliance operation | 13. Customer privacy protection | 23. Salaries and benefits |
| 5. Business ethics | 14. Care for customers | 24. Occupational health and safety |
| 6. Participation of stakeholders | 15. Green operation | 25. Employee development |
| 7. Shareholders' rights and interests and return | 16. Waste management | 26. Care for employee |
| 8. Distributor management | 17. Greenhouse gas emission management | 27. Employees' rights and interests |
| 9. Supply chain management | 18. Energy management | 28. Social public welfare |
| | 19. Resources management | |

Substantial Core Topics for 2022



What information is reported on- Materiality assessment

Example: Huawei Materiality Analysis (2022)



Examples of how we identify material topics include:

- Stakeholder surveys
- Customer inquiries, audits, communications, and joint projects
- Industry insights, communications, and benchmarking
- Media engagements
- Internal risk assessments and strategic alignment

What information is reported on- Materiality assessment

Example: Nestle Materiality Analysis (2023)



What information is reported on- Materiality assessment



Example: Levi Strauss & Co. Materiality Analysis (2025)

we engage a broad group of internal and external stakeholders for feedback on key environmental, social and governance topics:

- a detailed assessment every few years
- annual reviews
- worked with an independent consultant
- analyzed the priority issues identified by our peers as well as public reporting organizations and frameworks (ratings agencies, SASB standards, UN SDGs, GRI Standards)



What information is reported on- Materiality assessment

Compare materiality issues across different industries

- GRI, SASB standards
- <https://www.msci.com/our-solutions/esg-investing/esg-industry-materiality-map>
- <https://www.spglobal.com/ratings/en/research-insights/special-reports/materiality-maps>

Questions that could be useful to assess the materiality

Here are some questions helpful for assessing the materiality of ESG reports:

- Has this point been mentioned as important by stakeholders?
- Does this information refer to a future challenge to the sector? Is it already being discussed by peers?
- Is this topic covered in relevant laws, regulations, or international agreements?
- Does this factor offer opportunities for your organization?
- Does this factor represent a significant threat or significant risk to your organization?
- Has this element been recognized by scientists and experts as a sustainability risk?
- Does your organization have specialized knowledge or competencies to increase sustainability in this area?
- Does pursuing this goal contribute to the successful implementation of your strategy or reinforce the *values* of your organization?

What information is reported on-What level of detail is required?

- Qualitative and quantitative information
- Use of pictures, graphs and infographics
- Provision of aggregated information or more specific details
- Thematic variation (e.g., highlight more on climate change)
- Major incidents...

What information is reported on- Materiality assessment

Group discussion:

Design the materiality assessment for your group's chosen company

ESG reporting process model-in what form and
format is the information communicated?

In what form and format is the information communicated?

- There are different potential communication channels for sustainability reporting (not only report per se)
- Traditional report: annual report, sustainability/ESG/CSR report
- Other: press release, leaflets, speeches, corporate website, social media channels

How to evaluate the quality of CSR reporting?

How to evaluate the quality of CSR reporting?

- No agreed-upon definition of CSR disclosure quality
- Stuart et al. (2022) review the GRI, SASB, and existing literature to identify and summarize three key categories:
 - The content of the disclosure (completeness, balance and relevance)
 - The veracity of the message (accuracy, transparency and reliability)
 - The usability of the disclosure (specificity, consistency/ comparability and clarity of the disclosure)

The consequences of CSR reporting:

Focus on: How does CSR reporting influence a company's financial and non-financial performance?

How does CSR reporting influence a company's financial and non-financial performance?

➤ Financial performance

- Higher CSR reporting quality increases firm value through both cash flow improvements and reduced cost of equity (Plumlee et al., 2015)
- Mandatory CSR reporting can reduce firm profitability (Chen et al., 2018)

➤ Non-Financial Performance

- Mandatory CSR reporting reduces environmental pollution (Chen et al., 2018)
- Firms issuing CSR reports are more likely to exhibit future misbehaviors (Reitmaier et al., 2024)

Some tips for group work

Tips for group work

- Carefully follow the guidelines (Fenix)
- Well structured and logical
- Balance quantity and quality
e.g., 20 ESG topics, little explanation vs 10 ESG topics, detailed explanation
- Show the suitable interpretation and explanation
- Be realistic: think about the situation of the firm
- Reference
- DDL: 11:59 PM (Lisbon time) on Friday, 16 October 2026
- An example

Conclusion:

1. Understand the ESG reporting process and the various decisions made in relation to sustainability reporting at each of the stages.
2. Understand holistic and strategic accountability in relation to sustainability reporting.
3. Evaluate the quality of sustainability/ESG/CSR reporting
4. The consequences of sustainability/ ESG/CSR reporting