PREPARING FOR SUSTAINABILITY REPORTING IN THE FUTURE

A DISCUSSION ON THE LATEST SUSTAINABILITY REPORTING GUIDELINES TO IDENTIFY THE KEY REPORTING OPPORTUNITIES AND CHALLENGES THAT WILL FACE ORGANISATIONS IN THE FUTURE

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ABSTRACT

The purpose of this white paper is to provide an overview of the current and future direction of Sustainability Reporting. The aim is to promote an understanding of the key drivers for reporting, while providing an explanation of the latest guidance available to organisations which will assist them in shaping their reporting both now and in the future. This paper is aimed at organisations with established sustainability reporting protocols, as well as those just beginning their sustainability reporting journey.

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I. EXECUTIVE SUMMARY

Sustainability reporting has developed and matured over the last 20 years. In today’s sustainability-conscious world the demand for organisations to be more transparent and accountable is increasing. Regulatory pressure is building in many parts of the world for disclosures on sustainability performance. Companies are responding by embracing all forms of communication, including digital and social media, while the nature, format and amount of information made available for sustainability reporting is rapidly changing and developing.

In this context, organisations are making decisions about the nature and extent of the disclosures they make and the tools that they use to assist this process. This paper offers a means of evaluating the different tools available: standards, guidance documents and service provisions.

The key advantages and disadvantages of different sustainability reporting tools are explored and the paper concludes by helping organisations determine a suitable approach to reporting that meets all current and future objectives.

THE NATURE AND FORMAT OF INFORMATION DISCLOSURE IS RAPIDLY CHANGING WITH AN INCREASING MOVE TOWARDS THE USE OF DIGITAL AND SOCIAL MEDIA.
II. DRIVERS FOR REPORTING

In the early days of reporting on sustainability issues, reports often focused solely on a particular area of sustainability such as environmental performance or social aspects. These reports were published by a select group of organisations with a vested interest in the topic.

Today, both the amount of non-financial performance information and the number of reports published year-on-year continues to grow. Reports now include a much wider range of sustainability factors and non-financial performance information. Sustainability reporting is becoming accepted practice across the business spectrum, from large multinational corporations to small- and medium-sized enterprises.

In order to predict the future of sustainability reporting, it is useful to examine how it has developed alongside where it is today. The development of sustainability reporting highlights some key historical drivers, all of which are likely to play an important role in the future. These key areas can be identified as:

- Internal versus external pressures
- Regulatory requirements
- Stock exchange listing
- Financial and other indices
- Tender processes
- Report format
- Scope
- Guidelines

INTERNAL VERSUS EXTERNAL PRESSURES

Early adopters of sustainability reporting tended to be organisations with a fundamental principle or strategy aligned to social responsibility. These early adopters found reporting a natural process as it helped to communicate their sustainability approach to a wider audience. Reporting allowed them to demonstrate their positive actions and potentially persuade other organisations to begin operating in a similar way. The main driver in this context came from internal pressures, often from the top level of the organisation. Other early reporters can be categorised as very large organisations with a poor public image, often due to the nature of their business. These organisations used reporting as a way to redress the public’s perception of their business dealings and demonstrate some of their more favourable actions. For this type of organisation, the main driver came from external pressures to protect the brand or company image.

REGULATORY REQUIREMENTS

More recently, other drivers have led to a wider range of organisations reporting on a greater variety of subject areas. Regulatory requirements have been one such driver. Some countries now require certain types or sizes of organisation to report on specific sustainability issues, usually including a combination of environmental, social and ethical.

An indication of their the effect of regulatory requirements on the annual growth in sustainability reporting is evident in the fact that now over 95% of the 250 largest companies in the world report on their sustainability activities. Increased reporting has been seen in companies based in the Americas, Middle East and Africa; but the highest rates of reporting continue to be from companies based in Europe.

INCREASING NUMBERS OF STOCK EXCHANGES NOW REQUIRE COMPANIES TO PUBLICLY DISCLOSE THEIR SUSTAINABILITY IMPACT.

STOCK EXCHANGE LISTING

An increasing number of stock exchanges are signing up to sustainability principles. They are demanding listed companies publicly demonstrate their performance in these areas. The United Nations Sustainable Stock Exchanges Initiative is a driving force in this regard, with leading exchanges such as the Johannesburg Stock Exchange (JSE) paving the way with an established commitment to promoting transparency for sustainability issues. Recent signatories include stock exchanges in emerging markets such as those in Mumbai (MCX-SX) and Chile (SSE).

FINANCIAL AND OTHER INDICES

The Social Responsibility Investor (SRI) community is another significant influence on reporting. SRI uses publicly available information and data to form an opinion on the financial viability of an organisation. This makes it imperative for organisations to ensure that they report relevant information on their performance in a timely manner.

The Carbon Disclosure Project (CDP), Dow Jones Sustainability Index (DSJI) and other non-financial indices encourage organisations to provide specific sustainability performance data. The data required by these indices may be identical to, or in support of, information included in an organisation’s sustainability report.
Organisations are also choosing to sign up and be evaluated for listing in voluntary schemes such as the Business in the Community Corporate Responsibility Index. This type of scheme requires companies to demonstrate and report on performance in relevant areas.

**ORGANISATIONS ARE INCREASINGLY ASKED TO DISCLOSE SUSTAINABILITY DATA IN TENDER PROCESSES.**

**TENDER PROCESSES**
Organisations are increasingly being required to disclose sustainability information during tender processes. This trend is driving organisations to ensure they have all relevant sustainability data readily available before seeking new business opportunities in their supply chains.

**REPORT FORMAT**
Another area of sustainability reporting that has changed significantly in recent years is the format and channels used for communicating sustainability data. Early reports tended to be large printed documents distributed to a variety of stakeholders. Today, the cost of printing and distribution, in financial and environmental terms, has been significantly reduced. Organisations have shifted towards digital media and ensuring the delivery of up-to-date information in their reporting.

The majority of sustainability reports are now produced in an electronic format, usually a PDF document, available for download. Reporting is also taking the form of stand-alone websites. These can be constructed as an electronic document from sustainability data and often are combined with a downloadable document. The advantage is the ability to supply back-up information and detail via the website.

Reporting information in digital formats allows data to be updated regularly and easily amended if needed. Its ability to be widely accessible via the internet means leading organisations are starting to post real time and live data online for stakeholders to access quickly and from anywhere in the world. The use of online channels such as social media offers an even more efficient and direct route for organisations to target stakeholders with specific information.

**SCOPE**
In addition to a change in format, the other area that has changed significantly over time is the scope of sustainability reports. In the early days, reports tended to focus on one aspect of particular concern to the organisation or its stakeholders. As the reporting process has expanded and matured, so too has the scope. Most organisations now publish a sustainability report covering aspects related to environment, social, ethical and governance.

There is now a move towards integration of these aspects into an organisation’s financial report. The reasoning is that a combination of financial and non-financial performance indicators gives a much broader view of how a company performs and so enables the investment community to make a more informed decision on an organisation’s future prospects.

**GUIDELINES**
The guidelines that organisations choose to assist them in their reporting can differ in their approaches. Some of the most widely used guidelines are:
- **Global Reporting Initiative (GRI)**
- **AA1000 standards**
- **Other voluntary initiatives**

Global Reporting Initiative (GRI)
The sustainability-reporting framework published by the Global Reporting Initiative (GRI) has undergone a series of revisions since its launch in the late 1990s. It remains one of the most utilised and recognised guides. For organisations using GRI the scope and content of reports need to stay up-to-date with each revision of the GRI framework.

AA1000 Standards
A small number of organisations began using the AA1000 framework in the late 1990s. Since then, the number of organisations adopting AA1000 has grown, leading to the publication of the AA1000 Assurance Standard and AA1000 Accountability Principles Standard (2008). These standards encourage organisations to adhere to guiding principles in relation to how they operate and report on the results. The principles ask organisations to identify and engage with their stakeholders. A supporting standard, the AA1000 Stakeholder Engagement Standard (2011), has been made available to assist in this process.

Other voluntary initiatives
For some countries, regulations have set the scope of sustainability reporting. In others, voluntary guides for report content have pushed sustainability data to be made public. Both government departments and many other organisations such as business associations and sustainability listings have been instrumental in establishing voluntary initiatives.
SOCIAL MEDIA CHANNELS HAVE A SIGNIFICANT IMPACT ON HOW ORGANISATIONS COMMUNICATE THEIR SUSTAINABILITY CREDENTIALS.

As guidelines continue to evolve and mature so does the content of sustainability reports. Much has changed in a relatively short timeframe and this is likely to continue with the advent of new guidelines and initiatives such as the International Integrated Reporting Framework from the IIRC and the Sustainability Accounting Standards Board (SASB) sector specific disclosure standards.

CHALLENGES OF REPORTING

Despite the increase in sustainability reporting, and the pressures and drivers to do so, there are still a large number of organisations choosing not to report. One of the principal reasons for this may be that the benefits of reporting are not yet clear enough to encourage organisations to take the first steps. It could also be that reporting is viewed as an intensive and time-consuming task of gathering information, writing content and securing internal sign-off at the very highest levels of the organisation. The variety and availability of such a wide range of guides, standards and regulations can also add to the confusion of where to begin. For some organisations, this may represent too much of a commitment in resources, time and finances for a non-quantified return.
CONSIDERATIONS FOR EXCELLENCE IN SUSTAINABILITY REPORTING

Any organisation that takes the decision to report on sustainability performance should start by determining the most important issues for their organisation – the flow chart above can guide organisations in correctly identifying and prioritising key areas that must be addressed for reporting.

INVESTIGATING, MANAGING AND IMPROVING SUSTAINABILITY IMPACTS

The sustainability report is the culmination of an organisation investigating its own processes (as above in the flow chart) and it allows the communication of what an organisation has done and achieved in terms of sustainability. A variety of standards and guidance is available to assist organisations in implementing effective and robust processes to identify and prioritise the significant issues. These include processes for taking into account the views of stakeholders, and how to implement management systems and other mechanisms for ensuring impacts are controlled and improved.
DO YOU USE AN INDEPENDENT 3RD PARTY TO CONDUCT ASSURANCE OR VERIFICATION OF YOUR REPORT?

MATERIALITY
Do you know your material issues?
- ISO26000
- GRI
- Materiality evaluation

MANAGEMENT SYSTEMS
Are you managing your material aspects?
- Management System Standards

MEASURING AND IMPROVING PERFORMANCE
Do you measure your performance?
- KPIs – GRI
- ISO26000 performance assessment

SUSTAINABILITY REPORT ASSURANCE
The reporting guidelines from GRI recognise the benefits and importance of a third party assurance

There are many different approaches taken to acquire assurance of sustainability reports. Assurance Standards are available but are not universally used by all assurance providers.

68% OF REPORTERS IN THE S&P 500 USE GRI¹¹

80% OF G250 COMPANIES USE GRI¹²

OVER 7 000 BUSINESSES IN 145 COUNTRIES AROUND THE WORLD PARTICIPATE IN THE UN GLOBAL COMPACT¹³
AA1000 Stakeholder Engagement Standard (2001) provides a basis for designing, implementing, evaluating and assuring the quality of stakeholder engagement. It is a multipurpose standard that can be used for purposes other than or including sustainable development by businesses, civil societies, public bodies, multistakeholder networks or partnerships.

ISO 26000 (2010) Clause 5 of ‘Guidance on Social Responsibility’ describes for organisations the fundamental practices of social responsibility, including identifying and engaging stakeholders and ways to engage them on core subjects of social responsibility.

ISO 26000 (2010) Clause 5 of ‘Guidance on Social Responsibility’ also describes the fundamental practices of social responsibility, including how organisations can recognise which core social responsibility issues need prioritising and addressing based on the significance of their impact.

GRI G4 – the fourth generation of guidelines for sustainability reporting – includes guidelines for ‘The Principle of Materiality’, which is a fundamental principle of sustainability reporting. According to the GRI, an organisation should identify those aspects of significant impact and ensure they are included in all reporting. The framework provides detailed guidance on the principle of materiality, while the implementation manual outlines processes for how to identify and prioritise impacts.

Management system standards have been developed across a wide range of sustainability subjects:

- Environment (ISO 14001)
- Energy (ISO 50001)
- Occupational Health and Safety (OHSAS 18001)
- Social Accountability (SA 8000)
- Quality (ISO 9001)

All of the above may be used to ensure that all significant aspects are effectively managed and improved.

GRI G4 requires organisations reporting in accordance with the guidelines to disclose the management approach for their material aspects. The guidance describes the expectations for generic disclosures on management approach, which apply to all aspects, and specific disclosures on management approach only relevant to certain aspects.

G4 includes ‘Specific Standard Disclosures’ for performance indicators in all areas of sustainability: economic, environmental and social. The guidelines require a reporting organisation to identify their material aspects, report on at least one indicator and also on the approach taken to managing each material aspect.
DO YOU USE ANY STANDARDS OR GUIDANCE?

There are many guidance and standard documents available to help with planning a sustainability report. A brief outline of the key documents is provided below, along with an exploration of the strengths and weaknesses of each.

Global Reporting Initiative Sustainability Reporting Guidelines G4

The most widely recognised and utilised framework for sustainability reporting is the Global Reporting Initiative Sustainability Reporting Guidelines (G4, 2013). G4 provides a detailed guide on sustainability reporting including:

- Ten Principles: define the content and quality of a report
- ‘General Standard Disclosures’ describe the required content of any sustainability report
- ‘Specific Standard Disclosures’: describe the expected ‘Disclosures on Management Approach’ and ‘Indicators’ for material aspects

G4 requirements are backed-up by a comprehensive implementation guide which provides additional information and assistance on reporting using the guidelines.

The advantages of reporting to G4 include:

- Globally-recognised framework for sustainability reporting
- Focus on reporting material sustainability aspects
- Choice of two approaches to reporting gives flexibility and allows first-time reporters and SMEs a less intensive option (i.e. fewer required Standard Disclosures)

The disadvantage of reporting to G4 is the requirement for organisations to clearly explain the processes used in relation to how they identified, prioritised and managed significant aspects – processes many organisations have not previously reported prior to G4.

Carbon Disclosure Project (CDP)

Some guidance is available in relation to specific aspects, such as the Carbon Disclosure Project (CDP), which collects data on greenhouse gas emissions from over 4,000 of the world’s largest companies. The Greenhouse Gas Protocol (GHG Protocol) is the most widely used accounting tool for quantification of greenhouse gas emissions.

International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (IIRC) International Integrated Reporting Framework (consultation draft) describes the Fundamental Concepts, Guiding Principles, Content Elements, Preparation and Presentation expected within an Integrated Report which combines information on financial and non-financial performance. The key advantages of integrated reporting are that an organisation can be more driven to ensure that sustainability performance is integrated into business strategy and is as important to the business as financial performance. The key disadvantages are that this is currently only in a consultation draft format so links to other reporting guidelines such as GRI may be weaker.

Others

A range of other instruments are readily available, some are clearly linked to GRI, such as the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. Generally, the guidelines for report content and structure are weaker than those in GRI G4, but there is crossover in terms of subject area. Links between these guidance instruments are clearly presented in GRI G4 enabling a combined approach to be taken where reference is made in sustainability reports to several relevant and related guidelines.
Close to 50% of reports published now have some form of external assurance associated with the reported information, but there are still many reports with none. The reporting guidelines from GRI recognise the benefits and importance of third party assurance. Some listings and indices also recognise the benefits of external assurance and the reporting organisation may achieve a higher rating if they have chosen to have their sustainability report assured.

External assurance

External assurance offers increased stakeholder confidence in the accuracy and validity of the information contained within the report. Sustainability reports can be supported by an assurance statement, which is published inside the report. Building transparency into your reporting improves stakeholders’ perception of your organisation, while demonstrating your commitments towards sustainability and corporate responsibility.

The assurance process grants organisations the opportunity to benefit from the insight of the assurance provider. An assurance provider can provide feedback on data and information management systems and, depending on the scope of the assurance process, any other opportunities for improvement in the cycle of reporting.

Approaches to assurance

There are many different approaches taken to the assurance of sustainability reports. Assurance standards are available but are not universally used by all assurance providers. There is no general requirement for reference to any assurance standard and this type of service is usually not subject to accreditation. Guidelines for reporting recognise the importance of external assurance and also offer some guidance to ensuring that external assurance is effective. For example, it is necessary for organisations to ensure the independence and competence of the assurance provider, ensure that the assurance provider has systematic methodology for the assurance service and recommendations on the scope of the assurance.

There are two standards that are commonly referenced by assurance providers which are:

• AA1000 Assurance Standard (2008)
• ISAE3000 (International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information)

AA1000 Assurance Standard (2008)

The AA1000 Assurance Standard (2008) covers the use of the standard, accepting, performing and reporting on an assurance engagement. The key advantages of the AA1000 are that it provides a structured approach that offers assurance services that enable a degree of comparability between assurance providers. The AA1000 also offers options for different types and levels of assurance to allow flexibility. The key disadvantages are that it requires organisations to adhere to the AA1000 Accountability Principles Standard, which may not fit with the organisational strategy. There is also a cost associated with assurance under the AccountAbility licence that may be passed on to the reporting organisation.

ISAE3000 (International Standard on Assurance Engagement)

ISAE3000 outlines the requirements for agreeing terms of engagement, planning, performing and reporting on an assurance engagement. The key advantages are that it is widely used and accepted, in particular in the accountancy community.
also offers different options on the level of assurance. Key disadvantages of this standard are that assurance engagements at a limited level of assurance are required to include specific wording in the assurance statement. This wording comprises negative phrasing and may reduce report readers’ confidence in the information presented.

CLOSE TO 50% OF REPORTS PUBLISHED NOW HAVE SOME FORM OF EXTERNAL ASSURANCE ASSOCIATED WITH THE REPORTED INFORMATION¹⁷.
IV. SUSTAINABILITY REPORTING OF THE FUTURE

The future landscape for sustainability reporting is certain to evolve in response to many factors. Below are seven key concepts that will influence sustainability reporting in the future:

1. **INCREASED REPORTING BY COMPANIES OF ALL SIZES**
   Larger-sized and listed companies will continue to lead growth in reporting. It is likely that increasing numbers of smaller-sized, privately-owned, or state-owned/state-controlled companies and organisations will also start to report.

2. **INCREASED REPORTING BY ORGANISATIONS IN EMERGING MARKETS**
   Continued growth in organisations operating across the globe means that organisations in emerging markets can be expected to report more widely.

3. **REPORTS ARE LIKELY TO BECOME FOCUSED ON A NARROWER RANGE OF SELECTED SUSTAINABILITY ISSUES**
   Issues covered will be directly linked to the material aspects for the reporting organisation.

4. **REPORTS WILL BECOME AN ONLINE REPOSITORY FOR INFORMATION**
   Online reports will include historical and current performance that shows trends and year-on-year changes in performance. This information will be complemented by organisations increasingly making available live performance information. These online reports will follow guidance laid out in the most well recognised frameworks, which are likely to be GRI and extending to the IIRC guide.

5. **COMMUNICATION WITH STAKEHOLDERS WILL BE LED BY THE ISSUES**
   Via digital and social media, organisations will provide a story-telling approach, making reference to information included in the online reported information and encouraging direct feedback.

6. **COMMUNICATION WILL INCLUDE SINGLE-ISSUE REPORTING**
   This single-issue reporting will include a focus on material aspects of relevance to specific stakeholders.

7. **SUSTAINABILITY PERFORMANCE INFORMATION WILL BECOME AN INTEGRAL PART OF COMPANIES REPORTING ON THEIR PERFORMANCE**
   This will enable better decisions to be made about them, for example by the investment community.
V. CONCLUSIONS

For organisations at the start of their reporting journey the route ahead has become clearer with the publication of the latest reporting guidelines. With the increasing recognition that sustainability performance is likely to be given, and the subsequent impact on financial sustainability, it is crucial for all organisations to make progress in becoming more transparent and accountable for their actions and impacts.

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VI. REFERENCES


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