Sustainability reporting now part of mainstream reporting

Sustainability is among the leading topics of discussion among policy-makers. In fact, 70% of S&P 100 companies now have at least one board committee assigned to oversee sustainability. The wide use of sustainability information in investment decision-making is evidenced by the existence of the Dow Jones Sustainability Group Index, the Jantzi Social Index, and the Innovest EcoValue 21 analytical platform; meanwhile, the Johannesburg Stock Exchange and the government of Denmark already require companies to report their environmental and social performance or explain why they do not. This article reflects the growing importance of sustainability issues with a look at the current state of sustainability reporting among different industries across the globe.

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Sustainability reporting is a structured way for companies to report on their economic, environmental, and social performance, which serves as a means to report on how nonfinancial factors interact with financial ones and ultimately drives a company’s value. Such reporting focuses on the integration of social, environmental, and economic facets of organizational activities.

**Sustainability Reporting**

The Global Reporting Initiative (GRI) is a leading organization that promotes the use of sustainability reporting and provides a comprehensive sustainability reporting framework that provides metrics and methods for measuring and reporting sustainability-related impacts and performance. The most recent set of guidelines are called G4 (Generation 4, or fourth generation). More than 1500 companies used G3 in 2013 and are expected to use G4 in 2014.

The GRI also provides reporting guidelines specifically tailored to the needs of various industries, called Sector Guidance, including airport operators, construction and real estate, event organizers, electric utilities, financial services, food processing, media, mining and metals, non-governmental organizations, and oil and gas. Examples of the issues covered in Sector Guidance include noise measurement for airports, the resettlement of people for mining and metals companies, animal welfare for the food processing industry, and program effectiveness for non-governmental organizations. The GRI states on its Web site that the main reasons for developing sustainability reporting guidelines for industries are the need for industry-specific content in reporting, the potential to improve sustainability performance, and the potential for increasing the number and quality of reports across industries.

A Dutch study notes that industry membership can play a role in collectively adopting codes that include reporting requirements. According to the study, the pressure of competition in an industry can be so much that a company may copy rivals’ moves, even if the benefits are unclear or negative, in order to prevent competitors from gaining undue advantage. The study, which covers the years 1999 through 2005, finds that adoption of sustainability reporting is generally growing.

For example, sustainability reporting is common in the automotive industry, but a large number of these companies have not reported in all years (i.e., not consistently reported). In the case of chemicals and pharmaceuticals, 90% of the companies in the sample reported in all years. Companies in the metals and manufacturing industry also have a high percentage of inconsistent reporters, which may be because there is much more diversity in this industry, and hence, individual companies may not yield to “peer pressure.” Other industries that show only 50% consistent reporters are oil and gas and electronics and computers. Some of the reasons given in the study for nonreporting include doubts about the advantages sustainability reporting, already having a good reputation for environmental performance, difficulty in gathering data from all operations, and fear of waking up “sleeping dogs,” such as environmental organizations.

Global mining companies are increasingly promoting sustainability initiatives such as the Global Mining Initiative (GMI), which led to the creation of the International Council on Mining and Metals (ICMM). The ICMM has been primary force behind 40 out of the world’s 44 major global mining companies publishing sustainability reports, thereby attracting the attention of analysts in large numbers. These reports often describe sustainability related activities in the context of a mine site or community. Most mining corporations use GRI G3 guidelines for sustainability reporting, which includes a wide range of sustainability issues, principles, and processes.

The United Kingdom is one of the first countries in the world to successfully regulate a sustainability reporting framework for biofuels. Biofuels are fuels that can be obtained from plants and microalgae. Regulations were implemented after several studies demonstrated that it was possible to reduce greenhouse gas (GHG) emissions by using
biofuels in place of gasoline. The UK sustainability reporting framework involves reporting on the GHG savings achieved and the wider sustainability of fuels and is now being viewed as providing a strong starting point for other countries and international organizations to follow.

Also in the United Kingdom, the construction industry has started paying particular attention to corporate sustainability because of increasing legal and commercial pressure. The companies studied adopted a compliance approach to manage their sustainability performance. To this end, they focused on developing management systems and pursuing a continuous performance improvement culture. The companies also started training programs to raise awareness, improve the competence of staff at all levels on sustainability issues, and aid in the operation of management systems.

Corporate Responsibility Reporting Survey
The KPMG Survey of Corporate Responsibility Reporting 2013 (KPMG SCRR 2013) provides comprehensive information about the current state of corporate responsibility reporting by covering 4,100 companies across 41 countries. This survey bears no relation to the GRI or to the system used by GRI for reporting or classifying purposes. Further, the sample used by KPMG does not overlap with the sample used by any of the aforementioned UK-based studies.

The KPMG SCRR 2013 presents statistics on the world’s largest 250 companies and provides a score, out of a possible 100, related to each sustainability report that reflects the quality of the report. A higher score means a higher quality report in terms of seven criteria: strategy, risk, and opportunity; materiality; targets and indicators; suppliers and value chain; stakeholder engagement; governance; and transparency and balance. Also, the survey states that the most commonly used terms for describing the reports are as follows: corporate responsibility, corporate social responsibility, and sustainability. This can be interpreted to mean that these terms are equivalent to the term “sustainability.”

The KPMG SCRR 2013 survey classifies the companies into the following industry sectors: finance, insurance and securities, oil and gas, trade and retail, automotive, electronics and computers, communications and media, utilities, metals, engineering and manufacturing, construction and building materials, food and beverage, pharmaceuticals, mining, transport, chemicals and synthetics, and other services. It reports that in all industry sectors all over the world, more than half of the companies report on corporate responsibility, which means that such reporting can be considered standard global practice.

Among the world’s largest 250 companies, the automotive and telecommunications and media sectors had the highest levels of reporting in 2013 (77% and 75%, respectively), whereas in 2008, their reporting levels were among the lowest. Also
among the world's largest 250 companies, the highest quality reports are published by companies in the following industries: electronics and computers (score: 75), mining (score: 70), and pharmaceuticals (score: 70). However, metals, engineering, and manufacturing (score: 48) and construction and building materials (score: 46) received the lowest scores.

**Third-Party Assurance on Sustainability Reports**

Third-party assurance on sustainability reports has a wide range of benefits such as increased recognition, trust, and credibility; reduced risk and increased value; improved board and CEO level engagement; strengthened internal reporting and management systems; improved stakeholder communication; and increased adoption in the marketplace.14 The KPMG SCRR 2013 survey states that more than 50% of world's largest companies now seek third-party assurance on their sustainability reports. Further, 66% of all the companies that get their sustainability reports assured choose to engage a major accounting firm, such as PriceWaterhouseCoopers, Deloitte, KPMG, or Ernst & Young. Srivastava, Rao, and Mock developed two frameworks, based on evidential reasoning, to aid auditors in the sustainability area with planning, performing and evaluating evidence related to sustainability reports15 and to assess and control the risks of providing assurance on sustainability reports.16

**Summary**

As sustainability reporting gathers momentum, more countries are looking toward mandating policies related to sustainability reporting, including Denmark, France, India, Indonesia, Japan, Malaysia, Nigeria, Norway, Singapore, South Africa, the United Kingdom, and the United States. The KPMG SCRR 2013 survey states that there are 134 separate mandatory policies and 53 voluntary policies around the world covering different aspects of corporate responsibility reporting. Further, sustainability reporting has become a listing requirement on several stock exchanges, including Brazil, China and Hong Kong, Malaysia, and South Africa. em

**References**