Navigating the Rising Tide

Raising awareness of changing trends and requirements in corporate sustainability reporting.
Major changes are under way in the reporting of economic, environmental, and social impacts, otherwise known as sustainability reporting. These changes consist of greater levels of corporate reporting and supply chain reporting at both the organization and at the product level, and will mean an increase in the number and kinds of information being requested until standardized sustainability reporting formats, such as the Global Reporting Initiative (GRI) G4 reporting framework, become more widely adopted.

Environmental managers have always been expected to manage their company’s environmental risks from a regulatory compliance perspective and, in recent years, they have also been expected to manage and report on “beyond compliance” environmental performance. However, sustainability reporting requests are now growing in number and kind.

Demand for transparency about resource extraction, sourcing, transportation, and product manufacturing is becoming a critical business issue for brands that are increasingly reliant on outsourcing and international suppliers.

In response to headlines and social media exposure about issues, such as conflict minerals, illegal logging, and troubling working conditions in manufacturing, product ingredients are also under scrutiny for their health, safety, and environmental impacts.

In addition to sustainability reporting requests from a rising number of rating organizations and indexes, such as the Carbon Disclosure Project (CDP) and the Dow Jones Sustainability Indices (DJSI), large retailers like Walmart and IKEA, as well as global brands like PUMA and Unilever, have also begun to demand more sustainability reporting by their supply chain partners.

If you have not yet started receiving an greater number of requests for reporting on the environmental performance of your company’s supply chain, and increased environmental performance reporting on specific products, it is likely that you soon will.

Growing Demand for Sustainability Reporting Standards

In the past, U.S. and European retailers and brands have developed and implemented sustainability measurements to assess the organization, planning, and performance of suppliers based on several criteria. This has resulted in a growing number of requests for similar types of data from different rating systems that lack overall standardization. To minimize the amount of effort that disparate reporting formats would require, more organizations are requesting that sustainability data be supplied in accordance with widely accepted frameworks such as the GRI.

GRI sustainability reporting is now practiced by more than 82% of the world’s 250 largest companies and

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over 6,000 organizations worldwide are publishing sustainability reports in accordance with the GRI reporting framework. In addition to the adoption of GRI framework for reporting by organizations like the UN Global Compact and the CDP, there is increasing demand for company-level sustainability reporting by indexes like the DJSI. Stock exchanges are also increasing demands for reporting. Recently, the NASDAQ, following other stock exchanges in South Africa, Brazil, and Turkey, began requiring sustainability content in financial reporting as part of the Sustainable Stock Exchanges Initiative.

The G4 reporting framework that will come into force in 2015 introduces a number of important new criteria to sustainability reporting, including the requirement for reporting on the sustainability performance of your supply chain (the supply chain reporting requirement will serve to improve insight within the extended supply chains of brands in a standardized manner); and an independent assessment of the “materiality” of an organization’s impacts.

Adoption of the G4 materiality requirement is a major shift in the GRI framework that is likely to reduce unnecessary reporting detail by asking reporters to document what really matters. Here, materiality includes economic, environmental, and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations.

In addition to increased adoption of the new GRI reporting framework, there is also a growing demand for environmental product declarations (EPDs) developed in accordance with the ISO 14025 standard on environmental labels and declarations, a standard which supports the credible comparison of product environmental performance. Development of EPD programs by various industries is on the rise, (e.g., furniture, carpet, construction products, apparel, and beer). The adoption of EPDs also has the potential to help streamline and standardize product-level reporting employed by indexes, rating agencies, and supply chain performance requirements.

Responding to Requests for Sustainability Reporting

First, let us note why there is such a focus on the sustainability in supply chains when many retailers and brands requesting information are themselves so large. These organizations often do not conduct production operations directly, but given the tremendous amount of products passing through their stores or carrying their labels, they have identified that the majority of impacts associated with their business, in a broader view, reside within the supply chain. This is particularly true for products where the use or disposal portion of the product life does not result in significant impact. Therefore, to affect the greatest reduction in environmental impact, improving the performance of suppliers is very important. Especially after brands and retailers have implemented their own operational improvements.

Until GRI G4 and EPD sustainability reporting become universally adopted, many entities will continue to require suppliers to report on sustainability in different ways depending on the index or program being addressed. For instance, the Higg Index developed by the Outdoor Industry Association (OIA) and the Sustainable Apparel Coalition (SAC) is used to assess apparel and footwear suppliers (as well as products and brand performance). The facilities portion of the Higg Index, which is addresses the supply chain, was closely based on the criteria of the Global Social Compliance Program (GSCP), a program previously developed by leading retailers to improve environmental and social responsibility within their shared global supply chains. The outcome of these facility assessments is an indicator score (not an impact measurement) that is currently used internally or between companies to benchmark performance and to identify areas of improvement.

Alternatively, the European retailer Leclerc is implementing an assessment program covering numerous products through a multi-criteria index. Products meeting all minimum requirements of this index and exceeding certain optional parameters are then given a positive designation in stores. Communicating this information to customers provides a basis for them to select more sustainable products, which should benefit suppliers of these products by increasing sales.
The Sustainability Consortium (TSC)\textsuperscript{15} has also contributed to the development of indexes by its member brands and retailers. At least one TSC member currently asks suppliers to provide information semi-annually to monitor and encourage sustainability progress. It is anticipated the results of the index will be considered when choosing or negotiating with suppliers and supplier index performance will also be one of the criteria that buyer performance is rated upon.

There are at least two good reasons why it is important to respond to sustainability indexes and questionnaires, and do so honestly, even if the results will not indicate top performance: (1) There has been a growing interest in having the responses to sustainability questionnaires audited to verify the accuracy of the supplier provided information, so exaggerating performance may be detrimental; and (2) Retailers and brands are aware that the entirety of their supply chains may not be fully addressing sustainability and that they may lack some of the resources (specifically personnel), to focus on these issues. Therefore, a key consideration to keep in mind for companies in the supply chains of major retailers or consumer brands is that having below average responses does not necessarily mean you will immediately be dropped as a supplier.

Focus on improving the way you measure, implement, and communicate your sustainability performance because a commitment to continuous improvement and demonstrating a positive trend is likely to be more important than your absolute index score. Also, independent third-party verification of your performance will enhance your credibility.

### Will the Rising Tide of Sustainability Reporting Lift You to Higher Ground?

The field of corporate sustainability reporting is maturing and evolving to become more standardized across industries and more aligned with financial reporting. This is making it increasingly essential to keep up with changing expectations and standards.

Companies are beginning to move toward the integration of their annual reports and their sustainability reports. When companies report on the same categories of information in the same way, stakeholders (including investors) will be better able to analyze them for side-by-side comparisons.

Engage proactively with your customers’ sustainability professionals to understand how and when your customers plan to implement sustainability reporting based on the GRI G4 framework or ISO 14025 EPDs. Also, if your customers sell products within the European Union, you should take steps to understand future requirements for company-level and product-level sustainability reporting that will be necessary to comply with the Product Environmental Footprint (PEF) and the Organization Environmental Footprint (OEF) requirements of the Single Market for Green Products initiative.\textsuperscript{16}

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**References**