Sustainability Reporting

Sustainability, also referred to as ESG (for environment, social, and governance), corporate social responsibility (CSR), or corporate citizenship, is an operational model that takes non-financial factors into account in addition to traditional business and financial factors. Companies are increasingly addressing sustainability issues within their formal set of business management strategies and principles, driven by certain regulatory requirements, both nationally and internationally, the growing availability of experts who are reliably able to calculate a company's sustainability footprint, and mounting pressure from certain institutional investors and other external stakeholder groups. Additionally, supporting the move toward sustainability reporting are a number of recent studies, which have begun to show a link between sustainability performance and superior long-term returns, including Harvard Business School's November 2011 working paper, *The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance*.

Large, multinational companies, along with companies in relatively high environmental impact industry sectors, have tended to offer more detailed disclosure on certain sustainability factors, such as environmental performance and health and safety metrics. For smaller companies, the costs associated with collecting, analyzing, and publishing data remain an inhibiting factor to reporting, although this is slowly improving. This disparity in companies' willingness and ability to provide consistent and thorough disclosure has led to some difficulties in interpreting sustainability performance data or developing comparative analyses among companies in a given industry.

To overcome these reporting issues, several organizations have formed to develop standard sustainability reporting frameworks. Some of the most prominent of these organizations include the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB). GRI, which grew out of the Ceres coalition, is fast becoming the standard sustainability reporting framework. Meanwhile, other organizations, including the CDP (formerly the Carbon Disclosure Project), the Forest Stewardship Council, and the Sustainable Forestry Initiative, are becoming standards for certain sustainability-related data, although not sustainability reporting as a whole. Additionally, investor-led efforts for enhanced sustainability disclosure have been spurred by the United Nations Principles for Responsible Investment (UNPRI), which has more than 1,200 signatories.

In an effort to generate consistency and accessibility to the multitude of frameworks and standards for sustainability disclosures, Ceres and the Tulles Institute are partnering to create the Global Initiative for Sustainability Ratings (GISR). GISR hopes to craft a uniform standard to assess corporate sustainability performance through accreditation of existing corporate sustainability rating systems based on those standards. The standards comprise three parts – Principles, Issues, and Indicators. The Principles component was released in December 2013 with the remainder of the standard expected in late 2015.

Securities and Exchange Commission (SEC) Discussions on Sustainability and ESG Reporting

The SEC established an Investor Advisory Committee in July 2009, which, as one of its responsibilities, examines sustainability-related corporate disclosure. In 2010, the SEC issued a new guidance clarifying how companies should disclose the material effects and management of climate change in their 10-Ks. Additionally, under the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC developed requirements for specialized corporate disclosure of extractive industry companies' management of conflict minerals sourcing, mining health and safety data, and payments to host governments for rights to extractives, as well as pay disparity disclosure comparing CEO compensation to that of all other employees.

Federal Government Sustainability Reporting

In October 2009, President Obama signed Executive Order (EO) 13514, "Federal Leadership in Environmental, Energy, and Economic Performance," which, for the first time, directs federal agencies to prepare annual strategic sustainability performance plans (SSPPs) and to inventory and report their greenhouse gas (GHG) emissions. EO 13514 also requires agencies to designate senior sustainability officers. Because the federal government is so large and affects so many sectors of the economy, sustainability reporting on this level has the potential to have an immense effect. President Obama noted when discussing EO 13514 that, "As the largest consumer of energy in the US economy, the Federal government can and should lead by example when it comes to creating innovative ways to reduce greenhouse gas emissions, increase energy efficiency, conserve water, reduce waste, and use environmentally-responsible products."

Sustainability Reporting Outside of the United States

Outside of the United States, the U.K., Danish, French, Norwegian, and Swedish governments, as well as the Canadian Securities Administrators, have issued guidance and, in some cases, regulated corporate sustainability reporting. Further, a 2011 working paper from Harvard Business School and the London Business School entitled The Consequences of Mandatory Corporate Sustainability Reporting identified countries that have instituted some form of mandatory sustainability reporting and linked reporting to better performance. The European Union also has increased its interest in the subject over the past couple of years through a variety of initiatives (CSR Multi-Stakeholder Forum, Social Business Initiative, DG- for Enterprise and Industry) aiming to address the issue of sustainability reporting requirements. In October 2011, the European Commission adopted A Renewed Strategy 2011-2014 for Corporate Social Responsibility, aimed at promoting sustainable business practices and improving transparency. In 2014, as part of this measure, the EU Council adopted a new Directive on disclosure of non-financial and diversity information by large companies and groups. Based on the report-or-explain approach, the Directive requires large companies to disclose relevant and material information on environmental and social policies and risks, or explain why they are not disclosing the information. Furthermore, in February 2013, the European Parliament adopted two resolutions as part of the implementation of the 2011-2014 CSR strategy, the Report on Corporate Social Responsibility: accountable, transparent and responsible business behavior and sustainable growth, and the Report on Corporate Social Responsibility: promoting society's interests and a route to sustainable and inclusive recovery.

In its International Corporate Responsibility Reporting Survey 2013, KPMG revealed a significant increase in reporting, with 93 percent of the 250 largest companies in the world disclosing sustainability performance information in 2013 compared to 80 percent in 2008. Over half of all reporting companies worldwide (51 percent) now include CSR information in their annual financial reports. This is a significant rise since 2011 (when only 20 percent did so) and 2008 (only 9 percent). However, even though reporting itself is becoming the norm, in KPMG's analysis, the average "quality score" achieved by the top 250 companies for their CSR reports was 59 out of a possible 100, showing that just because companies are reporting there is no guarantee of a good report card. The report also noted that the greatest improvement going forward needs to be made in reporting on suppliers and the value chain.

Supplier Sustainability Reports

In 2011, shareholders expanded the scope of their sustainability report resolution requests by asking companies to require that their suppliers publish sustainability reports, often asking that the suppliers use the GRI guidelines in developing their reports. The proponents mainly targeted the high-tech sector, an industry that outsources most of its operations to developing countries with poor pollution and workers' rights standards. In explaining the need for supplier sustainability reports, the New York City Funds, the main proponent of this campaign, said in its 2012 Postseason Report, "While many companies have programs to monitor and audit the human and worker rights practices of their global suppliers, even the most independent and effective programs are insufficient. The actions requested by the shareowner proposal would complement these programs by bringing needed transparency to the global supply chain."

Sustainability Consortium

The Sustainability Consortium (TSC) was launched in 2009 to develop measurement and reporting systems for product sustainability. The organization has over 90 members (including companies such as Coca-Cola, General Mills, and Wal-Mart) that employ over 8.5 million people and whose combined revenues total over $2.4 trillion. The consortium, led by the University of Arkansas and Arizona State University, is providing research for a Sustainability Index that companies can use to track the environmental impacts of products suppliers make. The index scores suppliers based on the sustainability of their products. The scores then can be factored into decisions on which products are purchased from suppliers for retail sale in stores. Though the information has no regulatory force, companies can use the information to make better business decisions, reduce waste, and show their customers quantifiable commitments to sustainability.

At Wal-Mart for example, the Sustainability Index has been implemented across 700 product categories and applied to 5,000 suppliers. The company has committed to buying 70 percent of goods sold in Wal-Mart and Sam's Club locations in the U.S. from global suppliers who use the index by the end of 2017.

The Global Leader In Corporate Governance

www.issgovernance.com