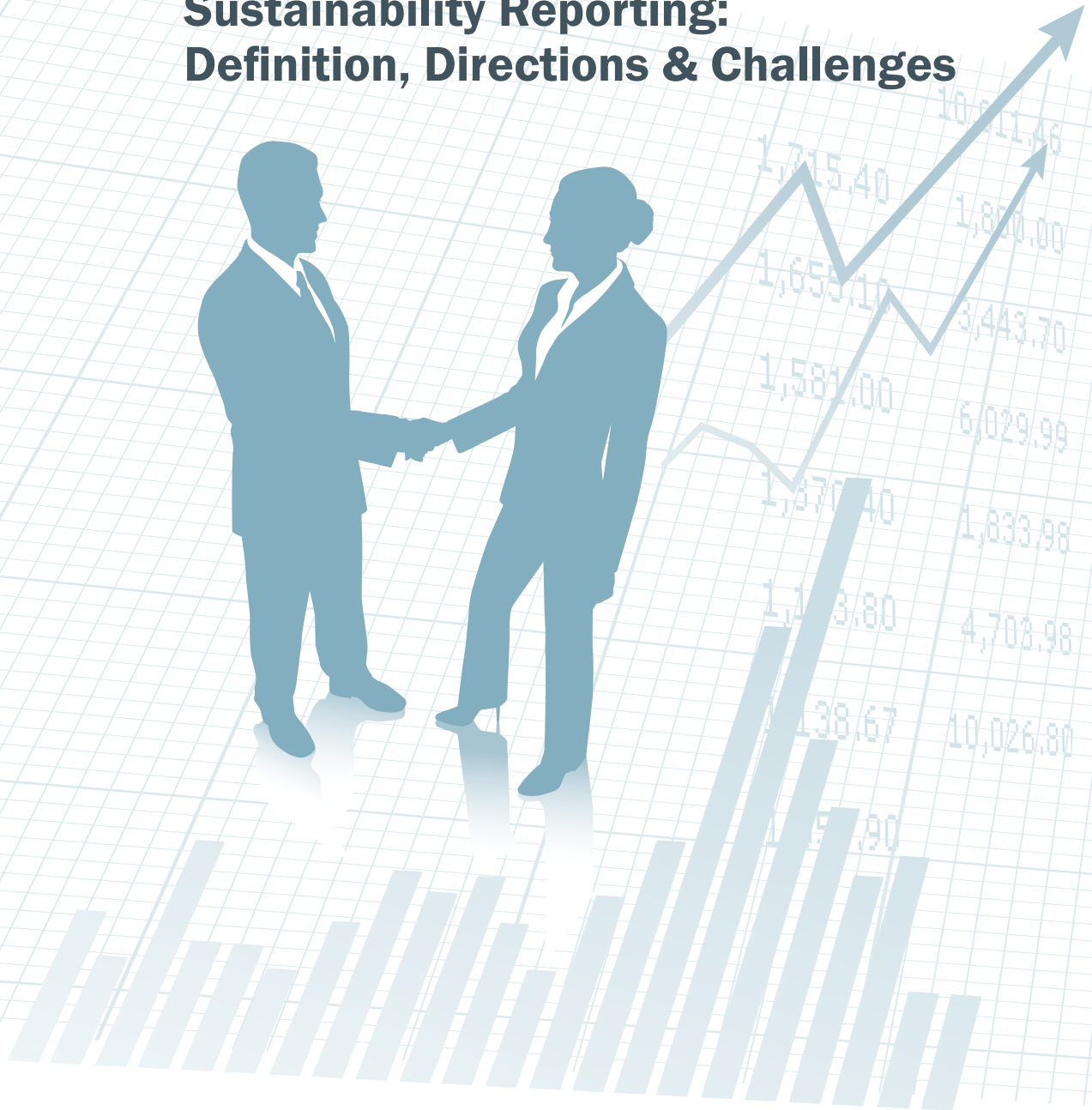


Sustainability Reporting: Definition, Directions & Challenges



This briefing is intended for business people and managers who are new to sustainability reporting and need to get up to speed quickly on the definition, directions and challenges of sustainability reporting. The briefing is not focused on technology and products, but on concepts and understanding the sustainability reporting space. The briefing is organized in a frequently asked questions (FAQ) format.

Background

What is Sustainability Reporting?

There are many definitions of sustainability reporting, but here is the one that informs this discussion:

Sustainability reporting makes the connection between corporate financial performance and corporate environmental, social and governance (ESG) behavior transparent and traceable.

By *corporate*, we mean public and private sector businesses, government and non-governmental organizations (NGOs), referred to as organizations below. In reality there is some overlap between sustainability reporting and other related reporting categories, including Corporate Responsibility (CR) and Environmental Health and Safety (EHS) reporting.

In practice, when a sustainability report is provided by an organization, it takes the form of a printed or online PDF document focused on ESG behavior data and ESG strategy specifically. This report is usually separate and disconnected from the rest of the annual report that is traditionally focused on financial performance data and corporate strategy generally.

However, many organizations now provide their sustainability reports in the form of interactive websites, and a few have gone further and embraced the integration of their financial performance data with ESG behavior data to create what Eccles and Krzus [1] call an integrated or *One Report*.

The table below lists examples of sustainability/corporate responsibility reports that have won international awards for their information and clarity (see the references section for links to these reports).

Company	Award	Body
Vodafone Group PLC	Best Corporate Responsibility Report 2009	The CR Reporting Awards 2010
Banco Bradesco	Most Effective Report	GRI Readers Choice Award 2010
The Timberland Company	Best Sustainability Report	Ceres-ACCA North American Sustainability Reporting Awards 2010

What is the focus of Sustainability Reporting?

Back in 1990, Brian Ing was one of a number of contributors to a book called *Green Reporting: Accountancy and the challenge of the nineties* [2], writing about the changing requirements for green reporting. He suggested a useful framework for green reporting focused on four issues:

- Use of scarce resources
- Pollution
- Social impact
- Global warming

These issues have even more relevance today as the Gulf of Mexico deals with the pollution and social impact of a major oil leak, global warming is almost universally acknowledged and visible

Sustainability reports are usually separate and disconnected from the rest of the annual report that is traditionally focused on financial performance data and corporate strategy generally.

in action as polar glaciers shrink, and many commodities are often subject to violent pricing swings as unpredictable variation in global demand creates shortages.

These big issues are represented by specific behavior relating, for example, to an organization's:

- water usage and conservation
- waste and recycling management
- health and safety and labour ethics
- carbon and other harmful substance emissions
- community engagement and philanthropic activities

Sustainability reporting demands a lot of organizational effort to gather and monitor the evidential data, especially in multinational organizations. This can make it a challenging, time-consuming and costly exercise. Organizations may need to carry out some or all of the following:

- Self-assessments to baseline their current behavior
- Supply chain audits to verify the behavior of suppliers
- Installation of specialized monitoring equipment to record energy consumption, emissions or waste generation
- Lifecycle assessments of key products/services

Sustainability reporting also demands different ways of looking at what an organization does and how it functions, including:

- a resource-centric perspective
- a focus on process, and especially on the inputs and outputs of a process
- a life cycle assessment mentality (cradle-to-grave impacts)

That means less focus on departments and business units and more on people or plants that consume scarce resources or generate harmful emissions. It means less focus on accounts or projects, and more on the input-output cycles buried within core business processes like manufacturing or distribution. It means more attention being paid to the lifecycle impact of products and services from end-to-end.

How is Sustainability Reporting different from Financial Reporting?

Sustainability reporting is not just about non-financial vs. financial data. Unlike much financial performance reporting, sustainability reporting is more about:

- Concrete behavior *on the ground* than abstract numbers created *after the fact*
- Qualifiable behavior values and evidence rather than quantifiable numeric targets and results
- Lifecycle impacts and resource footprints rather than assets and liabilities
- Inputs and outputs rather than expenses and income
- Long-term horizons rather than quarterly goals
- Looking forward rather than looking back
- Looking forward at how to minimize consumption (e.g., energy) or generation (e.g., waste) rather than looking back at what has been consumed or generated.

Effective sustainability reporting is not just about integrating or connecting non-financial and financial data.

2010 could see the publication of more than 4000 sustainability reports worldwide with some 20% representing new reporting organizations.

In today's organizations, the transaction systems for collecting financial performance data, for example accounting or enterprise resource planning (ERP) applications, are pervasive. The transactions systems for collecting ESG behavior data are not (e.g., Environmental Management Systems or EMS). And even if an organization does have an ERP and an EMS system in place, these systems typically operate as information silos that need connecting together at the reporting stage in order to deliver integrated or connected results.

Current Landscape

Who is doing Sustainability Reporting?

According to data published by CorporateRegister.com – who run the annual global corporate responsibility (CR) awards – we should expect that around 4000 CR reports will be published in 2010 and that this figure could include around 800 (or 20%) first-time CR reporters. Regionally, Europe leads the way by volume, with North America and Asia following some way behind, and the UK leading in Europe.

We should also expect around 200 integrated reports, which is about four times as many as in 2006. Indicating some momentum towards a single or 'One Report'. Although this is not represented in the data, it seems reasonable to assume that the bulk of reports are from large or multinational companies rather than small to medium sized enterprises (SMEs). There are a number of reasons for this:

- Some large organizations in some countries are subject to specific regulation that requires them to report some kind of sustainability information – for example certain public-sector organizations in the United Kingdom.
- Producing a sustainability report is time-consuming and costly, so it is something that only larger organizations may be able to justify.
- Larger organizations typically have more sustainability impact and larger footprints than smaller companies, so they have more pressure or reason to report.

That said, SMEs are stepping up to the plate with companies such as Recycle Bank LLC winning the Best SME report category in the CR Reporting Awards 2010.

Why are they doing it and who cares?

There are at least four reasons why organizations compile and publish sustainability reports:

- Values
- Regulation
- Stakeholder Pressure
- Other payoffs

The 1990 book *Green Accounting* [2] identifies Norsk Hydro, a major Norwegian energy company, as an early adopter in providing a level of sustainability reporting. This must have reflected their corporate values as there was no regulatory reason to do so nor, at that time, was there likely to have been serious stakeholder pressure.

Some kind of sustainability reporting has been mandated in some shape or form by various countries such as France (2001), Sweden (2007) and Denmark (2009), and by cities like Buenos Aires (2008). But this regulation mostly applies to the largest organizations only. It seems likely that other jurisdictions will follow despite minimal pressure – only in the form of disclosure

Stakeholder pressure for improved sustainability reporting is likely to grow over the next decade for a variety of reasons.

guidance - from major regulators such as the Securities and Exchange Commission (you can find out more by following the link in the references section).

There are a number of stakeholders with an interest in sustainability reporting. In fact this stakeholder community is better termed a community of interest as some of the most influential stakeholder pressure in the future is likely to come from individual social activists and the environmental media rather than from the traditional investor relations community of regulators, investors, analysts and auditors. Partner stakeholders, including customers and suppliers, are also likely to exert pressure because of their organization's participation in global supply chains and impact on their own sustainability progress.

Stakeholder pressure is likely to grow over the next decade for a number of reasons:

- Climate change and other negative impacts making everyone more aware of the need for reporting sustainability data.
- Regulation making more sustainability data available for access online to the Twitter/Blogosphere and driving more consumer-led backlash campaigns.
- New technology and energy/commodity price points making investors demand that organizations keep up with the latest developments to cut costs or harness new opportunities.
- Supply chain auditing to confirm sustainability principles and practice becomes more rigorous, led by organizations with significant market clout like Wal-Mart (USA) or Marks & Spencer (UK).

In his book [3], Epstein suggests a number of other payoffs that could result from improved sustainability reporting, including using the corporate sustainability model to improve performance and creating new opportunities for innovation.

What does the Sustainability Reporting ecosystem look like?

The sustainability reporting ecosystem is diverse and includes:

- Global standards bodies (e.g. ISO)
- Reporting standards bodies (e.g. the GRI)
- Sustainability watchdogs and analysts (e.g. Verdantix)
- Sustainability award bodies (e.g. Corporate Register)
- Online sustainability report aggregators (e.g. One-Report.com)
- Sustainability reporting and scorecarding software vendors
- Emissions monitors and baseline assessment consultants
- External sustainability assurance and auditing firms

What are the key initiatives in the Sustainability Reporting ecosystem?

It's worth highlighting a few key initiatives in the sustainability reporting ecosystem (other than those driven by regulators in their respective country jurisdictions).

The International Integrated Reporting Committee (IIRC)

A major announcement was made at the May 2010 Global Reporting Initiative (GRI) conference in Amsterdam that follows up on meetings held in London in late 2009. A new International Integrated Reporting Council (IIRC) convened in July 2010 in London to discuss what some call “Connected” reporting and others “Integrated” reporting. Two primary players in this council are the GRI and the Connected Reporting initiative of Accounting for Sustainability (A4S) backed by the Prince of Wales. This announcement reflects more than two decades of work, all over the world at both country-level and at the United Nations, to give environmental, social and governance (ESG) reporting the prominence it deserves.

ISO 26000

According to the International Standards Organization (ISO), the newly released ISO 26000 is an international standard for “...providing voluntary guidance on social responsibility (SR).” Despite the fact that it is not a certification like ISO 14001:2004, ISO 26000 is likely to have a positive impact on the uptake of sustainability reporting as the debate around the standard has involved some 80 countries and 39 liaison organizations under the joint leadership of the ISO members for Brazil and Sweden.

AA1000 Assurance Standard

AA1000 was launched by ISEA - the Institute for Social and Ethical Accountability (aka Accountability) - in 2003. According to their website:

The AA1000AS is the first non-proprietary, open-source Assurance Standard that covers the full range of an organization’s disclosure and performance. In applying the AA1000 Assurance Standard (AA1000AS), the Assurance Provider evaluates the credibility of the sustainability report, and assesses the underlying systems and processes that deliver the relevant information and underpin the organization’s performance.

Assurance standards like AA1000 are likely to become more important as sustainability reporting ramps up and particularly if it is subject to regulatory control. External assurance is key to stakeholder confidence in the veracity of the data reported in terms of its materiality, completeness and reflection of the needs of an organization’s stakeholder community.

What does the technology landscape of Sustainability Reporting look like?

There are a variety of software applications and tools designed to support sustainability reporting but this is not yet an industry sector with a clearly identifiable lead vendor like Microsoft, Oracle or SAP. Most of the software used to support sustainability reporting falls into three categories:

- Niche report writers and scorecarding applications that collect various kinds of ESG data, publish it in various formats and may be specifically designed to support country-level regulation such as the UK’s Carbon Reduction Commitment (CRC).
- Environmental Management Systems (EMS) that include functionality to capture and report sustainability data within their set of modules. Sustainability reporting is a module or capability within these often broad and deep application suites.
- Triple Bottom Line (TBL) capable accounting software or specialist modules offered within the framework of an established ERP suite (e.g., SAP). TBL accounting systems are applications designed to reflect the TBL ethos of people, planet and profit.

Another dimension to the technology landscape is the release of extensible business reporting language (XBRL) taxonomies to standardize how sustainability data is reported.

Another dimension to the technology landscape is the release of extensible business reporting language (XBRL) taxonomies to standardize how sustainability data is reported. For example, the GRI has developed an XBRL taxonomy for their indicator sets and the Spanish Association of Accounting and Business Administration (AECA) has also released a taxonomy for submission and scorecarding of social responsibility reports. If more sustainability data is reported as XBRL files (i.e. instance documents) then we can expect that it will become easier to compare and contrast sustainability data within and across peer groups and other communities of interest.

Technology has an important role to play in sustainability reporting. Technology helps to gather the data, to prepare it for reporting, to standardize the data using internationally agreed formats based on XBRL, and to communicate the data in new and visual ways that leverage the new social networks on the Web. Effective use of existing and emerging technology will ensure optimal transparency of the environmental, social and governance behavior of organizations for the benefit of all stakeholders – not just those with a financial interest in the business.

Future Directions

Where is Sustainability Reporting Going?

Currently, sustainability reporting is being held back by:

- lack of content standards
- lack of data standards
- lack of regulation

We can only hope that this will change in the near future.

Although it's unlikely there will ever be one standard for the content of sustainability reporting, there are plenty of promising contenders, including the GRI indicator sets, Accountability's Connected Reporting and other initiatives such as B Corporation in the USA. There is currently no data standard for sustainability reporting although, as mentioned above, the GRI has offered an XBRL taxonomy and an XBRL taxonomy is also used for sustainability reporting in Spain. Limited mandating of sustainability reporting is partly a reflection of lack of content/data standards and partly due to insufficient stakeholder pressure on both regulators and organizations to deliver mandated sustainability reports.

Sustainability reporting is not just about traditional 'annual report' style publications and even online sustainability websites. It's about new ways of delivering sustainability information through interactive experiences like Patagonia's *Footprint Chronicles*. It's also about delivering sustainability information at point-of-contact (POC). Examples of POC sustainability reporting include Timberland's *Green Index* footwear labelling and FlyBe's aircraft emission statement painted on the fuselage.

It's also likely that more of us will access sustainability information delivered via our mobile/cell phones using simple technology such as mobile tags (e.g. QR Codes) and augmented reality (AR) applications. For example, you can snap a tag printed on product packaging with your phone camera to link you to provenance or impact data online for that specific product. Pointing an AR-enabled phone at a location or object can overlay a wealth of sustainability information in your phone's camera display about the location or product.

The future of sustainability reporting is not just about traditional row and column reports, it's about new ways of communicating information to make sustainability information more transparent and more relevant to our daily lives.

The future of sustainability reporting is not just about traditional row and column reports, it's about new ways of communicating information to make sustainability information more transparent, more accessible and more relevant to our daily lives.

References

Books

- [1] Eccles, Robert G. and Krzus, Michael P. *One report: integrated reporting for a sustainable strategy*. Hoboken, NJ: John Wiley & Sons, 2010.
- [2] Epstein, Marc J. *Making Sustainability work: Best practices in managing and measuring corporate social, environmental and economic impacts*. Sheffield: Greenleaf Publishing, 2008.
- [3] Owen, Dave (Ed.). *Green reporting: accountancy and the challenge of the nineties*. London: Chapman Hall, 1990.

Web Sites and Links

The CR Reporting Awards 2010 – Global Winners and Reporting Trends, Corporate Register.com, London (accessed 10 June 2010).

ISO and Social Responsibility (accessed June 10, 2010)
<http://www.iso.org/iso/socialresponsibility.pdf>

S.E.C.'s Interpretative Guidance on Climate-Related Disclosure (accessed June 24, 2010)
<http://www.ceres.org/Document.Doc?id=539>

Best Reports

Vodafone
<http://www.vodafone.com/start/responsibility.html>

Banco Bradesco
<http://www.bradescom.br/site/conteudo/informacoes-financeiras/relatorios-sustentabilidade.aspx?secaold=723&idiomald=2>

Timberland
http://www.timberland.com/corp/index.jsp?page=csr_transparency

RecycleBank LLC
<http://corporate.recyclebank.com/corporate-info/sustainability-report>

Future

Patagonia's Footprint Chronicles
http://www.patagonia.com/web/us/footprint/index.jsp?slc=en_US&sct=US

B Corporation
<http://www.bcorporation.net/>

Acronym Glossary

A4S	Accounting for Sustainability
CRC	Carbon Reduction Commitment (UK)
CSR	Corporate Social Responsibility
EMS	Environmental Management System
ERP	Enterprise Resource Planning
ESG	Environmental, Social and Governance
GRI	Global Reporting Initiative
ISO	International Standards Organization

4340 South Monaco Street, Fourth Floor, Denver, Colorado 80237

Phone: 720.249.2100 / Toll Free: 800.854.8821

Sales: 720.249.2191 / Support: 720.249.2181 / Fax: 720.249.2101

Founded in 2002, **Rivet Software** is headquartered in Denver, CO, and is the pioneer in standards-based business reporting and analytics, serving public and private companies, regulatory agencies and investors worldwide. Rivet enables more Fortune 500 companies in meeting their SEC filings than any other company. Rivet empowers companies with control over the collection, analysis and dissemination of their internal and external financial information helping to advance the transformation of business communication. Rivet's flagship product, Crossfire Financial Reporting Platform™, is a standards-based platform focused on internal and external reporting and analytics. Crossfire® is built on a robust XBRL framework with the support of an integrated information center and is easy-to-use for true information transparency.

© 2010 Rivet Software. All rights reserved.

