



# Reporting for a SUSTAINABLE FUTURE

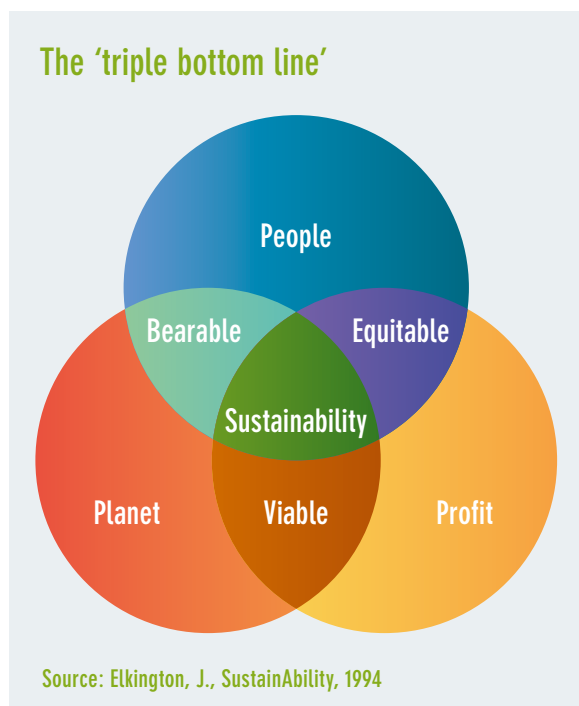
A White Paper by Tudor Rose  
and Tangible Things

## Introduction

This paper discusses the practicalities involved in sustainability reporting by organisations and considers the potential future trends for this type of reporting. The term 'sustainability reporting' is in many cases interchangeable with terms such as non-financial reporting; triple-bottom-line reporting; and corporate social responsibility (CSR) reporting. Any of these may also form part of integrated reporting, which brings together traditional financial reporting with economic, social and environmental disclosures. We look at the current trends in reporting and the opportunities for organisations to follow best practices in this regard.

## Why report on sustainability?

Whether it is conducted on a voluntary basis or mandated by the standards framework/s to which an organisation subscribes, sustainability reporting is an opportunity to share with stakeholders and the wider public information about the core values of the business. Whereas the annual report focuses primarily on economic impacts, the sustainability report balances this information with the environmental and social impacts caused by business activities. The very act of measuring these aspects allows for adjustments to be made to the direction of travel of the organisation to accommodate important issues that otherwise might have gone unmonitored and unaddressed.



By reporting on the 'triple bottom line' – a term that has gained wide popularity over the last two decades – organisations can gain crucial advantages in their management of environmental, social and governance challenges. Customer relations can benefit from sustainability reporting, with brand loyalty receiving a boost. Communications with other external stakeholders may also improve thanks to the channels of communications that are opened for the reporting process.

The 2016 Social Progress Index, published by the Social Progress

Imperative, states that although economic growth has lifted hundreds of millions out of poverty and improved the lives of many more over the last half-century, a model of development based solely on economic progress is incomplete. “Economic growth alone is not enough. A society which fails to address basic human needs, equip citizens to improve their quality of life, protect the environment, and provide opportunity for its citizens is not succeeding. We must widen our understanding of the success of societies beyond economic outcomes. Inclusive growth requires achieving both economic and social progress.”<sup>1</sup>

Essentially, the days when profit could be taken as the primary measure of the success of a business are over. At a time when the global impacts of climate change, resource insecurity, mass migration and other geopolitical, societal and environmental challenges are more widely reported than ever before, organisations are frequently in the spotlight for their policies and actions in the face of these challenges. In addition, the assumption that growth is always good is being questioned as the negative effects of irresponsible growth come to public attention. As a result of these trends, the potential effects for good or ill of the organisation’s wider economic, social and environmental impacts must be taken into account as part of its story.

**“When public and private sector leaders clearly and publicly state – and enforce – the moral principles that will guide their organisation’s activities, constructive changes always result.”<sup>2</sup>**

The task of improving business strategies to achieve a better balance between resource use and activities can pose many challenges. One of the most important aspects of a sustainability report is how it outlines both positive and negative impacts and experiences with a view to improving performance in future. It is about telling the unfolding narrative of the organisation with honesty and openness. When done effectively, this process can build trust and reduce risk, both internally and externally. An added bonus is often that the organisation can contribute more effectively to the welfare of its people and the communities it serves.

Of course, there are costs to this kind of process too. Nowhere are these felt more intensely than by those organisations that find themselves forced to conform to regulatory disclosure requirements that they had

not anticipated or planned for. As an example, estimates for the cost to large public entities of gearing up to implement the new European Union Directive on sustainability reporting range from more than £150,000 to £2 million-plus for companies that have no track record of this type of reporting.<sup>3</sup> This includes all of the adjustments needed to gather, analyse, prepare and disseminate data across large multi-site organisations. For smaller companies, and for those that have taken the initiative in advance of legislation, the costs will be very much lower. However, it is important to consider the full cost implications of reporting, including the potential savings that may be achieved by taking early action.

## History of sustainability reporting

The influential Club of Rome group introduced the concept of sustainability in 1972 with its publication *The Limits to Growth*, which argued that the planet would run out of key resources within a century if the prevailing attitudes to GDP growth persisted.<sup>4</sup>

**“Our economy, environment and financial system cannot be viewed in isolation: each interacts with the other”<sup>5</sup>**

The trend towards reporting on non-financial issues began for big US corporations in the late 1980s, in response to the unprecedented availability of emissions data in the public domain. The work of the Brundtland Commission, appointed by the United Nations to study the connection between development and the environment, also played a major role in drawing attention to the wider impact of corporate activities. The term ‘sustainable development’ emerged from the commission’s work and the task of reporting on the subject began to be taken up on a voluntary basis by increasing numbers of organisations.

The concept of sustainable development gained wider acceptance via various groundbreaking global events, from the 1992 Earth Summit in Rio de Janeiro, through the 2002 Rio+10 summit and later the Rio+20 summit in 2012. More recent drivers for disclosure have arisen from the 2030 Agenda of the United Nations, which came into play on 1 January 2016. Focusing on the principles of people, planet, prosperity, peace and partnership, it introduces 17 Sustainable Development Goals (SDGs), which replace the Millennium



Development Goals that had previously guided Member States.<sup>6</sup>

The SDGs, which cover a multitude of priorities including tackling inequality and poverty, as well as encouraging responsible consumption and production, taking action on climate change and building strong institutions, are already helping organisations prioritise actions to evaluate and mitigate the potential impact of their business decisions. Nicola Ruane of Ernst & Young in the UK says that of the 17 goals listed, Goal 5: Gender Equality, Goal 8: Decent Work and Economic Growth, and Goal 13: Climate Action are likely to affect businesses most in the coming years.<sup>7</sup>

Increasingly, businesses need to consider matters that previously they might have regarded as outside of their sphere of concern. The World Economic Forum's Global Risks Report 2015 lists failure of climate change adaptation and water crises among the major risks most likely to face society, alongside unemployment and underemployment, fiscal crises

and cyber attacks. While the latter challenges have immediate relevance for many businesses, it is smart to be prepared regarding the major threats in the natural world too, for the simple reason that business is also at risk from many of these threats.

Sustainability reporting has come a long way since its inception and is now widely accepted as a way for organisations to tell their stories in ways that resonate with their stakeholders. Traditionally, the circle of stakeholders comprised employees, customers, suppliers and investors. However, as understanding of the potential impacts of organisational activities has widened, the list of stakeholders can include community representatives, government bodies, NGOs, and all elements of the supply chain.

## Demand drivers for non-financial disclosure

Consumer, investor and community demands for organisational transparency are converging in ways not seen previously. Concern over climate change has seen renewed commitment to meeting environmental targets as a result of the United Nations Framework Convention on Climate Change (UNFCCC) Congress of the Parties (COP21) meetings in December 2015. Social accountability is also increasingly in the spotlight, with high-profile revelations of slavery in supply chains, war minerals in household technology production and other abuses.

Several bodies and countries have enacted reporting regulations to enable organisations to respond to environmental and social challenges. The United Nations Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of ten core values in the areas of human rights, labour standards, the environment, and anti-corruption.

**“Disclosure of non- financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection.”**

Directive 2014/95/EU of the European Parliament

Other frameworks that consider the wider impacts of business activity include the Organisation for Economic Co-operation and Development’s (OECD) Title III, Paragraph 3 of the Guidelines for Multinational Enterprises, issued in 2011; Article 19a, Paragraph 6 of the Directive 2014/95/EU on Disclosure of Non-Financial and Diversity Information, issued in 2014 by the European Union (EU)<sup>8</sup>; Decree 2012-557 on obligations regarding transparency on social and environmental disclosure by companies, issued in 2012 by the French Government; Section 1502 of the Dodd-Frank Act, issued in 2010 by the US Government; and the Ley de Responsabilidad Social Empresaria (Proyecto), issued in 2015 by the Argentinean Government.

Organisations that have as their main purpose the benefit of communities have their own system of monitoring through the Benefit Corporation (B-Corp) Legislation Assessment of Nonfinancial Information Against a Third Party Standard for Companies Under The Statute of Benefit Corporation, issued by US states.

Some countries have taken the step of mandating non-financial reporting for companies listed on their stock exchanges. South Africa has the King III directive, issued in 2010 by the Institute of Directors in Southern Africa (IoDSA), while publicly listed companies in Taiwan and Hong Kong are subject to recently upgraded environmental, social and governance (ESG) reporting requirements.

The new EU directive affects larger organisations within the European Union (those employing more than 500 people) as well as some smaller private entities (mostly those dealing with insurance or credit). It requires them to comply with a new set of measures to harmonise disclosure of non-financial information.

The directive requires that companies “include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking’s development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters”. This may include details of the business model, due diligence processes implemented and their outcomes, relevant business risks and how they are managed, and non-financial key performance indicators.

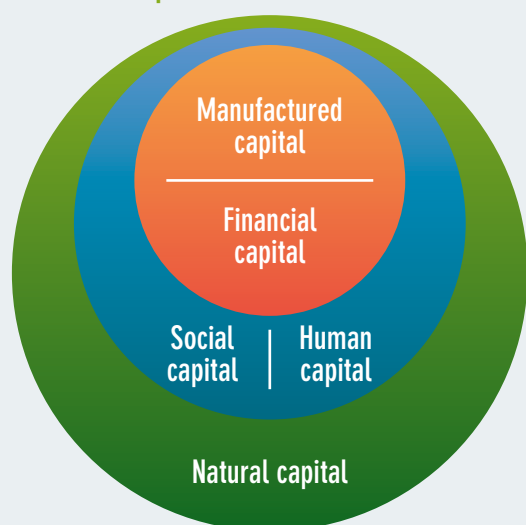
## The business case for reporting

Support for sustainability initiatives has entered the business mainstream in recent years. This is reflected in the UN Global Compact-Accenture Strategy CEO Study 2016, Agenda 2030: A Window of Opportunity, which focuses on the implications for business of the adoption of the United Nations 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs). Of more than 1,000 CEOs surveyed, 87% said that the SDGs provide an opportunity to rethink approaches to sustainable value creation. A similarly high percentage (78%) reported that they could already see opportunities to contribute through core business. Meanwhile,

**“Sustainability reporting can help organisations to measure, understand and communicate their economic, environmental, social and governance performance, and then set goals, and manage change more effectively”**

The Global Reporting Initiative

## The 'five capitals'



Source: Forum for the Future, 2009

nearly half of respondents (49%) agreed with the statement that business will be the single most important actor in delivering the SDGs. These attitudes represent a significant boost in commitment to sustainability since the last joint report in 2013.

One burgeoning source of motivation for C-suite executives is investor pressure, as organisations are held to account by investors who seek assurances regarding their track record in everything from CO<sub>2</sub> emissions to the treatment of workers in supply chains. Although the UNGC/

Accenture study found that investor interest was currently an issue for only 12% of CEOs at the time of the study, a significant 69% of respondents said they believed that it would become an increasingly important factor in future.

There are strong business benefits to organisations that take a proactive approach to non-financial reporting. These include a better understanding of the risks and opportunities facing the business, as well as improved long-term strategy as the relationship between financial and non-financial performance is explored. Many businesses also report more tangible benefits such as more efficient processes and lowered costs. The ability to benchmark the company's performance against others in the same sector is another positive factor.

Sustainability reporting allows for a broader measure of success in business than conventional financial reporting has traditionally allowed, incorporating concepts such as the 'five capitals' described by the Forum for the Future (natural, social, human, financial and technological) and their impact on organisations.<sup>9</sup>

## Targeting the report

Thanks to the commitment of the major bodies engaged in sustainability reporting to maintain an ongoing dialogue that fosters flexibility and sharing of knowledge, it is easier than ever for organisations to find an effective reporting approach that works for them. New approaches to reporting are also



**“One hundred per cent of economic activity is dependent on the services and benefits provided by nature. . . Looking after nature is an unavoidable prerequisite for sustaining economic development. Some leading companies (such as Unilever and Nestlé) have realised this, and are changing their strategies as a result.”<sup>10</sup>**

emerging, as businesses find ways to disseminate the sustainability report via existing and new communication platforms. While some organisations continue to rely on a standalone report every year or two, some are finding that they get more out of a report that is split into different smaller sets of data for specific stakeholder groups. Still others are experimenting with ‘drip-feeding’ information from the report throughout the year via social media.

The question of whether to integrate the sustainability report in the Annual Report may also need to be addressed. These questions require careful consideration of what the report is ultimately intended to achieve. For those organisations that can frame it as a valuable opportunity to learn and communicate (as opposed to an irksome regulatory duty), the opportunities to benefit from this planning process can be considerable.

## **The practicalities of reporting**

While larger organisations often appoint a dedicated sustainability officer, who may also undertake duties within the communications team, some businesses prefer to embed non-financial reporting activities within other departments.

For small and medium-sized businesses, working with an external consultant can be an effective approach, in particular when it comes to acting on the plan to disseminate information to the various target groups via the agreed media platforms. Likewise, a consultant can help in the process of making sustainability an embedded organisational goal with ongoing training and knowledge management. In some cases, this can in time lead to a decision to train an individual internally to take over the sustainability reporting role, while other organisations find it more effective and easier to manage costs by continuing to work with an independent adviser.

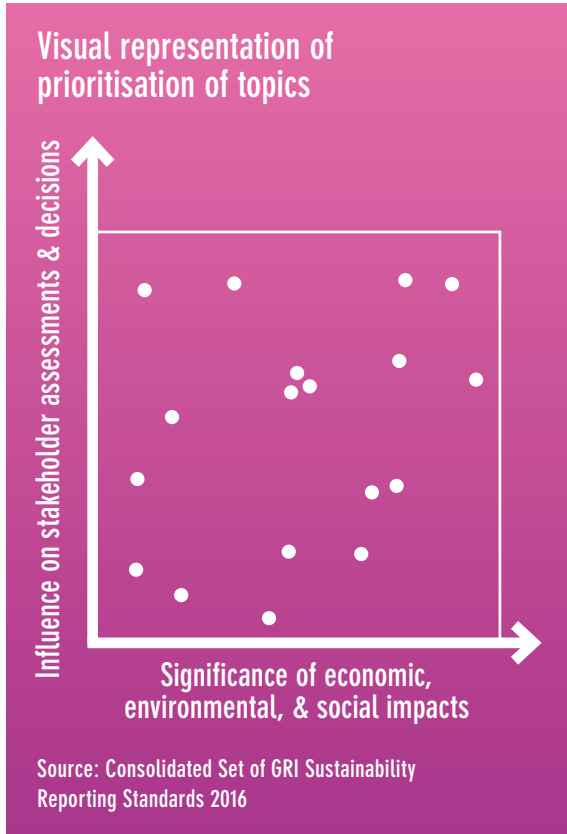
Whether the actual reporting duties are carried out internally or by an outside company or consultant, it is crucial that an individual is identified

within the organisation as the contact point for all internal and external stakeholders and that this individual has the appropriate level of access to the heads of departments and all other groups and individuals whose feedback needs to be incorporated in the final report, as well as to the external stakeholders of the organisation.

## The Global Reporting Initiative

Since its inception in the late 1990s, the Global Reporting Initiative (GRI) has come to provide the most widely used standards on corporate sustainability reporting worldwide. Headquartered in Amsterdam and with reporters active in more than 90 countries, GRI continually develops its standards to meet the changing needs in sustainability disclosure and has helped move corporate sustainability up the agenda from a niche activity to a 'must-have' for many organisations. Currently 93% of the world's largest 250 corporations report on their sustainability performance, according to GRI.

The vision proposed by GRI is to create a future where sustainability is integral to every organization's decision making process. Using a multi-stakeholder approach, the GRI standards encourage transparency and a focus on the public interest as a primary driver for organisational strategy.



On a practical level, the GRI system is highly flexible and adaptable as it is designed to work together with other recognised global standards and frameworks to avoid duplication of effort and data. It has global strategic partnerships with the Organisation for Economic Co-operation and Development, the United Nations Environment Programme and the United Nations Global Compact, and has synergies with the International Finance Corporation, the International Organization for Standardization's ISO 26000, the United Nations Conference on Trade and Development, and the Earth Charter Initiative. This means that organisations can import into their GRI reports data gathered for the reporting processes of any of these bodies.

In addition, GRI is a member of The Corporate Reporting Dialogue, an initiative set up to pursue greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements. Other members of this initiative are the Carbon Disclosure Project, Climate Disclosure Standards Board, Financial Accounting Standards Board, the International Accounting Standards Board, the International Integrated Reporting Council, the International Organization for Standardization and the Sustainability Accounting Standards Board.

## What we offer

### **Tudor Rose**

For over fifteen years, Tudor Rose has been helping clients publish high quality and effective editorial content for clients. During that time, we have collaborated with United Nations and other global organisations to produce a series of landmark publications covering a wide range of sustainability issues.

Tudor Rose is a full participant and signatory to United Nations Global Compact, the world's largest corporate citizenship and sustainability initiative.

### **Michele Witthaus**

As the director of sustainability communications consultancy Tangible Things, Michele is certified to report according to GRI standards.

With a background in journalism and corporate communications, Michele's specialist areas include maritime matters, sustainable tourism, technology and business development. Her recent postgraduate studies through the University of Cambridge's Institute for Sustainability Leadership have enhanced her understanding of the core sustainability challenges facing businesses today.

## Footnotes

- 1 The Social Progress Imperative, 2016. *Social Progress Index 2016*.
- 2 Doppelt, B. (2012) *Business leaders need systemic thinking for sustainability*. Available from: <https://www.theguardian.com/sustainable-business/blog/business-leaders-systems-thinking-sustainability>. Accessed on 09/10/16.
- 3 The British Standards Institute, 2015. Consultation document.
- 4 Meadows, D. et al (1972) *The limits to growth: a report for the Club of Rome's project on the predicament of mankind*.
- 5 Dafermos, Y. et al (2015) 'Towards a new ecological macroeconomic model.' Available from <http://action.neweconomics.org/publications/entry/a-new-ecological-macroeconomic-model>. Accessed on 24/02/17.
- 6 The 17 United Nations Sustainable Development Goals (SDGs) were officially launched on 1 January 2016 to help signatories meet the ambitious targets of the 2030 Agenda for Sustainable Development.
- 7 Ruane, Nicola (n.d.) *What is the business case for the sustainable development goals?* Available from: <http://theheartofthecity.com/news/what-is-the-business-case-for-the-sustainable-development-goals>. Accessed 09/10/2016.
- 8 Directive 2014/95/EU of the European Parliament came into force on 6 December 2014, requiring Member States to introduce laws, regulations and administrative provisions necessary to comply with the Directive by 6 December 2016. The provisions apply from the financial year starting on 1 January 2017 or during that calendar year.
- 9 Independent non-profit Forum for the Future devised The Five Capitals to describe the five types of sustainable capital from where we derive the goods and services we need to improve the quality of our lives.
- 10 Juniper, T. (2013) *What has Nature ever done for us? How money really does grow on trees*. GB, Profile Books.



Tudor Rose, 6 Friar Lane, Leicester, LE1 5RA, UK  
+44 116 222 9900 | [hello@tudor-rose.co.uk](mailto:hello@tudor-rose.co.uk) | [www.tudor-rose.co.uk](http://www.tudor-rose.co.uk)



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