



2. Sustainability Reporting

Definition & objectives

Sustainability reporting can be defined as the public disclosure of information about an organisation’s ‘non-financial performance’ (also termed ‘triple bottom line’) – its management policies, activities, and the result of activities on economic, environmental and social issues. It can be applied for any type of organisation such as companies and public authorities to communicate their contributions towards and impacts on sustainable development over a specified period, usually one financial year, to their stakeholders.

Resource efficiency in sustainability reports

Sustainability reports can contain data relating to resource efficiency such as total use of materials, energy, water, emissions and waste, as well as to energy efficiency of products. Some companies voluntarily disclose the data of resource efficiency improvements in major products (e.g. “Factor” measurement).

Information disclosure has been increasingly recognised as one of the most important mechanisms to stimulate organisations to operate in a more sustainable and responsible manner. Responding to the growing pressure and expectations from customers, business partners, investors and the wider community, sustainability reporting is expected to help organisations identify intangible risks and opportunities connected to their operations through measurement and management. An increasing number of governmental departments and local authorities have also begun publishing sustainability reports.

Mode of operation

The government is only one player in the promotion of sustainability reporting. Various types of organisations in both the public and the private sectors have been playing their roles in different ways according to their political and cultural dynamism as seen below:

Type of promotion	Mode of operation
Governmental regulations	The government can make disclosure of non-financial performance mandatory for public agencies and private companies. Some countries including Denmark, the Netherlands and Portugal ask large companies to report either environmental or social (i.e. labour and community) elements of their activities to the government. There is even an effort for mainstreaming sustainability reporting by requesting non-financial disclosure as part of mandatory annual financial accounts (e.g. the New Economic Regulations in France).
Governmental guidance	The government can promote sustainability reporting by providing guidelines that standardise report contents. Most guidelines include a list of sustainability issues to be dealt with and quantitative and qualitative indicators to be measured and reported, along with guidance on the process of producing reports. So far, several countries including Austria, the UK, Japan and Australia have issued reporting guidelines that have focused on environmental aspects alone. The use of these guidelines is voluntary.
Voluntary initiatives	Internationally, the Global Reporting Initiative (GRI)’s Sustainability Reporting Guidelines are rapidly becoming the accepted international voluntary framework for sustainability reporting. By July 2006, over 870 organisations from 57 countries have used the GRI Guidelines to produce their sustainability reports.
Listing requirements	Stock markets and financial regulators have increasingly called for more accountability and disclosure on corporate governance. South Africa’s Johannesburg Securities Exchange is spearheading this development by requesting all listed companies to disclose non-financial performance.

Business membership requirements	Conditions of the membership of the World Business Council for Sustainable Development (WBCSD) include a clause stating that members should “publicly report on their environmental performance within three years of becoming a member and aspire to widen their reporting to cover all three elements of sustainable development – economic, environmental and social”.
Shareholder/ stakeholder activism	In the US, an increasing number of socially responsible investment (SRI) firms are using their voting power as large shareholders in order to improve the non-financial disclosure of companies in which they invest by filing shareholder resolutions.

Table 1: Types of promoting sustainability reporting

Sustainability rating

Some important investors, such as pension funds in major European and North American markets, are now taking sustainability evaluations of companies into consideration when making investment decisions. Specialised sustainability rating agencies provide investors, banks, fund managers and securities brokers with ratings of companies' environmental and social performance. The two major stock exchange players, Dow Jones and FTSE, have created sustainability indexes of listed companies – Dow Jones Sustainability Index and FTSE4Good, respectively – based on the evaluations of rating agencies.

Rating organisations often compare environmental and social performance of the competitors within the same sectors. For example, Sustainability Asset Management (SAM), a Swiss rating agency, analysed performance of firms in the automotive industry based on their preparedness for climate change (SAM and WRI, 2003). Such evaluations will drive a technological competition between companies towards higher fuel and resource efficiency as investors' interest in sustainability issues increases.

Box 1: Sustainability rating. Source: Heemskerk et al. (2003)

Strengths & weaknesses

Sustainability reporting has certain strengths and weaknesses as an instrument promoting resource efficiency as summarised below:

Strengths	Weaknesses
<p>Highlight the scope for improvement</p> <p>Evaluating environmental performance as part of the development of a sustainability report can highlight the scope for improving resource efficiency in the organisation's operations. The government can identify the companies that actively commit compliance and reduce environmental and social impacts.</p> <p>Attract investment</p> <p>By integrating sustainability performance into its management processes a company can identify linkages between the variables of sustainable performance and the drivers of shareholder value. A quality report can show what measures the company is taking to reduce risks and seize opportunities, which may increase the company's attractiveness for investment.</p> <p>Issues and Reputation Management</p> <p>Sustainability reporting can be an important tool for the company to demonstrate that it is actively dealing with the issues that may potentially become difficult for its reputation in the future. A sustainability report can directly influence the reputation of the company and is therefore becoming increasingly important for the overall corporate communication strategy.</p>	<p>Limits to growth</p> <p>At present, sustainability reporting is mainly a voluntary process. The efforts of pioneer organisations exert a pressure on others to follow their example and also raise the expectations of interested parties. However, the cost and time required for producing reports and lack of support for capacity building have prevented most small and medium-sized enterprises (SMEs) from taking part in reporting activities.</p> <p>Little comparability</p> <p>As the current sustainability reports have different scopes and formats, comparability on performance between organisations is poor despite the fact that many reports are based on similar guidelines such as the GRI Guidelines.</p> <p>Risk of “green-wash”</p> <p>Companies may be more motivated to produce sustainability reports for improving their images and evading criticism than demonstrating transparency and creating stakeholder dialogue, resulting in mere corporate “green-washing”.</p> <p>Regulations lead to the lowest standards</p> <p>Mandatory reporting could lead the organisations towards compliance with the lowest possible standards rather than promote best practices. Companies argue that the “one-size-fits-all” regulatory approach would stifle creativity and experiments.</p>

Engage with its stakeholders

Reporting is also a good way for an organisation to communicate openly about its values, objectives, principles and performance in relation to sustainable development. This makes it easier to build trust with its stakeholders, which is important for continued support.

Little reference to the whole life cycle

Most of the existing sustainability reports deal with information on the whole organisation, or country- or site-level of its operations. From the perspective of profiling and promoting resource efficiency, data on each product or product group throughout its life cycle is essential. However, this type of information has not been provided extensively in sustainability reports to date.

Table 2: Strengths and weaknesses of sustainability reporting

Typical costs incurred for promoting sustainability reporting are profiled as follows. By encouraging other actors to be active in the promotion, the financial burden on the government can be minimised.

Category	Description	Faced by
Setting framework	...for developing a voluntary reporting guideline or setting up legislation for mandatory reporting	Government/Industry association/ International organisation
Capacity building	...for developing manuals and tools and providing firms with training	Government/Industry association/ International organisation
Encouragement	...for organising an award scheme or benchmarking reports	Government/Media/NGOs

Table 3: Costs associated with sustainability reporting

Success factors

Success of sustainability reporting depends on a variety of factors that capitalise on the strengths and minimise the weaknesses listed above. The following factors were drawn from experiences of current sustainability reporting practice:

Success factor	Issues to consider
Provide capacity building	In parallel to providing guidelines on report contents, it is critical for the government to provide companies, particularly SMEs, with practical manuals and training on producing reports or encourage civil society or the industry to do so.
Give “carrots”	Some governments and other organisations set up awards or benchmarking schemes to commend best reports and encourage others to follow.
Share promotional roles	There does not seem to be a single answer on whether mandatory or voluntary reporting is more effective in promoting sustainability reporting. Policy makers need to judge benefits and disadvantages of both approaches carefully taking into account national circumstances. It would be effective for them to involve other actors promoting sustainability reporting (listed in Mode of Operation).
Seek convergence of guidelines	The existence of different national and international reporting guidelines has often created confusion. Governments need to work towards convergence, or at least ensure that national regulations and guidelines are compatible with other reporting provisions so as to improve comparability.
Request product-based information	From a viewpoint of promoting resource efficiency, policy makers can encourage companies to include comparable product-based performance in their sustainability reports as well as to expand the reporting boundaries to address the life cycle of products.

Table 4: Success factors concerning sustainability reporting

To date, around 2,000 companies worldwide – mainly large companies in developed nations – regularly issue sustainability reports along with standard financial statements or annual reports (ACCA and CorporateRegister.com, 2004). A handful of public agencies in Australia, New Zealand, Hong Kong, Finland, Sweden and the United Kingdom also publish their own sustainability reports.

Key Literature and Case Studies

Global Reporting Initiative (2002) *GRI 2002 Sustainability Reporting Guidelines*, GRI, Amsterdam. (The new revised version will be released in October 2006.)

GRI, Triple Innova and Wuppertal Institute (2004) *High 5!: Communicating your business success through sustainability reporting*, GRI, Amsterdam.

Heemskerk, B., Pistorio, P. and Scicluna, M. (2003) *Striking the Balance: Sustainable development reporting*, World Business Council for Sustainable Development (WBCSD), Geneva.

KPMG Global Sustainability Services (2005) *KPMG International Survey of Corporate Responsibility Reports 2005*, KPMG International, Amsterdam.

Pleon Kohtes Klewes GmbH (2005) *Accounting for Good: the Global Stakeholder Report 2005. The Second World-wide Survey on Stakeholder Attitudes to CSR Reporting*. Download: http://www.pleon.com/fileadmin/downloads/Pleon_GSR05_en.pdf

SustainAbility and UNEP (2004) *Risk & Opportunity: Best practice in non-financial reporting*, SustainAbility, London.

Case Studies / Examples	Link
Corporate Register: A List of published Sustainability Reports	www.corporateregister.com
Canada Sustainability Reporting Program	www.sustreport.org
Centre for Public Agency Sustainability Reporting	www.publicagencyreporting.org
Dow Jones Sustainability Index	www.sustainability-index.com
FTSE4Good	www.ftse.com