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Sustainability goals and reporting

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Executive summary

Imagine a world in which you are at the center of a corporate reporting process that is focused on value creation: value creation in relation to your customers, critical resources, intellectual capital and your company's position in society.

Picture yourself managing the data, processes and controls used to assess all that is of material interest to investors and other stakeholders. Your role is more than just reporting the change in financial value; it also includes reporting on all material values created or consumed by your company.

Is that your world currently? It could be.

Sustainability is "an approach to creating long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social trends and challenges."[1] Currently, sustainability reporting is not required or regulated in the U.S. However, interest is growing around issues such as resources consumed and value created (or destroyed), as well as intense scrutiny of more diverse stakeholder groups.

This report gives insight on the current state of sustainability reporting among SEC registrants and highlights unregulated proposals and frameworks. The data comes from in-depth interviews conducted by Financial Executives Research Foundation Inc. (FERF) and Grant Thornton LLP, as well as a review of more than 25 Fortune 500 companies' publicly available sustainability reports.

Our featured findings:

- Financial executives are not as involved in corporate social responsibility matters and reporting as perhaps they should be.
- The finance function's involvement in sustainability reporting (internal and external) adds credibility and confidence in the measurement, data collection and analysis processes.
- Stand-alone sustainability reporting will become accepted practice, but it is likely to be an interim step.
- Reporting that integrates sustainability and social responsibility with financial goals and results to describe for all stakeholders the company's past and future creation of value is likely to be the ultimate objective.
- Financial executives need to play a greater, if not leading, role in these developments.

What is sustainability and corporate social responsibility (CSR)?

"An approach to creating long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social trends and challenges."
– Dow Jones World Sustainability Index

"Meeting the needs of the present without compromising the ability of future generations to meet their own needs."
– United Nations

"A way of doing business that creates profit while avoiding harm to people and the planet."
– The Center for Sustainable Enterprise at the University of North Carolina's Kenan-Flagler

"Sustainability creates and maintains the conditions under which humans and nature can exist in productive harmony, that permit fulfilling the social, economic and other requirements of present and future generations."
– U.S. Environmental Protection Agency

[1] Defined by the Dow Jones Sustainability Index. See www.sustainability-indices.com.

Current state of sustainability reporting

Sustainability is being added to boardroom agendas as corporate directors and top business leaders are beginning to take notice of sustainability issues. This awareness is prompted by "changing of expectations, new regulatory pressures and the realization that cultivating relationships with key stakeholders…is critical to implanting business strategy."[2] In some cases, the initiatives of sustainability have even translated into bottom-line savings. More than half (53%) of all companies in the S&P 500 Index have published a sustainability or comparable report[3].

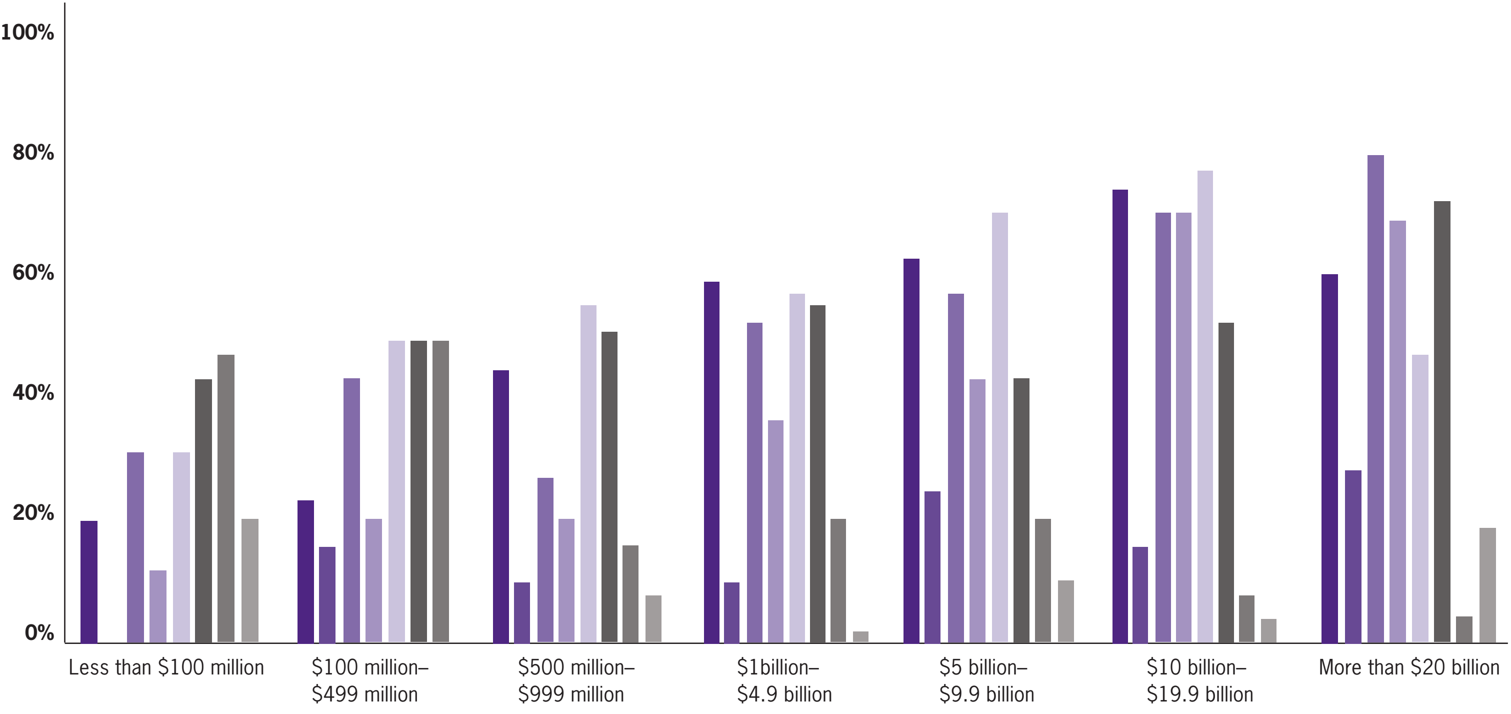
1. Issues

Issues discussed in the boardroom vary depending on the company size. Figure 1 shows the most common sustainability items that are on boardroom agendas as reported in The Conference Board's Sustainability in the Boardroom 2013 survey. Information is based on 283 SEC filers that have revenues ranging from $100 million to more than $20 billion[4].

It seems that workplace safety, corporate citizenship, and privacy and security of customers and employee data are consistently discussed. In contrast, attention to sustainability seems to be lower for smaller companies, but increases with company size. For a list of commonly cited metrics, see page 9.

Industry spotlight

Figure 1: Common sustainability issues



[2] "Sustainability in the Boardroom – a 2013 Update," The Conference Board, March 2013.
[3] "2012 Sustainability Reporting – Does it matter?", Governance & Accountability Institute Report.
[4] *Ibid.*

For further example of variance, the companies below have identified the following topics within their publicly available sustainability report[5]:

Company	Topics
L'ORÉAL	• Sustainable innovation • Sustainable production • Sustainable consumption • Shared development
	• Business and integrated value approach • Caring for our people • Caring for the planet • Inspiring the next generation • Building a supply chain of the future • Respecting human rights
	• Global leadership in addressing chronic disease • Collaborative culture of innovation • Responsibility in the marketplace • Total employee engagement • Progressive environmental stewardship

2. Report channels

Some of the more popular reporting channels are published stand-alone, as a Web-based communication, or integrated within the annual report where circumstances warrant. The Conference Board reported that 46% of listed manufacturing companies, 21.6% of financial services companies and 52.1% of nonfinancial services companies published stand-alone reports. Web-based communications are not far behind at 52.6%, 40.5% and 47.9%, respectively. And surprisingly, as it is not a requirement of regulators, integrated reporting is 28.6%, 35.1% and 21.1%, respectively. Intel proclaims in their sustainability report, "Over the past few years, we have continued to integrate sustainability information into our annual report and 10-K and other investor communications."

3. Performance measurement

The success of an initiative is contingent on the "…ability to measure, track and improve its performance..."[6] The Conference Board also published statistics surrounding sustainability measurement. From an industry perspective, use of sustainability performance metrics is very infrequent. From a company size perspective, as expected, larger companies do incorporate some measure of metrics performance in their process, while smaller companies that do not address sustainability or have a lower participation, do not.

[5] For more information and the full reports, see www.loreal.com/csr-commitments/sharing-beauty-with-all.aspx, www.intel.com/content/www/us/en/corporate-responsibility/corporate-responsibility.html, and www.medtronic.com/corporate-citizenship/about-citizenship/global-reporting-initiative. Logos are used with permission.

[6] "2012 Sustainability Reporting – Does it matter?", Governance & Accountability Institute Report.

4. Current views

We interviewed companies to better understand how they view sustainability. Linda Qian, Corporate Social Responsibility communications manager in Intel's Corporate Responsibility Office, commented, "We have an annual Corporate Social Responsibility (CSR) report in which we use the Global Reporting Initiative (GRI) 3.1 guidelines. We also report to the Carbon Disclosure Project (CDP) greenhouse gas and the water survey. There are a couple of other large surveys that we respond to and some of the sustainability indexes like the Dow Jones Sustainability Index and the FTSE4Good."

The director of investor relations of a large food manufacturing company noted, "We participate in carbon disclosure, water disclosure, and forest footprint disclosure and have a Corporate Social Responsibility review. We also have been doing some CSR reporting in our annual reports for the last few years. When we think about the term sustainability, we think of it as a subset of CSR and directly connected with the environmental. In our most recent review that we just published we refer to the GRI but I would not say we are a GRI reporter at this point."

We also asked consultant and Financial Executives International (FEI) Governance, Risk and Compliance member Kurt Ramin for his thoughts about some of the differences he's seen with regard to sustainability reporting worldwide. He observed, "The U.S. has little pieces like the SEC reporting on climate change[7]. Europe has more as far as regulation is concerned. The [European Union] as a whole is working on making sustainability reporting mandatory. I think they're still a couple of years away because there is no framework around it. Australia would rank pretty high up there, as well; they're doing a lot. I'd say 90% of reporting is voluntary worldwide. In South Africa, however, most pieces of a sustainability report are mandatory there."

The executive in charge of sustainability with a large European investment company commented, "We do have a sustainability report that is integrated into our annual report, as well as a stand-alone reference document. The integration into the annual report shows how sustainability is also embedded into the corporate strategy of our company. From a strategy point of view, it is about a value-creation opportunity and a cost-saving opportunity."

"Many oppose the production of stand-alone reports or integration of sustainability data into regulatory reporting. These companies resist due to lack of external stakeholder pressure; no perceived benefits and thus little motivation to report..."

[7] Commission Guidance Regarding Disclosure Related to Climate Change, Feb. 8, 2010, Release Nos. 33-9106; 34-61469; FR-82.

Francis Quinn, director of CSR Technologies with WebFilings and the former director of sustainability at L'Oreal, based in Paris, noted, "At the European Union level, they are preparing legislation for mandatory CSR reporting. That legislation is expected to be enacted probably in late 2014 or early 2015. The full details are not decided yet, so there it's still ongoing discussions. It's more than likely that this new Europeanwide legislation will be obligatory in all member states whenever it's passed and will probably make some form of CSR reporting mandatory for large companies. They haven't specified yet if that's just listed companies or both listed and private."

Many oppose the production of stand-alone reports or integration of sustainability data into regulatory reporting. These companies resist due to lack of external stakeholder pressure; no perceived benefits and thus little motivation to report; sustainability reporting is a nice-to-do, not a must-do; and the organizational structure and/or culture does not encourage reporting, or the belief that the reporting is superfluous as they already collect and report environmental data[8] (i.e., Mandatory Reporting of Greenhouse Gases[9]).

In a recent speech at Fordham Law School, SEC Chair Mary Jo White indirectly expressed concerns regarding integration of sustainability data in U.S. regulatory reporting by stating: "When disclosure gets to be too much or strays from its core purposes, it can lead to 'information overload' — a phenomenon in which ever-increasing amounts of disclosure make it difficult for investors to focus on the information that is material and most relevant to their decision-making as investors in our financial markets."[10]

Furthermore, she emphasized that the role of the SEC "is best able to shape disclosure rules consistent with the federal securities laws and its core mission. But from time to time, the SEC is directed by Congress or asked by interest groups to issue rules requiring disclosure that does not fit within our core mission."

She elaborated by citing past efforts to incorporate environmental issues in regulatory reporting, "….in the 1970s, after Congress passed a statute requiring all federal agencies to consider environmental values as part of their regulatory missions. The SEC sought to implement this mandate by crafting a rule requiring certain environmental disclosures." After a long, unsuccessful rule-making process, "the Commission declined to require disclosure on any of the social issues…and that disclosure of such nonmaterial information regarding each of the identified matters would render disclosure documents wholly unmanageable and increase costs without corresponding benefits to investors generally." Years later, the SEC's Advisory Committee on Disclosures revisited these issues and recommended "the Commission require disclosure of social and environmental information only when the information is material."[11]

[8] "Why Do Companies Not Produce Sustainability Reports?", *Business Strategy and the Environment*, Volume 22, Issue 7, Nov. 2013.
[9] See www.gpo.gov/fdsys/pkg/FR-2009-10-30/pdf/E9-23315.pdf.
[10] See www.sec.gov/News/Speech/Detail/Speech/1370539864016.
[11] The Commission first addressed disclosure of material costs and other effects on business resulting from compliance with existing environmental law in its first environmental disclosure interpretive release in 1971. See Release 33-5170 (July 19, 1971) [36 FR 13989]. The Commission codified that interpretive position in the disclosure forms two years later. See Release 33-5386 (April 20, 1973) [38 FR 12100]. The Commission provided additional interpretive guidance in the 1979 release. With some adjustments to reflect experience with the subject matter, the requirements were moved to Item 101 in 1982, and they have not changed since that time. See Release No. 33-6383 (March 3, 1982) [47 FR 11380]. See www.sec.gov/rules/interp/2010/33-9106.pdf.

Proposed content standards

Unlike with financial reporting, where standards are mandated based on where the company is reporting, with CSR/sustainability reporting, in many countries, companies are free to select the content standards that best suit their needs. This drives the point Ramin made: “I think the old frameworks don’t work on this. As I said, there’s no framework and that’s really the problem.”

But there are sustainability and integrated reporting frameworks companies can choose to follow (see Figure 2)[12].

The director of investor relations of a large food manufacturing company observed, “This may be a bit of an exaggeration, but it is a bit of the wild, wild west in that there is no GAAP. There is no such thing like that at this point. GRI is trying to do that but there is no law that says you have to comply with that. It’s entirely voluntary. There are a lot of players out there trying to develop standards so that you can have comparability across companies, but we don’t have that right now.”

With regard to sustainability standards worldwide, Harvard Business School Professor of Management Practice Dr. Robert Eccles said, “More and more U.S. companies are producing sustainability reports and it’s been going on for longer in Europe. I think you’ll find that the reports in Europe are more detailed and use the GRI G2, G3 and now G4 guidelines.

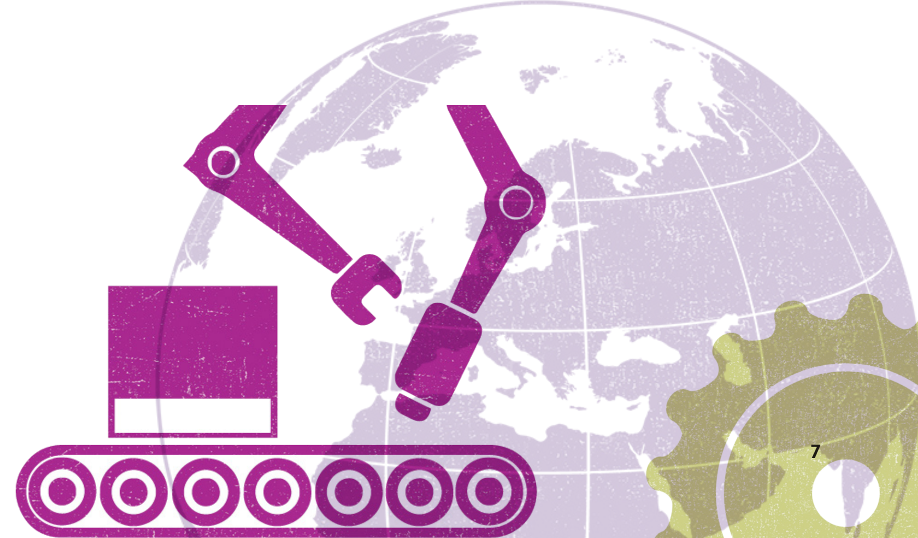
“There is an interesting question of whether companies will move to G4 and I just don’t know since I’m not that close to it. I think GRI has had more traction in Europe than the U.S. because Europe is farther down the path of sustainability than most U.S. companies and GRI is based in Amsterdam and takes a more stakeholder approach.

“The (SASB) is more investor-focused. I really see SASB and the GRI as serving two different audiences. SASB is a much newer organization but awareness is growing. But the standards have only just begun to come out.”

[12] The authors of this report neither endorse nor oppose any of these specific organizations or frameworks.

Figure 2: Sustainability and integrated reporting frameworks

Framework	Purpose	Coverage
Global Reporting Initiative (GRI)	Provides guidelines for disclosure on economic, environmental and social categories.	Global; all corporation types and sizes.
Sustainability Accounting Standards Board (SASB)	Defines what is material and related appropriate metrics and what needs to be reported in Form 10-Ks.	Publicly listed U.S. corporations; foreign companies that are traded on a U.S. exchange. Guidance by industry.
United Nations Global Compact (UNGC)	A platform for business and nonbusiness entities to proactively network and engage in areas of human rights, labor, environment, and anti-corruption to help build a sustainable and inclusive global economy.	Global; business and nonbusiness entities.
Accountability AA1000 standards	Principles-based standards to help organizations become more accountable, responsible and sustainable.	Global; corporations, nonprofits and governments.
ISO26000	Guidance on how businesses and organizations can operate in a socially responsible way.	Global; all corporation types and sizes.
International Integrated Reporting Council (IIRC)	Provides the International <IR> Framework for an organization to create a periodic communication about their value creation over time.	Global; all corporation types and sizes.



Materiality and metrics

Companies can track and measure literally hundreds of environmental, social and governance practices. However, they often struggle in determining what topics and measures are material to their organization and what meets their stakeholder expectations. For this reason, organizations' sustainability reporting really needs to start with a materiality assessment and corporate goal-setting. Some companies use consultants in their materiality assessment, stakeholder engagement and goal-setting. Once goals have been set based on the materiality assessment, the companies identify the measures or metrics that relate to the goals. Some use the metrics suggested by GRI or others. The importance of a materiality assessment cannot be overstated. Without it, organizations may not develop meaningful goals and determine appropriate metrics. The selection of appropriate metrics is an important step for companies before establishing the measurement and information systems requirements. These systems, combined with processes and internal controls, are vital to the credibility of the sustainability data and information reported.

The range of sustainability practices used and metrics reported by companies can vary extensively and in turn can complicate the development of a set of reporting standards broadly applicable across companies. This makes peer group benchmarking extremely difficult.

Clearly, there is incredible diversity in the indicators disclosed. Many factors contributed to this diversity, including differing interpretations of sustainability, a lack of mandatory standards for reporting, different sectors having different reporting priorities, and the need to accommodate local circumstances. Sustainability reporting is still relatively new to many corporations, which may further contribute to the uncertainty about what to measure and disclose[13].

Figure 3 provides the metrics that were analyzed in The Conference Board report, *Sustainability Practices: 2012*. This table is not an exhaustive list, but indicates the commonly cited metrics.

[13] *Sustainability Matters 2013*, The Conference Board, February 2013.

Figure 3: Commonly cited metrics

Disclosure practices			
Sustainability reporting	Use of GRI guidelines	Report verification and assurance	
Environmental practices			
Climate change strategy	NO_X emissions	Renewable energy use	Environmental supply chain policy
Delegation of responsibility for climate change	SO_2 emissions	Water consumption	Energy-efficient products
Emission-reduction initiatives	VOC emissions	Waste water	Biodiversity policy
Total GHG emissions	CO emissions	Discharge to water	Number of ISO 14001 certified sites
GHG Scope 1 emissions	Methane emissions	Recycled water use	Percentage of ISO 14001 certified sites
GHG Scope 2 emissions	ODS emissions	Waste reduction policy	Number of environmental fines
GHG Scope 3 emissions	Particulate emissions	Sustainable packaging policy	Amount in environmental fines
Total CO_2 emissions	Energy efficiency policy	Total waste	Environmental accounting cost
Direct CO_2 emissions	Green building policy	Waste recycled	Number of environmental spills
Indirect CO_2 emissions	Energy consumption	Hazardous waste	Volume of environmental spills
Travel CO_2 emissions	Electricity consumption	Paper consumption	
	Fuel consumption	Raw material consumption	
Social practices			
Human rights policy	Women in the workforce	Employee training policy	Contractor fatalities
Business ethics policy	Women in management	Employee CSR training	Workforce accidents
Equal opportunity policy	Minorities in the workforce	Employee training cost	Lost time from incidents
Fair remuneration policy	Minorities in management	Health and safety policy	Lost time incident rate
Employee turnover	Disabled employees	Total fatalities	Charitable contributions
United Nations Global Compact signatories	Employee age	Employee fatalities	Political contributions

The organizational burden

We asked interviewees how significant a burden sustainability reporting is to their organization and how they deal with that burden. Many of those we interviewed did not want to describe sustainability reporting as a burden.

A director of sustainability at a large telecommunications company responded, "I would not characterize sustainability as a burden as of yet. As of right now, I think it's a good, healthy exercise and allows us to explore our operations. As of right now, it is not overly burdensome. We do not do a full GRI right now so it's not integrated into all our formal financial reporting."

A senior external communications specialist with that same telecommunications company continued, "One of the things that makes our reporting so easy is that we do quarterly reviews and scorecard sharing, so it's not like one day we need to sit down and get all this information. We compile the information throughout the year and then it's an exercise in putting it all together."

The director of internal audit with a large manufacturer noted, "This is certainly an initiative the company has taken on and we think it's important to stakeholders and raising the awareness of sustainability. We've been doing this a number of years now and I don't believe it is a burden now as they've got it built into their processes, which they've been doing now for some time, particularly at the plant level."

Sustainability reporting was not a burden for companies that have mature systems and processes in place that allow them to collect and compile the necessary data. A green project manager from an aerospace and defense company noted, "We have a sustainability reporting lead [project manager] who facilitates and manages the process to work with the relevant teams and departments across the company to centralize the data, content and context."

However, there were a few who expressed concern about the burden of reporting. Quinn noted, "There is definitely a burden, but there is a clear return. The CSR reporting requires all different parts of the business — everywhere from human resources to site operations to product developers and research teams — to come together and write the report; clearly it's work. When you factor in the complexity of a global firm, an awful lot of effort goes into that. What's really important to see is what you get for that effort. There is a burden, but there are also great benefits."

Additionally, the CFO of a large European investment company noted, "The regulation is really meant for larger companies. Setting up the processes for reporting data that may not be covered by smaller companies can be a challenge."

The executive in charge of sustainability of that same company added, "Grenelle[14] requires the level of nonfinancial data that meets the same level as financial data. It is a lot of work."

[14] Grenelle Act in France — requires that every company, private and public, exceeding more than 500 employees, report on the social and environmental consequences of its activities. See www.capitalinstitute.org/sites/capitalinstitute.org/files/docs/Institut%20RSE%20The%20grenelle%20II%20Act%20in%20France%20June%202012.pdf.

The scope of sustainability reporting is increasing

As sustainability reporting continues to develop, more organizations will look to improve their sustainability processes. We asked how interviewees' level of involvement in sustainability has changed. The results were mixed; some were seeing an increase while others were seeing a plateau effect.

Qian commented, "I think things are leveling off from a personal perspective, but to put together a report of this scope and magnitude, we work with well over 100 internal stakeholders across the company." She went on to say, "The conflict minerals reporting requirement is a good example. We've been reporting on the issue from a sustainability standpoint for a number of years — but with recent regulations, it falls not only into sustainability reporting, but also legal reporting requirements. Therefore, future reporting requirements will increase the involvement of more stakeholders across our company."

Meanwhile, a green project manager from an aerospace and defense company remarked, "The scope of sustainability reporting has grown substantially over the last five years, increasing the necessary level of effort required to fulfill internal and external expectations. We expect that trend to continue."

Mark Miller, director of external reporting for Medtronic, observed, "We will see the level of the external reporting team involvement increase in the future if the SEC requires increased disclosures in the 10-Ks or 10-Qs related to sustainability activities."

The director of internal audit with a large manufacturer noted, "Currently, if you look at the progression, degree and the robustness of the reporting and how many different units are included in the reporting, it's clear we're spending more time on it. It's much more comprehensive than what it was in the first few years."

"The scope of sustainability reporting has grown substantially over the last five years, increasing the necessary level of effort required to fulfill internal and external expectations. We expect that trend to continue."

Primary responsibility for sustainability reporting varies

Responsibility for sustainability oversight, based on The Conference Board's findings, indicates that the bigger the company is, the less oversight the board has, but there is more responsibility for the board chairman. Conversely, the smaller the company is, the larger the role of the full board and chief executive officer, and less responsibility for the board chairman[15].

For many of the companies that are producing sustainability reports, a team approach seems to be the most common methodology. However, without C-suite support, the message communicated to employees around initiatives and meeting goals can be confusing.

Over the course of the interviews we found that the sustainability team may include:

- Chief sustainability officer/environmental director/corporate responsibility officer
- Director of investor relations
- Corporate communications
- Marketing
- Financial executives or lower-level personnel from the finance function (not always involved)
- C-suite executives and/or board of directors (varied by company)

The director of sustainability with a large telecommunications company commented, "The company manages sustainability through a team across a number of organizations assigned to it. The environmental, health and safety (EHS) team is absolutely critical in how we manage these issues on a daily basis. One person in EHS pulls all the reports together in terms of data assimilation. Corporate communications plays a very big role in trimming that back into the reports."

The company's senior external communications specialist added, "There is a standard list of information we continually report on. There is no committee to determine what we report within the CSR. It is based on what we see within the industry, what we previously reported on, and anything unique we feel is worth noting, such as our involvement with Solutions for Hope, our conflict mineral initiative."

Miller of Medtronic noted, "One individual has primary responsibility for the annual corporate citizenship report and works with internal contacts across the corporation to gather information and metrics. These include representatives from finance, sourcing/supply chain, EHS, human resources, ethics and compliance, regulatory, reimbursement, philanthropy, IT/information security, quality and safety, and clinical."

[15] "2012 Sustainability Reporting – Does it matter?", Governance & Accountability Institute Report.

Ramin's comments supported the team approach with support from the top: "There was a lot of bottom-up effort. It started in many of the PR and marketing departments. Now, at the smart companies, obviously it resides at the top."

Regarding support from leadership, Quinn said, "One of the biggest challenges is taking the vision from the senior management and funneling that into something that is operational. The second part is to keep the operational teams focused because there is such enthusiasm to do something for future generations."

Qian noted, "Management of different sustainability issues varies. For example, our Eco-MRC (Management Review Committee) is made up of key executives who are responsible for approving the external environmental goals that we set. We rely on our content experts in environmental health and safety to set those environmental goals.

"In many cases our CEO, who was our former COO, was directly involved in the creation and approval of some of our sustainability goals, such as our goal to manufacture the world's first microprocessor fully validated as 'conflict-free.'"

"For example, our Eco-MRC (Management Review Committee) is made up of key executives who are responsible for approving the external environmental goals that we set. We rely on our content experts in environmental health and safety to set those environmental goals."

Finance function involvement in sustainability reporting is limited

Ramin noted, “[Sustainability reporting] certainly wasn’t started in the finance function.” While his comment provides some humor, it also raises an interesting point. What level of involvement does the finance function currently have in sustainability reporting? What level of involvement in sustainability reporting should they have? Our interviews revealed that the finance function’s involvement seems minimal and usually focused on the tracking or reviewing of data.

A prime example of this is Medtronic. Miller said, “Medtronic’s external reporting team reviews the Corporate Citizenship Report financial inputs and provides feedback.”

Similarly, Qian stated, “While financial information is covered in the Integrated Value section of our Corporate Responsibility Report, finance’s involvement in sustainability reporting focuses on tracking metrics and KPIs [key performance indicators].”

The director of investor relations of a large food manufacturing company noted, “I’m in the finance function, and as far as involvement goes, it’s really just me. There is no additional involvement.”

Meanwhile, the green project manager from an aerospace and defense company remarked, “Their role is minimal. Corporate risks, including environmental risks, are accounted for in the 10-K report process, which is independent from environmental sustainability reporting.”

The director of sustainability with a large telecommunications company commented, “Finance does not play a major role in our sustainability activities, and they are not substantially involved at this point.”

For many financial executives with concerns around financial reporting, sustainability simply does not rank high on the priority list. They may not see the value or benefit of sustainability reporting. However, the finance function’s deep knowledge of processes to gather data and report useful information is important. Their understanding of the need for process consistency and internal controls would add tremendous value to companies’ sustainability efforts. It is also possible that the current leaders of the sustainability reporting effort may be a bit fearful of financial executive involvement for those same reasons — the financial executives might not be comfortable with what they find.

An executive in charge of sustainability at a European investment company mentioned, "The primary responsibility of finance is in terms of reference. We aim to translate European Social Survey (ESS) data into euros. Finance is also responsible for determining the economic value and creating links between the corporate strategy and finance."

The CFO of that investment company added, "We also measure the results of the actions the company has taken. We are very diversified; we think it deserves our resources."

Quinn also mentioned the importance of the finance function, stating, "If you're just engaged in an exercise of 'green washing' and PR, you don't need input from the finance team, for sure. Your CSR talks about what you've done in the last year but also looks toward what you're going to do. It's a complement to your financial report in that sense. In general, you get more solid numbers in a financial report than you get in a CSR report. So having the finance team more involved in the CSR reporting is also a way of strengthening and reinforcing processes you have in place to guarantee that those numbers are sound and that they have a real audit trail."

Further to the point of "green washing," Eccles said, "[With] some things, the economic benefits are pretty clear, like with energy. Use less energy, produce less carbon; use less water, don't produce as much waste — and that's kind of what everybody is doing. This is more material for some industries, like manufacturing, than others, like banking. When sustainability issues really aren't material to how a company creates value, and they aren't talking about the sustainability issues that are, there's a good chance there's some 'green washing' going on."

Similar to the finance department, internal audit and risk managers need to be involved with a company's CSR/ sustainability program. Areas of consideration include:

- What are the company's risks?
- What controls are in place?
- Is the program doing what it is supposed to do?

Considering a wide range of risks helps to create achievable objectives, appropriate reporting and measurement metrics, and ensures that results or unintended consequences are correctly reported and managed.

Challenges of collecting and compiling sustainability data are many

Given the massive amounts of sustainability data to be collected and metrics to be reported, the task can be daunting, to say the least. The boundary of sustainability reporting often does not coincide with the boundary of the entities consolidated for financial reporting purposes. Many departments, divisions, subsidiaries, vendors and others may be incorporated into sustainability reporting depending on the desired (or required) reporting boundary. Oftentimes, multiple information systems are not under common control. Efficient processes would help to reduce the stress of gathering and combining information, but may not yet be available.

The finance function can add significant value in the sustainability reporting process. At the European investment company, the executive in charge of sustainability noted that, "One of the challenges is the social data, because oftentimes it is linked to legal. The legal definitions and requirements are often different in the different countries. The data conversion and accuracy is also a real challenge."

The director of sustainability at a telecommunications company reported, "We do have our quarterly process where we're making sure we are collecting it and compiling it so that it never gets out of control. Probably the biggest challenge is when we reach a secondary or tertiary supplier level. We do have confirmation in place and they are complying with our agreements, but in terms of really good sustainability data, I'd say that's probably the biggest challenge."

Miller noted, "Medtronic's biggest challenges are awareness and understanding among internal stakeholders about the GRI framework and clarity around our most material issues. With each report cycle, internal understanding continues to grow. Also, the materiality assessment we just initiated will bring increased focus to our reporting."

Intel's Qian stated, "A lot of the indicators that third-party agencies request are indicators that we are not willing to share externally. Whether that's because it's proprietary information or related to costs or we're legally not allowed to share it, I think that's something all sustainability reporting agencies could take a look at. For example, we won't externally share certain statistics about our employee population or the number of products. Those are things that we're not likely ever going to share from a disclosure standpoint.

"I think something else important to note, too, is: what are they using all this information for? Intel is one of the most transparent companies out there, but it's not clear to me how our information is being used or if it's even valuable to them."

Organizational impact of integrated reporting is significant

The notion of integrated reporting can have many meanings. At its most basic, it could mean a single report that contains all the typical sustainability reporting elements along with traditional financial reporting. The elements are addressed separately, but all within one document. But perhaps the most ambitious concept of integrated reporting is being promoted by the IIRC. As previously noted, the IIRC Framework's fundamental concepts involve reporting about the following:

- The various capitals (financial, manufactured, intellectual, human, social and relationship, and natural) that an organization uses and affects
- The organization's business model
- The creation of value over time

An organization's business model is the vehicle through which it creates value. That value is embodied in the capitals that are increased or decreased depending on how the company operates. The assessment of an organization's ability to create value in the short, medium and long term depends on an understanding of the connectivity between its business model and a wide range of internal and external (sustainability) factors.

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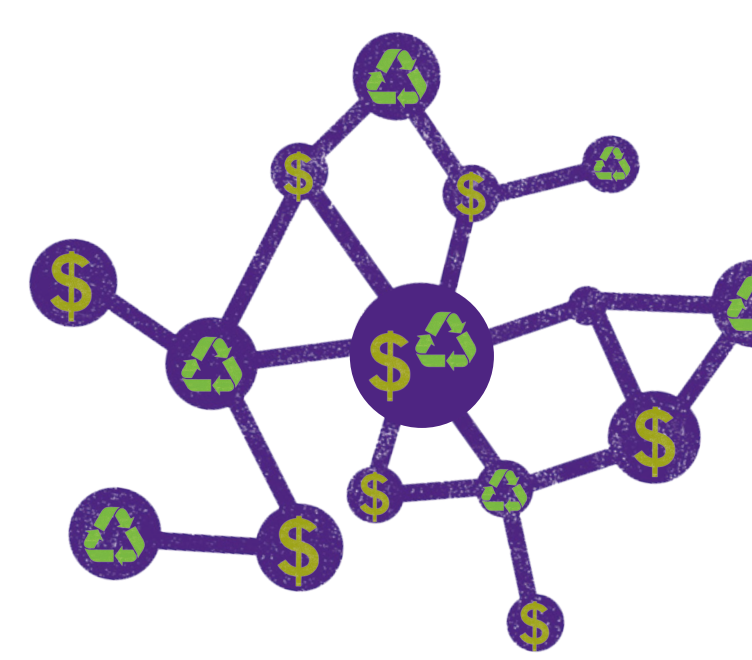
Given his work on the topic of integrated reporting, Eccles observes: "Paul Druckman, head of the IIRC, is concerned that people are going to think an integrated report is just a so-called 'green annual report.' It's just your annual report that you're now adding on environmental stuff. But an integrated report is about a lot more than that and involves the company's strategy and ability to create value over the long term. In the U.S. context, this will have to be done through the annual report because the 10-K is an official filing document that doesn't easily lend itself to incorporating this kind of information, although it can if a company chooses to do so."

Quinn said, "I think integrated reporting will create an extra burden, but that it is well worth it. Integrated reporting requires the same degree of rigor in the CSR numbers that you have from the financial side, and as I said earlier on, the same degree of rigor is just not there. The processes and the extent of the checks and balances and degree of rigor you typically find on the financial balance sheet, you do not find in CSR data. Integrated reporting, as much as I think it's a great idea, represents a stiff challenge to most companies today."



Miller remarked, "We would expect integrated reporting to require more involvement with finance as well as additional resources. We are just beginning to see potential reporting-related impacts such as these. Our sourcing group is now assessing suppliers for citizenship [environmental and social] risks, and follows up with self-assessment surveys to confirm if further action is required, such as audits or training. Also, with the introduction of the GRI G4 reporting guidelines, Medtronic just launched a materiality assessment that we anticipate will lead to citizenship goals and metrics that may impact risk management."

Qian mentioned, "We release the report each year at our annual stockholder meeting, so it's a bit different from other organizations in that we do have a hard deadline. I wouldn't necessarily call our report an integrated report, but we definitely use the guidelines from the IIRC to decide the information that we include and even the structure of the sections. I haven't really seen an integrated report. I do not think it would significantly impact our reporting structure or process. There may be some small changes in terms of when we need to collect the data as some financial forms are released much earlier in the year."

The CFO of a European investment company asked, "What exactly is meant by integrated? The report is integrated into our annual report document. It is our aim to also have it integrated into our processes as well."

The company's executive in charge of sustainability added, "There is a wide gap between our financial and nonfinancial data. There just isn't the level of maturity in the nonfinancial information yet. We don't have as many tools for the nonfinancial information as we do for the financial information."

The green project manager commented, "Yes, integrated reporting would change the level of involvement and resources needed. Initially, it would require increased human and systems resources to fulfill the required and desired level of disclosure within the existing time frame. Over time, depending on how the integrated reporting requirements evolve, the level of involvement may plateau or decrease slightly. Initially, any of the cited changes would create logistical challenges. However, as with changes to any system or reporting scheme, the company would adapt to address the needs of the process."

The director of sustainability stated, "I would imagine it would be a pretty major project that would involve our finance organization and IT. It would be making sure that our current ERP [enterprise resource planning] could include those sorts of requirements. In a perfect world, when the Oracles and SAPs have integrated this where when you click the button to run your general ledger report and sustainability reports come out with it, that will be a game changer."

Ramin noted, "Without technology and tracking objects, nothing is going to happen — especially on the forecasting. Human capital can't be valued, so you need to be able to at least forecast what it's going to cost you for the next couple of years.

"Without the data you're not going to be able to report. For some industries, the data collection is already in the supply chain, so that's good. I think certain industries are well-equipped to do more and move ahead. In the supply chain, in some companies where it's pretty much automated, they don't look at value; they look at the tracking of people and products. It's already there. The smart companies have one system worldwide. Without technology, we can't do much to improve sustainability and business reporting."[16]

[16] See www.theiirc.org/wp-content/uploads/2013/08/103_Kurt-Ramin-and-Stephen-Lew.pdf.

Third-party providers and external assurances play a role

A growing minority is engaging auditors for their CSR/sustainability program. Both accounting firms and non-CPA firms are being employed, but the standards applied by assurance providers can vary, especially with non-CPA firms. It is not uncommon for companies to engage independent auditors to provide negative assurances ("nothing came to our attention") about sustainability reports, but positive opinion engagements are also seen. In support of the growth of assurances from CPAs, the AICPA recently issued Statement of Position 13-1, "Attest Engagements on Greenhouse Gas Emissions Information." The IIRC and GRI encourage companies to obtain independent assurances on reported information. Also, in some cases companies are seeking assurance about information reported by vendors and other third parties by auditing or demanding audits of vendor compliance with codes of conduct.

The director of internal audit with a large manufacturing company commented, "We did use our accounting auditors fairly heavily in the prior year or two, mainly to help set the strategy and goals and do a lot of benchmarking to see what the leading practice was."

The green project manager noted, "Our company is a partner of Conservation International, with whom we consult for benchmarking, public perception intelligence, and industry and corporate trends. We are a CDP Reporter Services member, through which the company is provided with a third-party review of the climate change response prior to the final submission deadline."

While many of the companies we spoke with did not get external assurance, Intel's Qian said, "Setting goals is definitely a largely internal process. A lot of it has to do with our own operations and we have the best understanding of our own business, which is why we kept it internal.

"The third parties that we do use help level set and provide insight into what other companies are doing in the space. We do use external third-party auditors. This is actually only the second year we've had them come in and do an assurance of some of our indicators. Assurances and third-party reviews of this nature are very in-depth, very time-consuming and very thorough. Given that, we really wanted them to focus on the key issues we feel are material to sustainability. We haven't seen many other companies doing an examination level of assurance, especially in the United States."

Regarding assurance, Quinn said, "We're seeing a shift in the trust paradigm. In the 21st century it's, 'I trust you, but show me anyway.' That's where external verification comes in. Take some of your key numbers and get them checked by somebody independent, and that helps support the point of view that says I'm sharing this information with you, but I've also gone and gotten it checked by someone else. So you know the data I'm showing you is valid.

"If you do get an external verifier, that's an audit that you've gotten done. Then use that to look at your process. These audits will show weaknesses in your process and that's how you can make it better. Audits are a great way to get your processes checked; it helps make for a better company. It's like the old saying, 'That which gets measured gets done.'"

Speaking to assurance differences in geography, Eccles observed, "You will see more of this assurance being done in Europe. The audit firms in these other countries are not in the same litigious environment they are here in the U.S. I think that's why you see more of third-party assurances on sustainability reports in Europe."

Conclusion

Similar to the SEC's final rule on conflict minerals, many critically important sustainability reporting issues still remain unresolved. The business case for sustainability reporting really does depend on the intended audience. The distribution of sustainability metrics should be supported by consistent processes, dependable systems, internal control and third-party assurance that provide confidence in the information being reported.

While sustainability reporting may appear on the surface to be a low-risk activity, risk managers should still be involved. A company's internal audit department and even the audit committee should be comfortable that all risks have been identified and that effective controls are in place to mitigate those risks. This is where the finance function's involvement adds credibility and confidence in the efficacy of data collection and analysis.

Key considerations in developing a company's sustainability goals and reporting:

- An engaged and committed board and C-suite should drive sustainability goals, while departments should drive operations and processes.
- Use a collaborative approach by engaging cross-functional resources from marketing and communications, finance and internal audit, and human resources.
- Technology and quality data collection are key to the quality of sustainability reporting.
- Involve the CFO and finance function to leverage their expertise in data and controls.
- Engage third-party service providers to assist in sustainability goal-setting and program development, where appropriate.

Today many companies are recognizing the benefits in efficiency, risk management and value creation of developing sustainability goals and reporting. Leaders recognize that sustainability is not only good for the environment and society, but also good for the long-term viability and profitability of their organizations.

Research methodology

This report is based on in-depth interviews conducted between July and September 2013. The responses are from senior-level executives who are involved in their companies' sustainability reporting process, consultants and leading academics in the field.

The interviews were never intended to cover a statistically significant sample of the corporate population. However, the qualitative findings provide a valuable look into corporate sustainability goals and reporting and the processes used to collect and compile the report data.

The findings should also present crucial insights into both the benefits and the risks associated with sustainability reporting.

In addition to the company interviews, further insights were gleaned from the review of more than 25 publicly available sustainability reports of Fortune 500 companies.

Interviewees

The 12 interviews provided an understanding of what companies are reporting as well as what processes and systems are in place to gather the data used in their reporting. They also provided real-world examples of senior managements' role in establishing sustainability goals. FERF would like to offer a special thank-you to the following individuals for their participation in this project:

- Dr. Robert Eccles, Professor of Management Practice, Harvard Business School
- Mark Miller, Director of External Reporting, Medtronic Inc.
- Linda Qian, CSR Communications Manager, Corporate Responsibility Office, Intel Corporation
- Francis Quinn, Director of CSR Technologies, WebFilings
- Kurt Ramin, MBA, CFE, CPA, CEBS, Consultant, Member of FEI's Committee on Governance, Risk and Compliance, former Partner at PwC and former Director of the IFRS Foundation at the IASB, London

In addition to the interviewees listed above, other executives from the manufacturing, food manufacturing, aerospace and defense, telecommunications, and investment industries were interviewed. For privacy reasons these individuals did not wish to be quoted directly and asked to remain anonymous. Their titles included director of internal audit, director of investor relations, green project manager, director of sustainability, senior external communications specialist, CFO and executive in charge of sustainability.

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