

Sustainability Reporting for Companies

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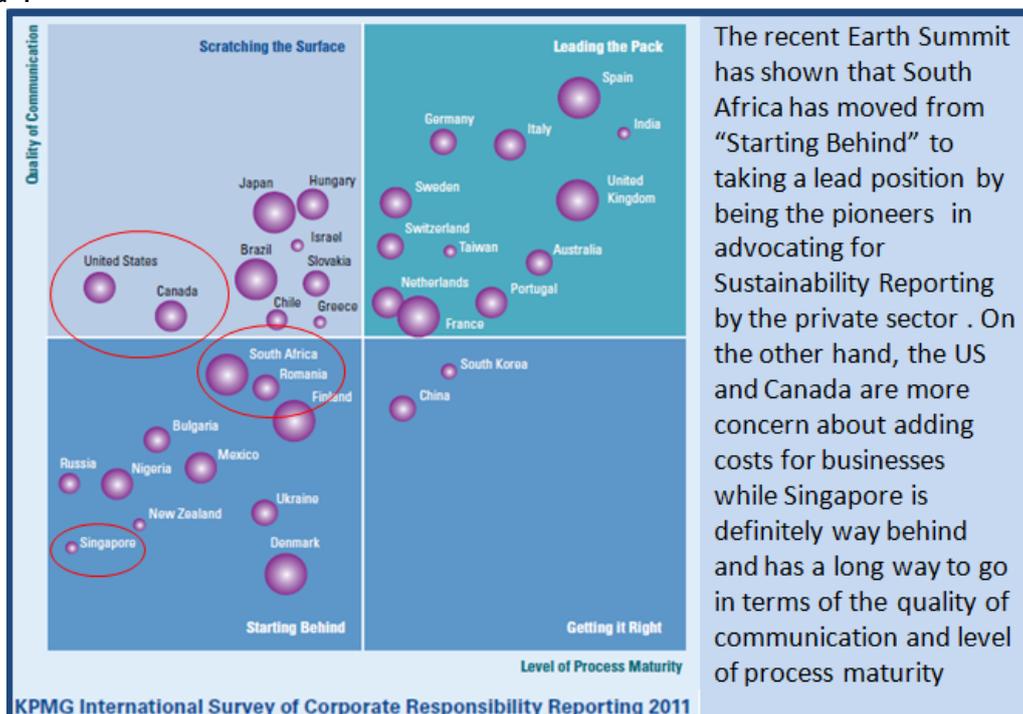
Rio+ 20 UN Conference

Since the Fukushima nuclear disaster in March last year, every leading newspaper, magazine or periodical will carry at least an article on alternative energy sources to nuclear energy and its impact to the environment. However, in recent months prior to the Earth Summit aka Rio+20¹ held in Rio de Janeiro, Brazil last week; the focus has been on climate change, sustainable developments and sustainable energy. Although the Earth Summit came to a closure last Friday with lackluster agreements amongst nation states; the Rio+ 20 UN conference has acknowledged the importance of sustainability reporting.

Paragraph 47 of the revised document 'encourages' companies to integrate sustainability information into their reporting cycle. The development has been championed by the governments of Brazil, Denmark, France and South Africa, which are forming a group of 'friends of paragraph 47' to advance corporate sustainability reporting. The group's vision is that corporate transparency and accountability are key elements to enhancing the private sector's contribution to sustainable development and that making sustainability reporting standard practice among companies will contribute to monitor the impacts on and the contribution to sustainable development by the corporate sector. Brazil, Denmark, France and South Africa are pioneers in sustainability reporting practices and policies and a copy of their joint press release can be found at the link below².

Level of Sustainability Reporting

According to the KPMG Corporate Responsibility (CR) Survey 2011³, about 95% of the 250 largest global companies are engaged in reporting on their corporate responsibilities and this represent an increase of 15% since 2008. However, of those global companies that do not participate in such reporting, two-thirds of these are based in the US. The same report also noted that Singapore is amongst those countries that are "Starting Behind":



Last November, Singapore Compact, a national corporate social responsibility (CSR) society at the Institute of Certified Public Accountants of Singapore (ICPAS) released a finding⁴ that in Singapore, only 79 out of 562 companies listed in the Singapore Exchange (SGX) or 14% are engaged in sustainability reporting for the period ending 2010. The report also noted the following key findings:

- Significant majority of the reporting came from large enterprises even though they made up the smallest group of companies by market capitalization
- The agriculture and transport, storage and communication sectors had the highest rate of reporting
- In comparison, the service and construction industries had the lowest rate of reporting
- Within the property and construction sectors, the property developers lead in sustainability reporting
- The higher participation rate of companies in the agriculture and transport, storage and communication sectors could be attributed to the heightened visibility of issues such as climate change and technological innovations that directly affect these two sectors

While not part of the format text in the concluded agreement at the recent Rio +20 Earth Summit, it was understood that the committee responsible for pursuing sustainability reporting will be discussing with stock exchanges of its member countries on how to encourage more listed companies in respective exchanges to go beyond financial reporting to include non-financial reporting with sustainability reporting as one of the key areas.

In Singapore, SGX released its "Guide to Sustainability Reporting for Listed Companies" in Jun 2011 to reinforce the importance of holistic disclosure. Going beyond regulatory disclosure of financial and governance aspects, listed companies in Singapore are encouraged to voluntarily disclose the environmental and social aspects of their companies' performance in these areas. Notwithstanding the guidelines, Singapore and many countries elsewhere in the world are slow in adopting sustainability activities as part of their reporting to regulators and at shareholders' meetings.

Concerns about Sustainability Development

According to the authors⁵, "Why sustainability is now the key driver of innovation"; they noted that while companies understand that there is no alternative to sustainable development, many companies are convinced that the more environmental-friendly they become, the more the effort will erode their competitiveness. These companies also believe that it will add costs and will not deliver immediate financial benefits.

However, policy makers and green activists are pushing for tougher regulations to force businesses to adopt sustainable practices. In addition, more educated and organised consumers are also demanding from businesses to produce products and services that take into considerations the environmental impacts, ethical sourcing of materials, safety and health considerations for employees and customers in using products and services offered.

Besides local, regional and global pressures, it is also evident that controls on the emission of greenhouse gases will affect the price of energy and the products, services and industries that rely on that energy. Since all sectors of the economy will to varying degree use energy, virtually every business will be affected. As in any market transition, some will be disadvantaged while others will be advantaged.

In a study by Goldman Sachs (GS) Global Investment Research⁶ covering 800 global companies with a combined market capitalization equal to almost 90% of the value of the MSCI World Index, GS noted the following trends:

- The global population is expanding and becoming increasingly wealthy
- As a result, environment impacts have intensified which escalated into social awareness of the threats posed
- Reducing the most severe physical impacts will require significant reductions in emissions, likely requiring significant penalties for carbon emissions

In addition, the study has also presented that the world is approaching the tipping point whereby environmental performance and companies' adaptation to the changing pressures arising from climate change has shifted from the niche to the mainstream within society. Environmental performance is increasingly being viewed as a key component of companies' core strategies rather than as a "social responsibilities".

Goldman Sachs Research: We are close to a tipping point



Source: Acclimatise, Goldman Sachs Research.

The study concluded that consequences of climate change will have an increasing impact on companies' financial performance and more importantly, all industries will be impacted to some extent. Unfortunately, not many companies are responding with urgency on this matter. In the McKinsey Global Survey⁷ carried out on ~3,000 respondents in Jul 2011, only 26% indicated that sustainability is on the CEO's top three agenda up marginally from 23% in a similar global survey in 2010.

Nonetheless, it is imperative that demand of companies to have sustainable development is a given, companies and businesses that see the uncertainties of the market transition as opportunities instead of "constraints" would be in a better position to take full advantage of these new developments.

Taking Action

One of the first steps that companies could do is to incorporate into its company strategies the plan to prioritise and allocate resources to develop measurements and communication of the key indicators regarding economic, environment and social performances to its customers and stakeholders on a regular basis and in a transparent manner.

So how do companies go about doing it?

In the book⁸; "Climate Change: What's Your Business Strategy?" the authors outlined 3 key steps:

Step 1: Know your (company) carbon exposure

Step 2: Take action to reduce the carbon exposure and assess business opportunities

Step 3: Influence the policy development process

Before any reporting could be done, every company should know its own carbon footprint; i.e. its existing baseline and how this compares with its peers in similar industry. Any credible measurement⁹ should include basically direct emissions, indirect emissions and other indirect emissions that are concern with upstream and downstream sources from suppliers and vendors. These baseline measurements will allow companies to set up targets for reductions. Initially, these could be set as internal targets so that different business lines within the company can work towards achieving them over an agreed time frame. Once these activities are embedded as part of the company's processes and targets, plans for external communication could be made.

In the area of assessing business opportunities from this market transition, many companies generally adopt a focus on risk management and bottom-line protection. In contrast, the more forward looking companies would look at developing their climate-related strategies to explore business opportunities and top-line enhancements. One of the key questions that companies need to ask themselves is how the price of carbon would affect the company's business models and how this will impact the models of its competitors.

There is an old Oklahoma saying that sums up the need to influence policy development very well: "*If you are not at the table; you are on the menu.*" Any company would know that regulations of any sort would create business opportunities for some while inhibiting growth of others. To remain competitive, companies should constantly monitor developments relating to measures to cap carbon emissions. Since most governments are engaging the community through public consultation, it is important to be in the position to provide inputs before legislation are enforced. At the highest level, companies should attempt to gain a seat at the table where future regulations are being formulated well before it goes through the public consultation phase which in some countries is already at the "baking" stage.

It has often been a myth that companies in the service industry compared to the energy intensive industries such as transportation, manufacturing and constructions would be the least impacted by sustainability development and hence the lack of urgency for sustainability reporting. Companies with this mindset should make reference to HSBC¹⁰ that has been an early adopter of sustainability reporting and the Goldman Sachs Environmental Policy Framework¹¹.

Read related article by this author at:

[http://www.innovar.com.sg/Archives/Business%20Transition Going%20Green_06Mar11.pdf](http://www.innovar.com.sg/Archives/Business%20Transition%20Going%20Green_06Mar11.pdf)

References:

¹ Rio + 20 United Nations Conference on Sustainability Development at <http://www.uncsd2012.org/>

² Joint Press Release by "Friends of Paragraph 47" at

http://www.unepfi.org/fileadmin/events/2012/Rio20/Press_release_Rio_outcome_document.pdf

³ Report of the KPMG Corporate Responsibility (CR) Survey 2011 can be downloaded at the following url:

<http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/2011-survey.pdf>

⁴ A copy of the Singapore Compact Report can be found at the following url:

<http://www.csrsgapore.org/c/resources/publications?download=43%3Asustainability-reporting-in-singapore-non-financial-reporting-among-mainboard-listed-companies-in-singapore>

⁵ Ram Nidumolu, CK Prahalad & MR Rangaswami, "Why Sustainability is now the Key Driver to Innovation", Greening Your Business Profitability, Harvard Business Review, Harvard Business School Publishing Corporation, 2011

⁶ Goldman Sachs (GS) Global Investment Research: "Change is coming: Framework for climate change". A summary copy is available at:

http://www.unglobalcompact.org/docs/issues_doc/Environment/Change_is_Coming_Framework_for_Climate_Change.pdf

⁷ McKinsey Global Survey results: The business of sustainability Oct 2011

⁸ Andrew J Hoffman & John G Woody, "Climate Change: What's Your Business Strategy?", Harvard Business Press, 2008

⁹ Any company intending to adopt an international standard could consider say [ISO 14001](#)

¹⁰ HSBC Holdings PLC Sustainability Report 2011 can be found at:

http://www.hsbc.com/1/PA_esf-ca-app-content/content/assets/sustainability/120525_sustainability_report_2011.pdf

¹¹ Goldman Sachs Environmental Policy Framework can be found at:

<http://www.goldmansachs.com/citizenship/environmental-stewardship-and-sustainability/environmental-policy-framework/gse-environmental-policy-framework-pdf.pdf>

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