# Value in virtue

As companies increasingly come under pressure to adopt sustainability reporting, the good news is that it can also benefit their business, writes ***Colleen Theron***

The drive for companies to be more transparent about, and accountable for, their impacts is growing. Increasingly, governments are developing mandatory legislation to ensure that companies disclose how they are managing their environmental and human rights impacts (see **transform.iema.net/article/held-account**).

Such disclosure is known as sustainability reporting, and is seen as a vital step towards achieving a more sustainable global economy. In 2015, the UN member states agreed on 17 sustainable development goals (SDGs), which provide an integrated framework for addressing the world's most urgent sustainability challenges. Lise Kingo, CEO of the UN Global Compact, has highlighted "how important it is for companies to adopt sustainable practices and integrate this information into their reporting cycles" (see **pwc.to/2IsCZk2**).

Yet companies often experience difficulty in achieving these goals, according to the Massachusetts Institute of Technology (MIT). In its 2016 article 'Sustainability Lessons from the Front Lines', MIT says "never before have companies been more conscious of the need to run their business in an environmentally, socially and economically responsible fashion. Yet never before have theory and practice been wider apart. When it comes to practising and not just preaching sustainability, many companies struggle, and most flounder, in developing and implementing a sustainable business model."

Many companies still express doubts about the value of implementing a sustainability programme, despite others reporting that sustainability is quantifiable, and that it plays a key role in adding value to their business. So what role has sustainability reporting played in helping companies implement a sustainable business model, and is there a business case for adopting the practice?

## Reasons for reporting

Companies report on sustainability issues for various reasons. They may choose to report on environmental and social issues to reflect their corporate social responsibility or sustainability commitments, or to demonstrate good business practice. Such reporting is a driver for improved performance. They may also be required by legislation to report on sustainability information. Organisations may want to join an ethical index, or be responding to elevated stakeholder activism that pressurises them to be more transparent on environmental, social and governance (ESG) performance. They may also be responding to increased investor demands for this kind of information (for information on environmental reporting, see **bit.ly/2EjmfZY**).

Professional services firm EY says in its 2016 report 'The Value of Sustainability Reporting' that sustainability reporting is here to stay. The company believes this is evidenced by the proportion of companies – 95% of the FTSE 250 – that carry out sustainability reporting and see its link to reputation. Sustainability reporting is viewed as best practice, implemented by companies worldwide, it says (for the Global Reporting Initiative definition of a sustainable report, see **bit.ly/2uND2oo**).

## Benefits and barriers

Documented benefits for businesses that report on their sustainability impacts and objectives include:

- Achieving a higher ranking by stakeholders such as investors and customers who assess the non-financial information – social and environmental impacts – about an organisation. For example, power company GE's brand value increased by 17% after the launch of Ecomagination, an initiative to meet customer demand for more energy-efficient products
- Taking a position of leadership
- Achieving continuous improvement
- Maintaining a 'licence to operate', where a project has the ongoing approval of local communities and other stakeholders
- Building trust with stakeholders
- Reducing compliance costs.

However, there are also barriers to adopting sustainability reporting.

Some companies are legally required to report on their non-financial impacts. But there is a caveat that they should report on their environmental and social impacts 'to the extent necessary for the development/interest of the company', which they view as saying very little. This attitude is, arguably, compounded in the UK by the fact that the Financial Reporting Council's conduct committee – which has power to scrutinise the audited statements of companies – has taken little action against companies failing to comply with these requirements. There is also a sense that companies that are not being requested, by shareholders or investors, to consider these issues simply shrug them off.

To overcome these barriers, companies that see the long-term benefits of reporting, particularly small and medium-sized enterprises, need to demonstrate the business case for doing so.

### BUSINESS BOOST

**+50%**

The proportion of respondents issuing sustainability reports who stated that those reports helped to improve their firms' reputation, in a 2013 survey by Boston College Center for Corporate Citizenship and EY

**+30%**

The level of respondents in the same survey who saw increased employee loyalty as a result of issuing sustainability reports

## Developing the business case

The costs and benefits of producing a sustainability report will depend on several factors: the procedures the organisation already has in place; what legislation applies to the company; the internal expertise within the company; and the appetite of the CEO to report.

To determine the business case for reporting, the company could consider taking the following approach:

- Gather as much information as possible about each area that is likely to benefit the company, such as creating financial value by reducing the costs of operational efficiency, streamlining processes, reducing the costs of managing risk, and increasing stakeholder engagement (see Ardea International's sustainability reporting toolkit at **bit.ly/2q4hjTA**).
- Ask: Do any of your current or potential customers/investors decide to work with/invest in your organisation based to some extent on whether you have a sustainability report with credibility? If so, what is the value of this custom or investment? How much business or value to your brand could you lose if your competitors produce a sustainability report before you? Equally, how much could you gain by publishing the Global Reporting Initiative (GRI) sustainability report before your competitors?
- Once you have gathered information on the benefits of reporting, carry out a cost-benefit analysis. To weigh the costs of producing the sustainability report, a business can consider:
  - the employee time for whoever manages or produces the report
  - the costs for acquiring the skill or knowledge on the technical reporting framework, such as adopting the GRI framework
  - the costs of stakeholder engagement
  - the costs of publishing and distributing the report
  - the cost of assurance
  - any technology required to support the report.

Companies that are resilient in the future are likely to be those that have determined the value of sustainability reporting, and put in place robust processes to evaluate their environmental and social risks.

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