UTOPIES©

SUSTAINABILITY REPORTING AT CROSSROADS

REPORTING TRENDS SURVEY 2012

CONTENTS
Sustainability reporting at crossroads

1. TWO DECADES OF SUSTAINABILITY REPORTING - A word from Utopies

Almost two decades ago, Utopies initiated one of the first social and environmental reports in France, Nature & Découvertes' «Bilan Arc en Ciel». At that time, only a few pioneering SMEs, driven by their CEO's vision, along with a few very exposed industries, were paving the way towards what would become sustainability reporting. Unheard of until then, material issues were brought to decision makers' ears. The wording was carefully chosen. The disclosure approach was both cautious and audacious, focusing on the usual «good news» of corporate communications but sometimes risking the road less travelled by sharing dilemmas, controversial activities and poor performance. Thanks to pressure from NGOs and other organizations like the Global Reporting Initiative (GRI), sustainability reporting has since matured and spread, harnessing the potential of measurement and transparency to trigger change inside and outside companies.

Sustainability reporting is on a mission to bring about change in C-suites and in key-stakeholder decisions. But in spite of all the good steps taken, much still remains to be done. Two financial crises later, it is accepted that:

- **Financial performance only stands for a fraction of companies' real value** and that so-called «intangibles», including a business's capacity to properly deal with its environmental, social and governance issues (ESG) – are vital to long-term success.

- **We need a true revolution to bring back our footprint into safe environmental and social boundaries,** and if business could act as a transformational force to drive this change, there is a consensus on the idea that the revolution has just started.

- **The speed and the depth of change happening within corporations are decoupled from the growing environmental, social and economic challenges ahead.** From fossil-fuel dependence to climate change or biodiversity loss, and their combined effects on a wide range of subjects ranging from food security to political stability, long term prospects for global welfare can seem daunting.

  More than ever, we are on the verge of a new era for businesses. Sustainability has moved from the pioneers to the largest corporations in the world, and is about to go mainstream. Investors and regulators increasingly understand that truly integrating sustainability upstream in the business strategy is key to moving away from short-sighted focus on short-term financial performance. There is return to the essence of corporate purpose: to harness the power of money and human creativity to meet human needs, improve efficiency, create jobs, build wealth and address society's broader challenges. With people feeling more than ever that they belong to a global community with common issues to solve, and information spreading at the speed of light on the Web, companies have to foster new interactions with their communities to become more diverse, local, adaptable and resilient.

This needs to be reflected in and triggered by sustainability reporting. According to the eight trends analysed in this study, integration and interactions are what the future of sustainability reporting needs to be based on, should we want it to help drive the necessary change. As usual, first movers will gain a significant advantage. May this trend report help them, and convince others, to walk these uncharted paths in the years to come.

ELISABETH LAVILLE,
Fondatrice

NICOLAS DELANGE,
Manager

2. OUR STUDY IN TWO MINUTES' TIME

1. Another study about reporting?

Is sustainability reporting becoming interesting once again? While an increasing number of sustainability experts and thought-leaders acknowledge that they have gotten a little bored with reading business-as-usual non-financial reports on a company's sustainability practices (another compliance task on the check-list about which few CEOs get very excited), it seems that something new is bubbling under the still surface of sustainability reporting. According to the 20+ studies and papers[1] published within the last three years, reporting seems to have entered another mutation phase. Integrated Reporting, the role of the regulator and how to harness ICT to improve sustainability reporting are among the trends that have recently been surveyed by others.

2. This time it is different

While this new study draws on insights from previous reports, it aims at:

> Assessing two current major trends: Integrated Reporting and the use of ICT, which are expected to generate more focused, interactive reports.

> Highlighting the macro trends influencing sustainability reporting as identified by mainstream and SRI investors, international experts and opinion leaders in the field.

> Providing information on specific reporting by newcomers (SMEs, public agencies) as well as locally sourced information pieces on the current and future state of sustainability reporting within three of the world's largest emerging economies (Brazil, China, South Africa, India).

3. Why continue reading ?

Sustainability reporting is at crossroads.

- After 10 years, sustainability reporting has become mainstream for big-listed businesses in many countries, with GRI reporting being the standard. Despite this, there has been no sea change in integrating sustainability into business strategies.
- Stakeholders don't read reports and don't use them for decision-making. They want more specific and more accurate information. No longer can one solely publish a one-size-fits-all report and get away with it.
- Huge parts of the economy remain opaque: SMEs, public agencies and SOEs. In emerging countries, where family owned businesses are prominent, sustainability reporting is still an exception.
- Sustainability reporting has to evolve to serve its initial goals.

Investors and shareholders want better reporting, and Integrated reporting (IR) is a trend that no business can escape.

- Our survey identifies specific interest towards the convergence of sustainability and financial information in an integrated report. Materiality, balance and conciseness are key. Risks, opportunities and financial quantification of extra financial data are among the elements expected in an IR.
- The implications of IR are profound for businesses as IR should be the expression of an «integrated strategy». This will also affect companies in how they collect and report on data.
- Although bits of IR exist in some leading reports, it still needs to be clearly framed.

[1] See appendix for more information.

Information broadcasting is dead. The global landscape has witnessed a change in the role of stakeholders, from passive audience to influencers and even producers of sustainability reports. New interactions with the community will define one's brand, as new opportunities arise to build on open information.

- Mobile devices, interactive web pages and other social media platforms are employed by companies not only to reach a wider audience base but also to manage interactions with intended parties, notably at a local or site level.

- Pioneering companies are opening their data and tapping into the wisdom of the crowd.

National sustainability objectives, notably in emerging countries, as well as growing public scrutiny, push public agencies into developing and promoting reporting mandates for businesses within their jurisdiction. They are also expected to set a good example by integrating transparency practices within their internal systems. Meanwhile, as SMEs join global supply chains, they are being pushed into more disclosure on their impact as part of a global flow. These newcomers will contribute to shaping the reporting agenda.

This report presents findings on evolving trends impacting sustainability reporting in the 21st century, based on common opinions expressed by experts, producers and consumers of sustainability reports. From the various surveys conducted with our targeted pool of resources, the results of all our analysis presented here highlight three main trends and seven sub-trends that are most likely to define reporting standards in this century.

A. Trend #1: Integrated Reporting: Is the integration between financial and non-financial information a simple trend or a deep change? How can companies contribute?

B. Digital Reporting or how to structure and value your contents with the help of new technologies?

- **Trend #2: 360° reporting:** Which channels for which stakeholders? How to articulate them?

- **Trend #3: Data visualization:** How to make complex datasets attractive and educational?

- **Trend #4: Local reporting:** How to ensure your sustainability content reaches local stakeholders? How to put info back into context?

- **Trend #5: Open data:** How to face and mine big data? By collaborating with stakeholders and using open data to multiply capacity for analysis and innovation

C. Emerging Actors in the Reporting Process: what will change for you

- **Trend #6: Public agencies reporting:** Public agencies have started reporting on information that could be valuable for other economic players

- **Trend #7: SME reporting:** Corporate responsibility now extends to their whole value chain: how can big corporations collaborate with **SMEs** and remain be accountable?

- **Trend #8: Emerging reporters:** In some **Countries,** the regulatory framework is moving toward mandatory reporting.

Detailed graphs of each survey question and results are contained in the body of the report as well as in the appendix.

4. Our methodology

Number 7 in the worldwide ranking of «reporting partners» established on an on-going basis by Corporate-Register.com[1], Utopies has been fuelling sustainability reporting innovation[2] for almost 15 years. Our study builds on that long experience, on the extensive knowledge of our team and on:

- **28 interviews** of mainly sustainability and reporting experts (39%), mainstream and SRI investors (32,2%) and experts of each of the trends surveyed. The full list of interviewees can be found in the appendix.
- A **benchmarking of 56 companies** selected on a geographical basis and for their leading sustainability reporting practices. High impact sectors are strongly represented. This is a consequence of their historically leading the sustainability reporting agenda. If global trends are visible despite the relatively small size of the sample, results at a sectoral or geographical level are to be used with caution, as these distributions remain uneven.
- **Four regional focuses**, built with the help of three local partners who are experts on the local sustainability reporting market. For more information about our local partners, please see the introductory texts on the back cover.

5. Our partners

South Africa with INCITE
(http://www.incite.co.za/)

Brazil with REVER
(http://www.reverconsulting.com/)

China with BSR China
(http://www.bsr.org/)

India using GRI Focal Point India, GIZ and Thought Arbitrage Research Institute's new report - State of Sustainability Reporting in India – 2012

6. Pictograms

Pictograms are used throughout this study. They indicate that...

Experts: the opinions expressed are the ones of the experts interviewed

Benchmarking: the information is extracted from our benchmarking survey

Focus: provides a specific insight on a key point

[1] Based on the number of reports the company has helped draft – more than 50 in Utopies' case
[2] http://www.utopies.com/spip.php?article787

3. INTRODUCTION
Time to forget sustainability reporting?

IN THIS SECTION

• Sustainability reporting in general and GRI in particular has widely spread among big public companies.

• Other forms of companies still seldom report, and the gap to fill remains huge.

• Reporting has successfully induced better management of sustainability but not driven integration of sustainability in business strategies.

• Regulators are likely to be pushing for more disclosure in the future, but without defining the reporting content.

• Reports are seldom read, and even less used for decision making by key stakeholders. They still lack several key components: materiality, balance, data accuracy and assurance, and stakeholder focus.

• A part of the financial community is calling for expanding the focus from quarterly guidance to long-term focus, thus looking at integrating financial and non-financial reporting.

• The web 2.0 offers new challenges for sustainability communications as it changed top down «broadcasting» into multiple «conversations» and new opportunities for companies to bind with committed communities in co-elaborating the future report.

• The word «reporting» refers both to the act of collecting and packaging information, and the act of disclosing it. Depending on whether you sit inside or outside a reporting organization, expectations and challenges differ.

• The objective of this study is to provide practical insights on key trends affecting the future of sustainability (and wider) reporting to CSOs, CFOs, CCOs, CITs as well as other stakeholders with an interest in the topic.

• Previously a cutting edge trend, now a compliance requirement, sustainability reporting has practically gone mainstream for big, listed businesses.

While this practice has helped push sustainability matters up the agenda of many companies, has it succeeded in achieving all its initial goals? And what is the role of sustainability reporting in driving change for the years to come?

HAS SUSTAINABILITY REPORTING ACHIEVED ITS INITIAL GOALS?

Yes but…

The glass is half-empty or half-full, according to which of the three main levers and initial objectives of sustainability reports are considered:

1. **Measurement:**
corporations would make their report, measure their performance… and change their management and practices, since you only make progress on what you measure;

2. **Materiality:**
while making the report, companies would improve their understanding of material issues and impacts at C-Suite[1] level… and change their strategy – in order to align their business model with sustainability principles;

3. **Transparency:**
stakeholders would read the report… and change (their decisions) – whether it is about investing in, buying from or working for a specific company.

In short, the effectiveness of sustainability reporting has mostly been internal, even though it did not really make it up to C-level: it has been a clear driver for better management of ESG issues, fostering better disclosure and stimulating deeper engagement with stakeholders. The steady increase in reporting shows that it has successfully become a common management practice.

But several shortcomings remain. In trying to address wider stakeholder expectations, sustainability reporting may overlook specific, important information. Lack of, materiality, balance and comparability are among the most frequently mentioned issues. This would tend to explain why sustainability reports are not used enough as decision-making tools by shareholders and customers, two key stakeholder groups in making sustainability material for a corporation.

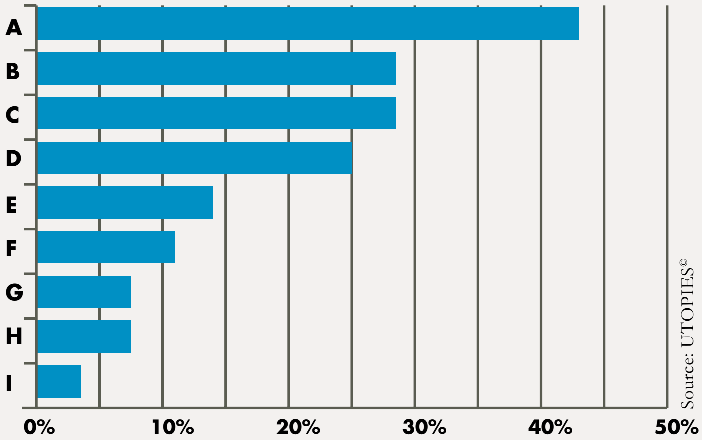
As a result, top-management enthusiasm for reports waned, and sustainability reporting drifted towards mere compliance, becoming just another corporate communication document, instead of a key tool to engage stakeholders and advance strategy. Also, sustainability reporting still strives to spread beyond the big – listed businesses, and huge areas of the economy remain opaque.

[1]e.g. «senior executive» level

WHAT DO EXPERTS SAY?

> What are the most important accomplishments of sustainability reports?

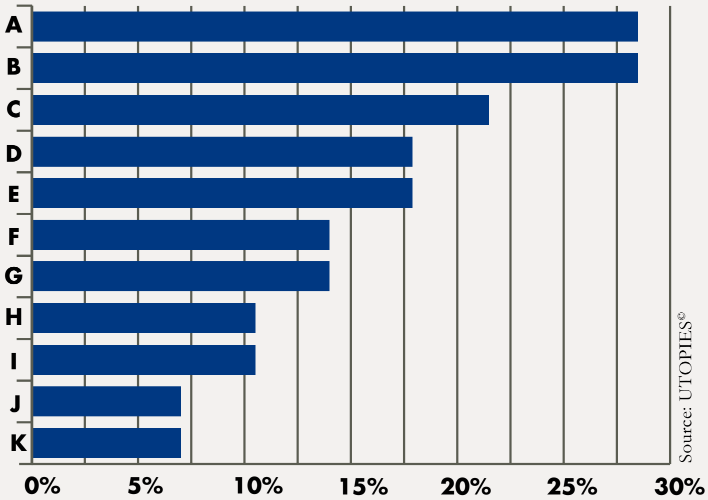
Reports have mostly been effective in raising the awareness of ESG issues and laying the first stones of management systems.



A: Better awareness and management of ESG **(42,9%)**
B: Preciseness and data **(28,6%)**
C: Mainstreaming of reporting **(28,6%)**
D: Opening and engagement with SH **(25%)**
E: More accountablility **(14,3%)**
F: Common standards emerging **(10,7%)**
G: Better communication **(7,1%)**
H: Better CO_2 reporting **(7,1%)**
I: Greater balance and materiality **(3,6%)**

> What are the most important shortcomings about sustainability reports ?

Materiality, balance and comparability are the key points that need to be improved.



A: Lack of materiality **(28,6%)**
B: Lack of balance **(28,6%)**
C: Lack of comparability **(21,4%)**
D: Few reporters beyond big listed businesses **(17,9%)**
E: Lenghtiness of reports and one size fits all **(17,9%)**
F: Low accuracy of data **(14,3%)**
G: Lack of disclosure on strategy & business model **(14,3%)**
H: Compliance approach **(10,7%)**
I: No real change in C-suites **(10,7%)**
J: Multiplication of reporting standards **(7,1%)**
K: Too backward looking **(7,1%)**

1. 20 years of steady progress…

The main goal of sustainability reporting as set out 10 years ago was to prove the case for the value of non-financial reporting. In that sense, looking at the several thousand companies that do report consistently today, the movement has certainly reached that goal. The next step is mainstreaming the practice of sustainability reporting.

J. Wiemer, Global Reporting Initiative

a. Sustainability reporting is becoming a part of business as usual…

The most compelling success of sustainability reporting is that it has proven the case for non-financial information as such, and helped spread the sustainability agenda in companies. According to a study by KPMG, **95% of the 250 largest companies in the world (G250) are now reporting on their sustainability activities.** More than 6000 companies around the world publish sustainability reports. This uptake can be seen as a visible sign that companies have started managing their sustainability impacts.

b. The GRI landmark

The Global Reporting Initiative has over the years clearly become the framework of reference for reporting. For example, **80% of G250 and 69% of N100 companies are now aligning to GRI reporting standards.** This is partly due to a strong international network of «focal points» set up by the GRI and concentrated in high reporting potential countries such as the Brazilian, Chinese, US and Indian markets.

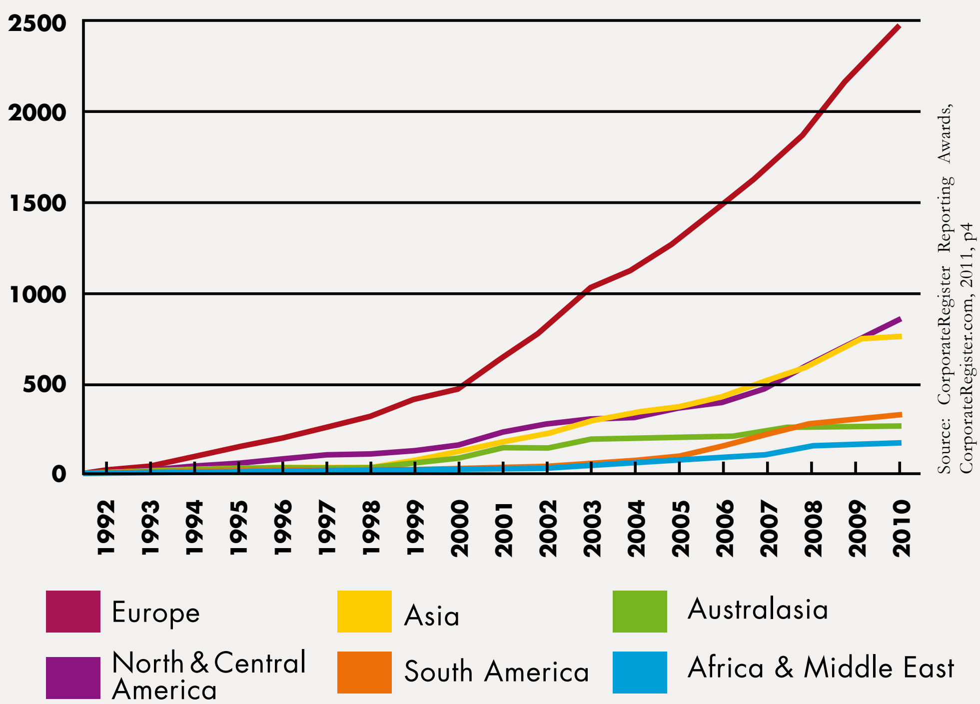
But although the GRI has set a reference for companies to build their reporting on, it has fallen short of addressing comparability issues. For that, and thanks to pressure from key stakeholder groups, issue-specific frameworks are progressively issued. This is the case with investor pressure that has helped improvement in carbon disclosure reporting, with the Carbon Disclosure Project[3] methodology now widely adopted.

c. An unanimous uptake… but at different paces…

European companies have long led the sustainability reporting agenda. As that trend continues, countries of importance for the global economy are starting to leverage sustainability reporting. In this respect, the most notable push comes from **South Africa and China, where almost 60% of largest companies now report on sustainability metrics.[4]** The pace at which sustainability reporting is growing varies from country to country. It reflects the maturity and the strengths of the drivers for sustainability reporting. For instance, the impressive jumps in number of reporters in China and South Africa are more or less directly induced by the adoption of mandatory reporting. Another explanation, for countries where reporting is voluntary, could be that the amount of attention investors pay to nonfinancial information varies according to geographical location (e.g. more in Europe than in the U.S. and Asia) and investment strategy (e.g. more by SRIs and pension funds than by hedge funds and mutual funds[5].

[1] KPMG International Survey of Corporate Responsibility Reporting 2011
[2] According to KPMG's classification, G250 are the top 250 companies extracted from the Fortune 500 2010 listing, and N100 companies are the top companies of each of the 34 countries surveyed in the KPMG International Survey of Corporate Responsibility Reporting 2011.
[3] The Carbon Disclosure Project (CDP) is an independent not-for-profit organization working to drive greenhouse gas emissions reduction and sustainable water use by business and cities. It is at the origin of the most widely used carbon footprinting methodology and holds an extensive database of CO_2 emissions, used by companies, governments, and investors totalling in excess US$78 trillion in assets
[4] KPMG International Survey of Corporate Responsibility Reporting 2011
[5] The Landscape of Integrated Reporting, R. Eccles, B.Cheng, D.Saltzman, Harvard, Business School, 2010

> Reporting output by year, by region



d. The submerged side of the reporting iceberg

While the uptake of sustainability reporting is real in sizeable, public owned companies, a very large portion of the worldwide economy is still virtually untouched by the transparency agenda. Globally, SMEs represent 90% of registered businesses and contribute to 50% of the global GDP[1]. They also represent an estimated 40-60% of global employment.

And it still appears that SMEs, family businesses and privately-owned corporations seldom report. According to KPMG, **69% of publicly traded companies conduct sustainability reporting, compared to just 36% of family-owned enterprises** and close to 45% for both cooperatives and companies owned by professional investors such as private equity firms[2]. The latter two are by far the least likely to report on their sustainability activity with just 46 and 36%, respectively, disclosing information.[3]

That means that the remaining reporting gap is huge. And this is even more of a concern in emerging economies, unlike in the United States or Europe - where shareholders own the largest corporations, with management seldom having a controlling stake. Asian economies for example are largely rooted in thousands of family-owned businesses. Some of these families control giant companies with revenues in the billions of dollars. They often are far-flung, interlocking empires, and comprising interests as varied as construction, shipping and consumer electronics – all sectors with major social and environmental impacts. Should one want to eliminate these «blind spots» of reporting, new drivers will have to be found in order to shine the sustainability spotlight on the shadow economy.

Likewise, while governments and public bodies are likely to push for more disclosure from the private sector, they have not been driving change by setting an example. **The fraction of public agencies reporting according to GRI guidelines in the total amount of GRI reports produced is close to only 1%.[4]**

[1] Forstater, M., MacGillivray, A. and Raynard, P. in cooperation with the UNIDO Private Sector Development Branch, Responsible Trade and market Access: Opportunities or Obstacles for SMEs in Developing Countries? 2006, p.12.
[2] KPMG International Survey of Corporate Responsibility Reporting 2011
[3] Ibid.
[4] GRI Sustainability Disclosure Database, 2010

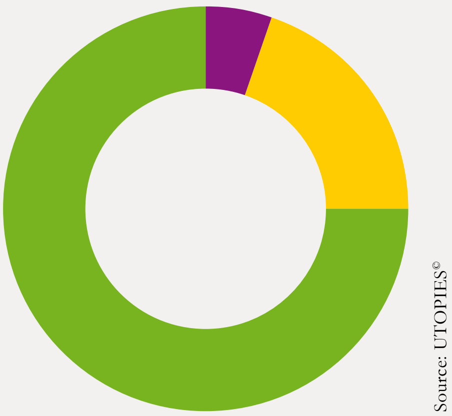
2. Reporting has not driven step change in business models and C-suites

> *Overall reporting has helped open up thousands of companies and their supply chains to new issues and new ways of calculating value. But it would be hard to argue that it has triggered a complete change of hearts and minds at the level of boards and C-suites.*
>
> **J. Elkington, Volans**

Once seen as an exciting innovation, sustainability reporting has drifted to a compliance-led approach. If sustainability is now central to many companies' communications, the challenge of embedding it into strategies remains more pressing than ever.

Let us face it, till date there has been low integration of sustainability in business strategies, and unfortunately low incorporation of business in sustainability strategies. Our expert panel almost unanimously agrees, that although companies have started subscribing to the sustainability agenda, very few can boast of a truly sustainable business strategy. Sustainability reporting has led to the creation of sustainability departments and teams, who are in charge of the design and implementation of sustainability strategies. However these strategies exist on the outskirts of the real, business-led company strategy. Surprisingly, based on a recent survey, 81% of 766 CEOs worldwide think that they have already embedded sustainability into their operations[1]… while among the companies studied in our benchmarking, only 5% give a clear picture of the interconnectedness between their business and sustainability strategies.[2]

> Does the report describe the company business model ?



#1: Sasol gives a clear description of its business model following its value chain, and linking material sustainability issues to parts of the chain.

[1] UN Global Compact-Accenture CEO study, 2010
[2] Apart from maybe those that are explicitly in the business of selling environmental goods and services (EGSs)

3. Reports are not used for decision-making

a. The side effects of GRI compliance

While there is a strong consensus on the fact that GRI guidelines have certainly helped sustainability reporting go «mainstream», we also believe that – together with the natural tendency of businesses to «comply» – they have had several «side effects».

First, companies applying the GRI framework in a «tick the GRI box» manner tend to produce a lengthy, GRI-compliant, one-size-fits-all sustainability report. This may be because the GRI does not target any specific stakeholder groups[1]. One good example of this is the 2010 sustainability report of China Ocean Shipping Company, with its 328 pages, albeit being GRI A+ certified.[2]

As a result, **readership surveys indicate that key stakeholders (namely shareholders and customers) do not use sustainability reports as tools to for making better-informed decisions.** Most of the time, the information they would need does not appear in the report, which ends up being read by consultants, competitors and students. For instance, while investors value the interconnectedness between issues and KPIs, since it is key to understanding changes in strategy, the strict application of current GRI Guidelines allows limited interconnectedness, and leads to a «silo-like» approach of performance disclosure.

Experts have since indicated their preference for concise, straight-to-the point pdf reports linked with web-based details, while GRI framework and reporting regulations have – involuntarily - pushed reporters towards elaboration of a single, lengthy business document.

The GRI – and the reporting community – are well aware of these issues. The new set of GRI «G4» Guidelines, due to be published in 2013 is thus very likely to be addressing them.

b. Not more but better data

> *The first question asked by an SRI investor (or that should be asked) is: how reliable is the data? An audit of non-financial data provides a methodological report that specifies scopes, uncertainties and other useful observations. It reassures investors that the data is reliable, that the company is in a process of continuous improvement, and that it has its reporting under control.*
>
> **CA Chevreux, Pocket Guide: Disclosing your ESG footprint**

Format is not the only reason why sustainability reports are not easily used for decision-making. With the development of sustainability reporting guided by GRI, companies have started disclosing extensive sets of performance data. Although progressing, **the accuracy of data is still considered insufficient for safe decision-making** by expert stakeholders.

A 2011 study on 4000 sustainability reports[3] show that very few KPIs covered the full scope of activity of a company. For example, fewer than one in six companies featured in the FTSE All World Index between 2005 and 2009 reported greenhouse gas emissions that covered all corporate activities, while others did not say to which activities their data referred. The importance of assurance on data is then key, when it itself remains an emerging practice at world level, with no common agreement on what standard is preferred, and on which assurance level fully guarantees the accuracy of data.

The low comparability of data between companies and sectors is another factor playing against sustainability reports, especially when it comes to decision-making by investors willing to invest in a specific sector. Despite the existence of a several sectoral guidelines and wider sectoral initiatives[4], and although analysts seem to be already dealing with that complexity, other stakeholders regret the lack of overall context data enabling them to gain a quick understanding of how a company is positioned vs. its competitors or vs. the criticity of a local risk, for instance.

[1] The GRI is a multi-stakeholder initiative. In that sense, the Guidelines developed are supposed to be addressing the expectations of the wider base of stakeholders. Despite this, the GRI provides extensive sector specific reporting supplements.
[2] https://www.globalreporting.org/reporting/reporting-framework-overview/application-level-information/Pages/default.aspx
[3] http://www.see.leeds.ac.uk/news/news-inner/?tx_ttnews[tt_news]=116&cHash=737fcc26246e7815d368df8eacf08ff5
[4] See for instance GRI sector supplements (https://www.globalreporting.org/reporting/sector-guidance/Pages/default.aspx) and the Cement Sustainability Initiative (www.wbcsdcement.org/)

c. Materiality for all?

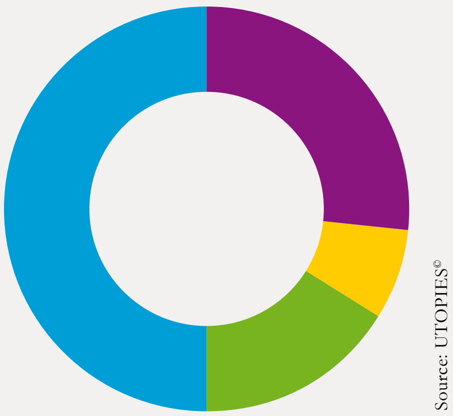
The GRI materiality process is well fit for stakeholders other than investors. Those are generally parallel worlds.

J.P Desmartins, ODDO Securities

Reporting pioneer John Elkington coined the term «carpet bombing», to describe the amount of sustainability information now being published by companies. In 2006, «The Materiality Report»[1] stressed the importance of reporting on sustainability issues that are «material» to companies.

According to interviewees, that objective is still very largely unmet, as a large part of organizations still fail to report on what is material for them. As an illustration, 50% of the 56 benchmarked companies still do not disclose their materiality defining process.

> Description of the process used to identify material issues



Clear link between the processes used and the issues identified (26,8%)

Processes and tools described (7,18%) (e.g. using LCAs, stakeholder meetings, etc.)

Mentionned (16,1%) (e.g. stakeholder meetings, international standards, etc.)

None (50%)

What is materiality?

The concept of materiality is not new and has long been used in financial accounting. The Generally Accepted Accounting Principles (GAAP) state: «Information is material if its omission or misstatement could influence the economic decision of users taken on the basis of the financial statements.» When determining materiality from a sustainability perspective, most organisations also consider the importance the issue has for its stakeholders, in addition to its potential financial impact, although the definition of what should be considered as material varies according to standards and companies' definition of it. The study from the consultancy Fronesys[2] on the use of materiality in sustainability reports concludes, «With the advent of integrated reporting, it will be important to strengthen and combine sustainability and traditional business materiality determination. This should reinforce the need for greater transparency on how the output of the materiality process has influenced the overall, long-term strategic thinking of the company.»

[1] The Materiality Report, AccountAbility, 2006
[2] Materiality Futures, Fronesys, 2012

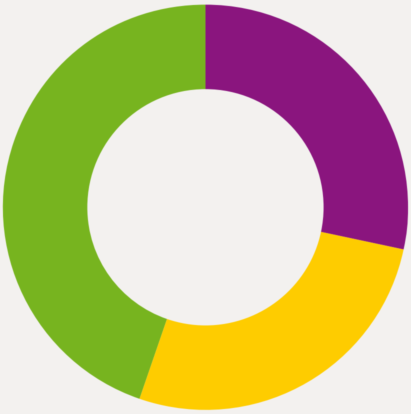
d. Communication or transparency?

> *A lot of companies still do sustainability reporting mainly for window-dressing, only for PR and good news.*
>
> **J. Fries, IIRC, A4S**

Sustainability reporting bears an inherent paradox. It needs to be attractive enough for people to read while remaining to some extent neutral, fact-based and comprehensive. Despite the progressive understanding that «good news only» reports lack credibility, our expert panel still considers much of sustainability reporting as displaying advanced «window dressing».

And the results of our survey prove them right: reports often lack balance, **with almost half of companies still not disclosing which challenges they face,** although this number is already a progress in absolutes. Likewise, stakeholder critical comments on reporting content - a leading transparency practice - is still not widely disseminated.

> Challenges and dilemnas are clearly indentified in the report



Source: UTOPIES©

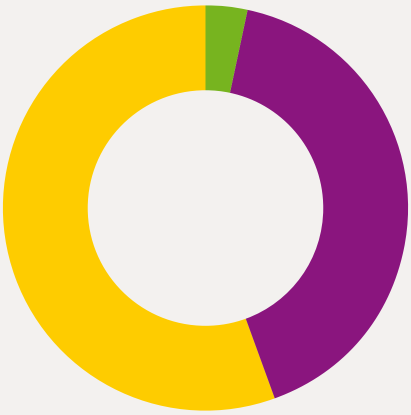
All challenges (28,6%)

Some challenges (26,8%)

None (44,6%)

All challenges: the company tries to systematically identify challenging issues.
Some challenges: key issues or dilemmas are missing.

> Highlight of key achievements, failures, and performance against sustainability targets in the reporting period



Source: UTOPIES©

Achievements + performance (41,1%)

Achievements only (55,4%)

None (3,6%)

Achievements + performance: the company highlights its key achievements but also failures and performance
Achievements only: the company focuses its highlights on "good news".

SUSTAINABILITY REPORTING AT CROSSROADS

> *We mislead ourselves if we think that anything like the current forms of reporting are going to drive change at the necessary scale in the next 25 years.*
>
> **J. Elkington, Volans**

Sustainability reporting needs to spread and transform in order to better drive change and respond to stakeholders' expectations. In this respect, several macro-trends are driving its evolution. We are convinced that sustainability reporting is now at crossroads towards being…

- **…more integrated and regulated;**
- **…more target-focused, interactive and accessible.**

Whether this will lead to better reporting still remains to be seen, and will depend on how companies will take on the challenge. Some experts have insisted that integrated reporting could also lead to more legal-scrutiny on reports' content and therefore leading to less transparency while others stressed the fact that interactive reporting online could very well end up being just another e-hype, with very few stakeholders using the data to inform their decisions.

We believe the challenge is now not so much about choosing what ways are the shortest or the most relevant for one's organization, but for reporters to embrace an experimental approach to reporting. One thing we are sure of: **first movers will gain considerable experience and exposure in charting the premier paths of reporting and sustainability communications**. As with integrated reporting, the lack of an existing framework opens up possibilities for creative solutions thanks to the collaborative efforts of the entire market.

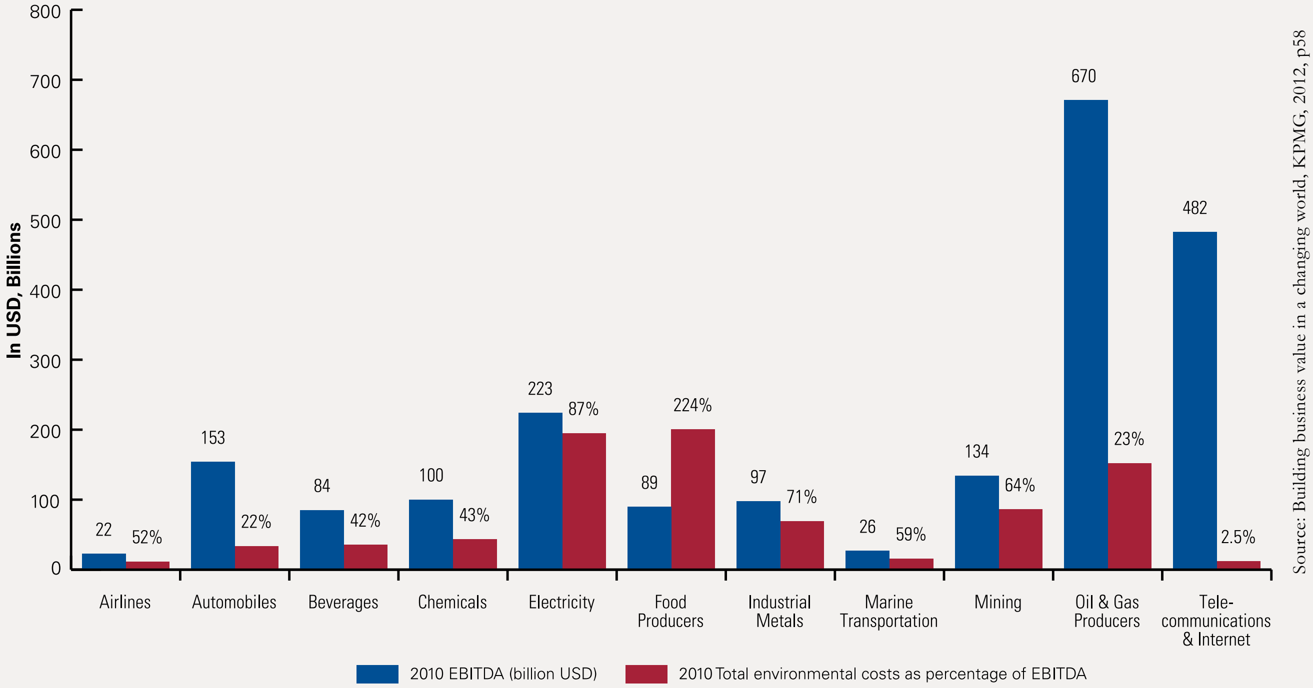
1. From push to pull: financial stakeholders asking for integrated reporting

> *The overarching objective of integrated reporting is to enable stakeholders to assess the ability of an organisation to create and sustain value over the short, medium and long term.*
>
> **South Africa's King's Code for corporate governance & integrated reporting**

The growing concern that financial short sightedness is a major barrier to the true and vital emergence of a sustainable economy is now out in the press, with opinion leaders voicing the need for a longer-term financial focus. The latest wave of The SustainAbility Survey[1] reveals that **a very large majority (88%) of the 642 experts polled see pressure for short-term financial results as a barrier to businesses becoming more sustainable.**

Recent research from KPMG and Trucost shows that **if companies had to pay the full environmental costs of their activities, they would have lost 41 cents out of every dollar earned in 2010** – and that these costs are doubling every 14 years,[2] sometimes outweighing the total EBITDA of a sector (see diagram below). With recent systemic and market failures having shown the vulnerability of the real economy to financial volatility, long-term plans and strategies that foster better resilience to crisis are of great interest to the financial community.

> 2010 EBITDA vs external environmental costs



Conversely, there are a growing number of hints that good management of ESG issues positively affects long-term share price value.[3] And investors outside of the SRI community are pushing for information that would help them connect sustainability, financial and economic performance.

[1] GlobeScan and SustainAbility's regular survey of attitudes across businesses, NGOs, academia and government
[2] The Trucost data indicates that environmental costs across 11 sectors rose by 50 % between 2002 and 2010, from US$566 billion to US$854 billion.
[3] See for instance «The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance», Robert G. Eccles Ioannis Ioannou George Serafeim, Harvard Business School, 2011

From the high-level call of Al Gore and David Blood[1] (former Asset Management CEO of Goldman Sachs) to mainstream investors like Aviva Investors and shareholder coalitions like the CERES, the message is similar. They call for a longer-term vision of how companies create value, integrating ESG indicators that play a role in the long-term success of companies, and connecting those to the company's strategy.

Many examples of this can be found:

- In September 2011, a coalition of institutions[2] led by Aviva Investors called on United Nations'(UN) member states to develop a global policy framework that requires listed and large private companies to integrate sustainability information throughout their annual report and accounts – or explain why they are unable to do so.

- Another strong signal comes from financial service giant Bloomberg, who launched a ground-breaking ESG data service in 2009. Clients from the financial community using Bloomberg's 300,000 data terminals now have access at no extra cost to all publicly-available ESG from 3,000 companies. And investors use it. In the second half of 2010, 5,000 unique customers in 29 countries accessed more than 50 million ESG indicators - a 29% increase over the first half of last year[3].

US SEC's recent issuance of interpretive guidance on climate change

In 2011,after several year of pressure from investors, the US Securities and Exchange Commission published and interpretive guidance clarifying what publicly-traded companies need to disclose on wide-ranging climate-related business impacts and strategies for addressing those impacts in their financial filings.

The UNPRI and Sustainable Stock Exchanges Initiative

The UN-backed **Principles for Responsible Investment Initiative (PRI)** is a network of international investors working together to put the six Principles for Responsible Investment[4] into practice. As of October 201, over 915 investment institutions have become signatories, with assets under management worth approximately US$ 30 trillion.

The **Sustainable Stock Exchanges (SSE)** is an initiative aimed at exploring how exchanges can work together with investors, regulators, and companies to enhance corporate transparency, and ultimately performance, on ESG issues and encourage responsible long-term approaches to investment.

[1] See appendixes for details
[2] It currently includes organisations such as the Association of Chartered Certified Accountants, CA Cheuvreux, Generation Investment, Global Reporting Initiative and Hermes, amounting to a Global AUM of US$1.6 trillion.
[3] http://www.fastcompany.com/magazine/154/making-the-bottom-line-green.html
[4] Cf. http://www.unpri.org/principles/

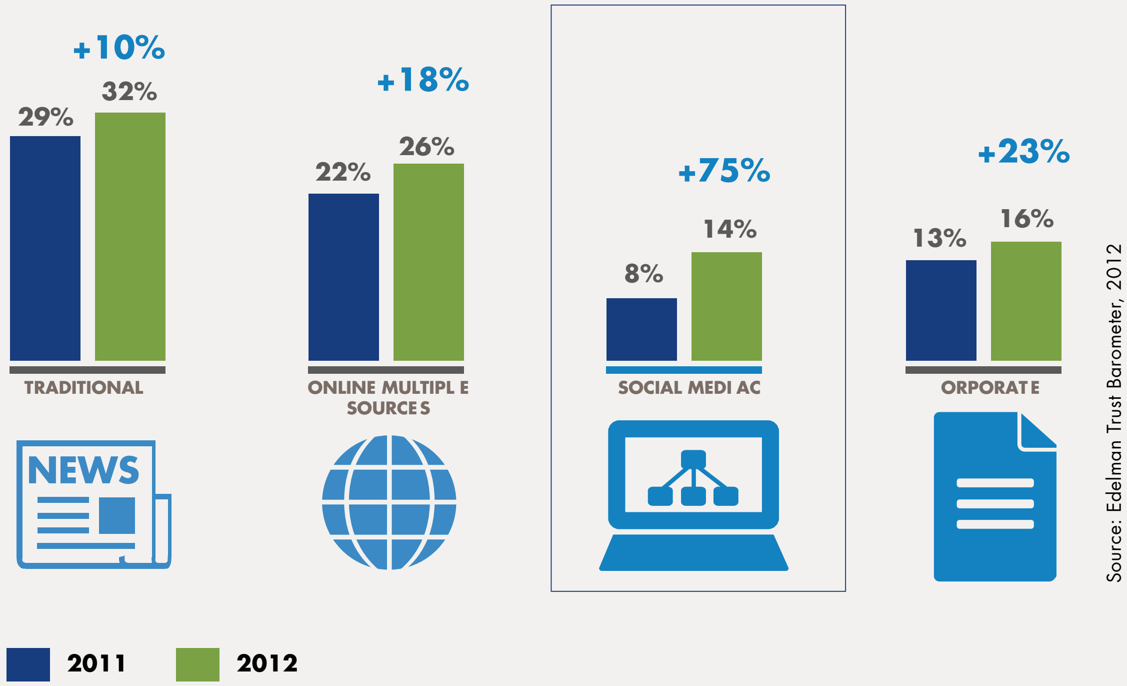
2. Consumers and citizens: towards a transparent economy?

The 2010's Volans and GRI report «Explorations - The Transparent Economy» states that «trust and transparency ranked as important to corporate reputation as the quality of products and services. In the U.S. and in much of Western Europe, those two attributes ranked higher than product quality—and far outranked financial returns, which sat at or near the bottom of 10 criteria in all regions.»[1] **The successive financial and public debt crises have left a hole in people's trust for institutions and markets,** and when choosing to buy – or not to buy – a product or a service, the capacity of companies to provide timely, relevant and accessible information on sustainability makes a true difference.

Increased relevance of ICT to communication and information has been impactful towards:

- transforming any individual into a potential information emitter. While this comes at a risk for companies, as they increasingly loose grip over what is said about them, it is above all an opportunity to foster trust and dialogue between the company and the outside world.
- flooding the company with an enormous amount of internal and external data («Big data»), with tremendous opportunities to better understand the business environment in which they evolve.
- making that data and information available to all: customers and citizens via social networks, apps and the explosion of mobile internet devices… can «pull» any kind of information easily, at the right moment (e.g. when making purchasing choices).

> People now better trust peer reviewed media sources



In short, it means that information and data on your company is everywhere, and that customers, competitors, investors may well know a lot about you, both good and bad. It also means that companies need to forget about the old «us and them» paradigm in their communications, and move from broadcasting to real-time, interactive, fact-based dialogue.

[1] Edelman Trust Barometer, 2010

3. Report or explain: the regulator's role in shaping the format of reporting

In short, regulate the data part, but not the commentary.

N. Robins, HSBC

a. Regulators should regulate... but not everything

In a 2010 study about reporting regulations[1], UNEP and its partners noted that more governments have started to introduce mandatory requirements for sustainability reporting.[2]

Regulators have a central role to play in promoting sustainability reporting, and regulations like the French Grenelle 2 Law or the South African King's Code on Corporate Governance have clearly been at the origin of widespread adoption of non-financial reporting in their respective countries. For pressing issues like climate change disclosure, regulation is key to drive consistency and standardisation as the role of international standard boards and reliable «measurement standards».[3] But while more **more than 80% of interviewees agree on the prominent role of the regulator in driving more disclosure** - and on the trend towards more regulation – **half of them advocate a combination of mandatory reporting with flexibility about what and how to report.**

Otherwise, the risk is to fall back into a «tick the box», compliance-led approach. Interviewees also agree that the emergence of a binding international standard for reporting (in an IFRS fashion) is very unlikely in the short term, as some areas of performance are more prone to regulation at an international level than others. As seen earlier, this is the case for carbon footprint. In contrast, international standards on disclosure on areas such as social performance are hard to regulate because local regulations vary greatly.

GRI's «Report or Explain» Campaign

In March 2009, the GRI Board called on governments «to take leadership by introducing policy requiring companies to report on ESG factors or publicly explain why they have not done so.» In an assessment of CSR and ESG disclosure and reporting requirements, the GRI noted significant steps by countries like India and China in this field.[4]

b. And regulators should make good use of the data

At the moment, regulators don't make forceful use of the information published in sustainability reports. With countries increasingly facing natural resource constraints and societal pressure from consumer-citizens to meet sustainability objectives, **we expect growing interest from public bodies in monitoring and encouraging sustainability performance.** As developing markets seek to strengthen their competitiveness, monitored by the World Economic Forum and others, their businesses are also under pressure to bear their share of responsibility and meet international standards. In addition, as national commitments are rolled out at a sub-regional level, we believe local public authorities will be increasingly willing to know about the social and environmental impacts of businesses present on their territory.

[1] Carrots & Sticks II, Promoting transparency and sustainability, UNEP, GRI, KPMG, USBCGA, May 2010
[2] Of the more than 140 national standards identified by the report, approximately two thirds are mandatory.
[3] See for instance the new International Standard on Assurance Engagements (ISAE) 3410 on Greenhouse Gas Statements or the WRI-WBCSD GHG Protocol
[4] For more information, see Part III, Emerging reporters

4. Key trends affecting sustainability reporting

How do these developments affect the sustainability reporting agenda?
When asked about what key trends would shape the future of sustainability reporting, our panel replied as follows:

Out of a wide array of answers, we identified 8 key trends:

1. **Trend #1: Integrated Reporting,** and wider integration of financial, economic and sustainability performance agendas;

Second is the sea change in communications brought by the use of ICT and the Web 2.0, which we call Digital Reporting. If the IR affects the very essence of sustainability reporting, this trend affects the shape, content and messages.

2. **Trend #2: 360° reporting:** As stakeholder expectations vary according to their pro file, reporting is becoming interactive, live and multi-channel;
3. **Trend #3: Data visualization:** With data flooding companies and individuals, using design to make people "data literate";
4. **Trend #4: Local reporting:** The localization of reporting for more accurate, locally or personally relevant information;
5. **Trend #5: Open data:** The opportunities of big data, and open data.

Furthermore, as we believe sustainability reporting needs to spread to all actors, we have chosen to add a third topic, looking at how to drive the reach of sustainability reporting beyond its traditional boundaries of big, public owned companies, towards Newcomers…

6. **Trend #6: Public agencies reporting**
7. **Trend #7: SME reporting**
8. **Trend #8: Emerging reporters:** Four Emerging countries, namely South-Africa, Brazil, China and India.

Integrated Reporting
Data visualization
Public agencies
360° reporting
Localization of reporting
Emerging reporters
Open data
SMEs

4. INTEGRATING MORE THAN REPORTING

IN THIS SECTION

• Integrated reporting is an inevitable trend.

• Integrated reporting means integrating more than data sets or documents. It is about integrating strategies and thinking.

• Materiality, data accuracy and assurance will have to be improved to fit investors needs for conciseness and reliability.

• A good approach is to have a short IR for investors, and more detailed information on material, social and environmental issues on the Web for all other stakeholders.

• The real challenge will be organizational and will require new organization, governance and reporting model.

• Managing the transition to IR could demand the appointing of an «integration officer», in charge of translating into financial terms all the key aspects of a sustainability strategy (risks, investments, opportunities).

• Although elements of an integrated report exist, a full example does not exist yet. South African examples are to be closely watched.

• Integrated reporting does not mean the end of other forms of reporting. It is the top slice of information on material issues, for investors.

“*Reporting has been like a Trojan horse. The challenge now is to wheel the Trojan horse into the financial markets and into the boards and C-suites of major companies.*”

J. Elkington, Volans

TREND #1: INTEGRATED REPORTING

With more than 89%[1] of a company's value now based on «intangibles»[2], it is now clear that **conventional financial reporting falls short of giving a true picture of a company's future performance.** As part of that, the financial community calls for "Integrated Reporting" (IR). We believe the time is right for companies to start trialling IR elements with minimum risks, as stakeholder interest is on the rise, but no clear standard available. On the opposite, we are convinced that IR will bring considerable organisational, IT and training challenges for the companies that will adopt a passive - reactive approach.

Even though the call for the integration of financial and non-financial reporting is gaining strength, its implications are still subject to many debates. The objectives of this chapter are…

> to provide a clearer picture of what is IR, looking at what investors and other stakeholders expect of an Integrated Report ;

> to dig into the benefits and challenges associated with it ;

> to give a hint of the current state of integration by reporters, looking at best practices.

[1] The percentage of market value now explained by physical and financial assets, has been going down to only 19% in 2009 from 83% in 1975." IIRC Discussion Paper, 2011
[2] Such as reputation or the quality of its relationships with stakeholders

WHAT EXACTLY IS INTEGRATED REPORTING?

1. Integrated reporting is…

…still to be defined! **At the moment, there is no commonly defined framework for Integrated Reporting on which to report against.** Major actors from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors as well as civil society, are collaborating to advance the agenda under the direction of the International Integrated Reporting Council (IIRC). In order to have a better understanding of what different stakeholders, particularly the financial community, expect from IR, we have put the question to our expert panel and one sure thing is that IR is a trend that businesses will have to follow.[1]

WHAT DO EXPERTS SAY?

IR is not a single report...

«It is important to note that IR is not the same as combined reporting. IR is about looking at the business strategy of the organisation and how that will be impacted by a broad set of external factors.»

J. Fries, IIRC

«The IR will be the top-level review that makes the link with other reports and communications. There is 3 levels of connectivity at stake: between (I) financial and non-financial reporting, (II) what the company uses internally vs. externally as KPIs, and (III) the link with company strategy of the former information. Recommended content will be further detailed in the exposure draft (principles-based high level framework) of the IIRC by end of 2012.»

J. Wiemer, GRI

BUT IT SHOULD EXPLAIN...

The mission

«The IR has to introduce the social mission of the company. In financial forms, people focus on the incorporation.»

H. Guez, Natixis AM

«Key is the business strategy and purpose (why do you exist as a business – not to create profit/that is a consequence).»

T. Rotherham, Hermes Asset Management

Risks & opportunities

«Apart from strategic elements, what is key is to have a good understanding of how the company manages and anticipates its risks.»

S. Voisin, CA Chevreux

"I also consider the market place context within which the company operates, what the risks to its strategy and its implementation are; what indicators it is using to monitor and mitigate risks?»

T. Rotherham, Hermes Asset Management

Links between financial & non-financial performance

"A description of SD programs in financial terms: where are the investments, and the returns to help investors understand sustainability."

S. Uren, Forum for the Future

"I would be mostly looking at performance. Ethical performance (corruption, integrity), customer satisfaction, employee engagement, H&S if it is an high risk sector, CO_2 intensity, energy if intensive (sector specific)."

N. Robbins, HSBC

"Eventually I would like information to be provided on value creation and profit and loss linked with sustainability."

N. Robinson, Independent

[1] 16 out of 18 interviewees believe it will be an inevitable trend.

In short one could say, «Integrated reporting (IR) is a holistic approach that enables investors and other expert stakeholders to understand how an organization is really performing. It addresses the original social purpose of a company and the connexion with its values to enlighten the longer-term consequences of decisions and actions by making the link between social, environmental, economic and financial value explicit. It shows the relationship between an organization's strategy, governance and business model. Integrated reporting also gives an analysis of the impacts and interconnections of material financial and non-financial opportunities, risks and performance across the value chain.»[1]

An Integrated Report should have 5 parts:

- *Sectoral issues and company specific context on those*
- *Risks (identification, assessment, management) and opportunities.*
- *Management (action plan, progress, planned and quantified targets)*
- *Performance (environmental and social KPIs)*
- *Economic translation of these (Environmental profit and loss, R&D, investments, income, provisions, liabilities, etc.)*

S. Voisin, CA Chevreux

What is Integrated Reporting

In The IIRC defines integrated reporting as «Bringing together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates and sustains value.»

It introduces the concept of 6 capitals (Financial, Manufactured, Human, Intellectual, Natural and Social capitals)[2], or key assets that a company has to conserve and ultimately, develop in order to ensure long-term success. The idea of an IR is to be able to explain how the company's business model and strategy impact (positively or negatively) these 6 capitals.

#2: Puma's environmental profit and loss account

In 2011, Puma disclosed an environmental Profit and Loss account – one of the first attempts to do so after attempts by companies such as Anglian Water in the early 2000s. These costs will serve as a metric for the company when aiming to mitigate the footprint of Puma's operations at all supply chain levels and will not affect Puma's net earnings. The environmental valuation approaches used in the EP&L is an attempt to quantify in monetary terms the changes in human welfare[4] that result from Puma's environmental impacts. The EP&L therefore presents the estimated cost to society of Puma's environmental impacts. The detailed methodological approach can be freely accessed online[5].

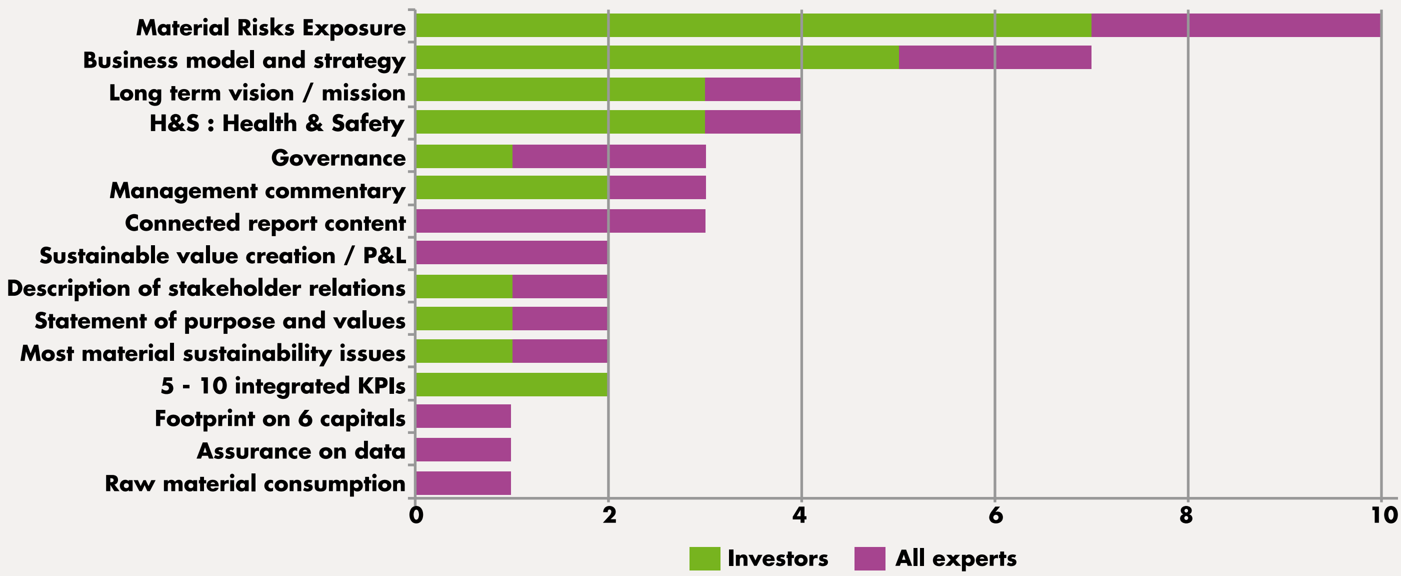
[1] P.Druckman and J.Fries The Prince's Accounting for Sustainability Project in The Landscape of Integrated Reporting, R. Eccles, B.Cheng, D.Saltzman, Harvard, Business School, 2010
[2] For more information see www.theiirc.org/
[3] http://safe.puma.com/us/en/2011/11/puma-completes-first-environmental-profit-and-loss-account-which-values-impacts-at-e-145-million/
[4] As opposed to other valuation approaches such as market prices or abatement costs.
[5] Cf. http://about.puma.com/wp-content/themes/aboutPUMA_theme/financial-report/pdf/EPL080212final.pdf

2. What should be found in an IR?

Focusing specifically on what investors (mainstream and SRI alike) expect from IR, here is what they put forward. The capacity of the company to report on material risks exposure, business model and strategy, in short explaining the conditions of its long-term success are most important.

WHAT DO EXPERTS SAY?

> What do interviewees expect to find in an IR ?



Disclosure standards should include metrics that ensure timely disclosure and breakdowns of the number of major violations once they are alleged by regulators. In addition, certain types of agency actions should be designated as per se material and trigger disclosure requirements (I) Orders to close facilities based on health and safety concerns, (II) Orders to withdraw products based on health and safety concerns (III) Suspension of existing or new permitting for any period of time based on health and safety concerns (IV) Cumulative amounts of penalties paid.

Steve Rochlin and Ben Grant in «The Landscape of Integrated» Reporting, HBR, 2011

Why report on bad news?

While integrating financial and non-financial information will bring in pressure from legal departments and may lead to less transparency, reporting on bad performance is a factual way to understand how well risks are managed, thus a topic of interest for analysts and investors. Beyond a simple comment on the fact that performance has gone down, it should provide explanations and insights on corrective actions planned.

3. Where to look for IR?

Too many people at the moment are pointing their fingers and saying that there is a market-leading example of IR in this or that report. If you look at these reports, it's often hard to be quite so enthusiastic.

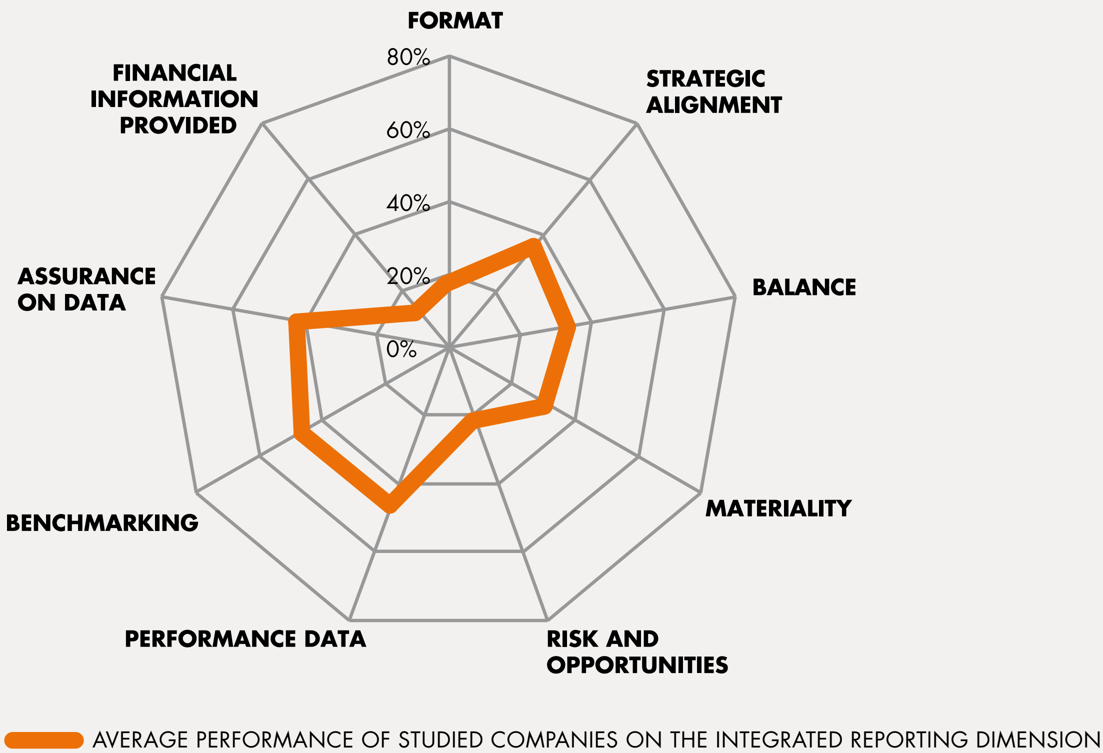
J. Elkington, Volans

Even though IR best practices are already disseminated within reports, and while many claim that this or that company published a true IR, it is still very hard to find one full example of it. One key finding of our benchmarking survey is actually that IR does not exist yet otherwise than partially. IR is a road that some companies are already travelling (even if it remains the road less travelled) as opposed to a destination anybody has ever reached.

The good news is everyone can contribute to the discussion by trialling IR elements. From the 50 pilot companies of the IIRC to South African pioneers reporting against the King's Code on corporate governance, constitutive elements of future Integrated Reports are to be closely watched. We believe every company can play a role in shaping the debate, by introducing new ideas in its reporting.

a. What the benchmarking tells about IR

We assessed the emergence of IR components in current forms of sustainability reporting, looking at the 9 key levers that affect IR:



Our overall conclusion remains that, apart from a handful of innovative reports, the gap between the current form of sustainability reporting and what is expected in an IR remains wide.

1 http://www.theiirc.org/about/pilot-programme/

1. Format:
combined vs. separated reporting

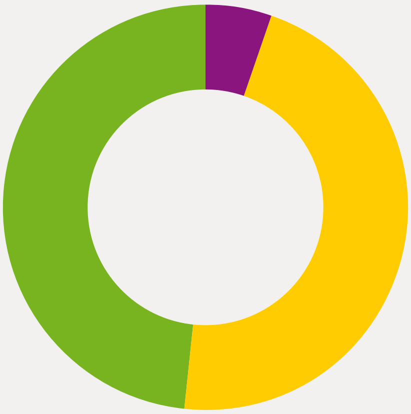
44% of benchmarked companies still produce a separate sustainability report, although sustainability information is now spread throughout annual reports and financial forms. This contradicts the trends identified by CorporateRegister.com and KPMG towards more combined reporting, but is likely to be due to our selection of reporting companies, which does not aim at faithfully representing worldwide average practice but is focused on best-in-class reporters.

2. Strategic alignment:
Capacity of the reporter to (I) describe its business model (II) provide evidence of the connection between its sustainability and business strategy (III) report on key achievements and failures (IV) provide evidence of board endorsement and support (V) integrate sustainability in management systems, performance assessments and investment decisions.

So far, **less than 10% of companies disclose elements about their business model** in concise form. Alignment between business and sustainability strategies is often, if not always, forgotten in sustainability reports, even though elements about how sustainability is embedded into product or services ranges have started to appear. A few exceptions are among the South Africans (Sasol) and as well-known integration pioneers like BASF or Akzo-Nobel.

#3: Akzo Nobel provides an interactive summary explanation of the company's strategy

> Integration of sustainability criteria in investment decisions

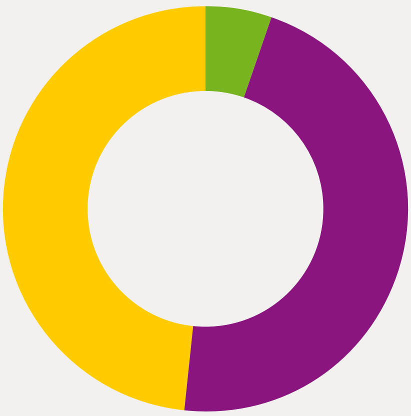


Source: UTOPIES©

Major expenses (5.4%)
Some Criteria (46.4%)
None (48,2%)

Major expenses: Analysis of major expenses/investments following ESG criteria.
Some criteria: Reference to ESG criteria used in some situations.

> Examples of practices modifying the company's offer



Source: UTOPIES©

Connected to core business (44,6%)
Disconnected (41,1%)
None (14,3%)

Connected to core business: examples given help understand how the business model is evolving.
Disconnected: examples are disconnected from core business or anecdotal.

3. Balance:
identification of challenges and dilemmas, some stakeholder comment on reporting

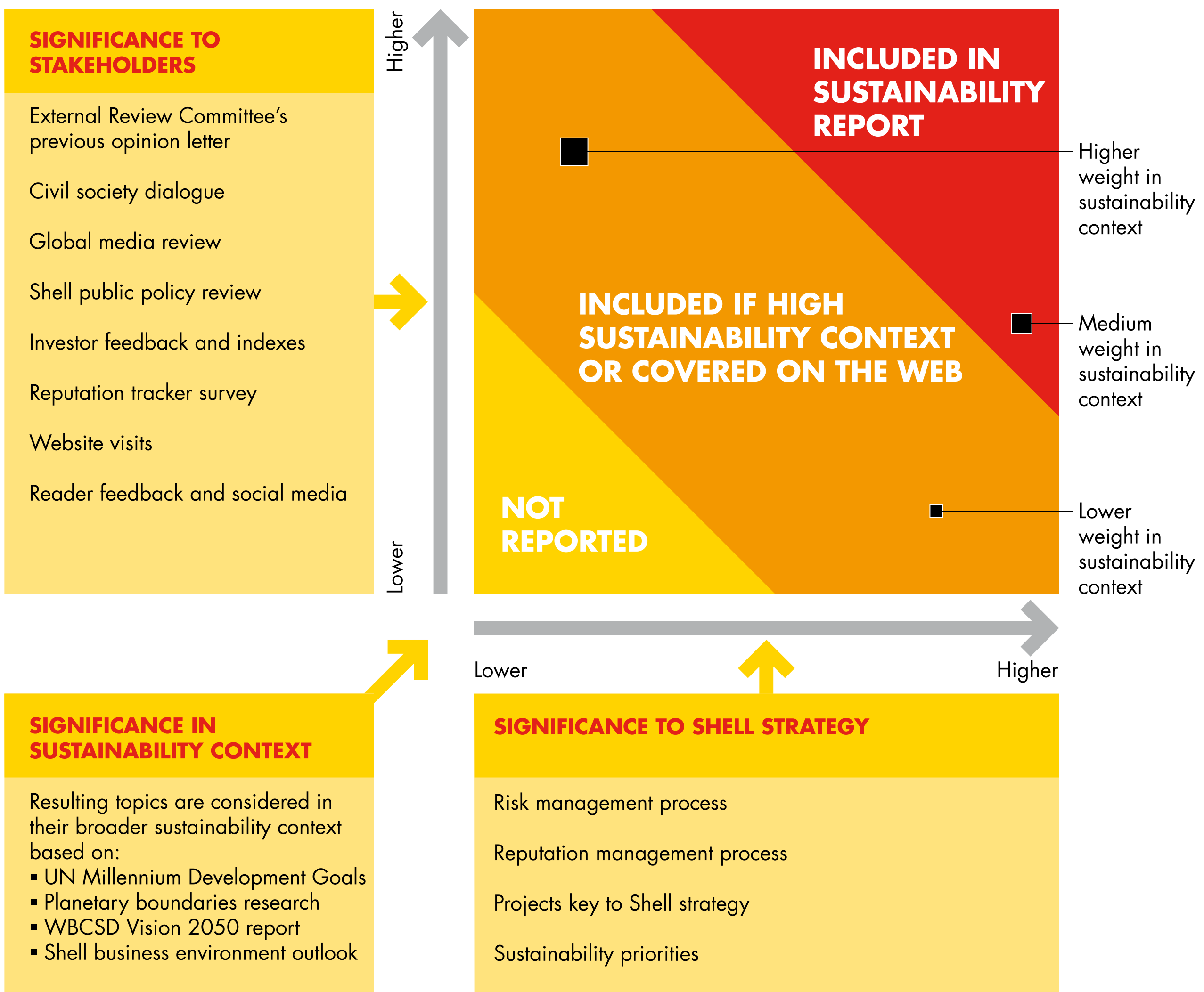
Reporting remains mostly focused on achievements, for half of the reports, with few elements attempting to raise dilemmas or cases of bad performance. This remains a real shortcoming that also affects the credibility of reports, even though things have come a long way compared to some years ago. Integration of stakeholder views on the reporting performance per se is not widespread either.

#4: In BP's sustainability report, the group's stakeholders are invited to comment on specific aspects of the strategy, even if sometimes opinion can be harsh.

4. Materiality:
disclosure of the materiality definition process and material issue matrix

Half of the companies benchmarked still do not disclose the tools and processes used to define material issues and therefore to select the issues covered by the report. A few leaders provide clear and abundant information on how they define material issues.

#5: Shell clearly explains its materiality defining process

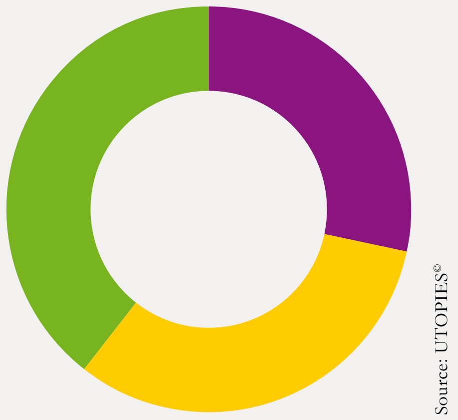


5. Risks and opportunities:

disclosure of key ESG risks and opportunities, impacts on business results and management approach

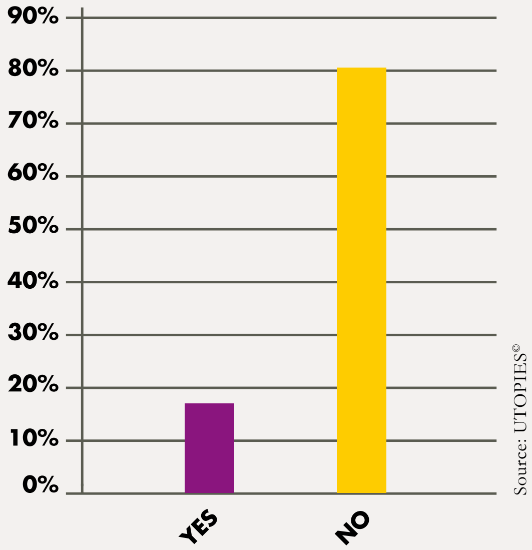
Disclosure of ESG risks is found in less than one third of analysed reports. But the way they are disclosed very seldom allows the reader to understand which risks are critical vs. which are not, and what consequences these risks could have on the business. Likewise, opportunities are seldom, if not never clearly identified.

> Key ESG risks and opportunities idenfication



- Risk management process and major risks identified (28,6%)
- Risk management process shown (32,1%)
- None (39,3%)

> Description of business consequences from the risks and opportunities produced by the company's strategies, actions and impacts



- Yes (17,9%)
- No (82,1%)

#6: Sasol's discloses its major ESG risks and mitigation actions

Risk	Context	Mitigation
Not delivering a viable carbon dioxide (CO_2) solution.	Sasol's efforts in reducing greenhouse gas (GHG) emissions are aimed at contributing to the world's fight against global warming. Global efforts to reduce GHG emissions are intensifying. Sasol's processes make the group a significant emitter of GHGs. Our growth aspirations rely on viable CO_2 reduction solutions being developed. The costs associated with GHGs are rising and could increase substantially with the potential introduction of a carbon tax in South Africa.	GHG reduction targets are in place. Sasol New Energy plays an important role in delivering on the objectives of our climate change response strategy. The group's approach to reducing its GHG emissions is based on four pillars: • increased use of low-carbon energy; • increased use of renewable energy; • improved energy efficiency at its operations; and • implementation of carbon capture and storage.
Competitors introducing viable superior or alternative technologies.	As well as our environmentally driven efforts, energy security considerations also mean that competition in our industry is intensifying. In South Africa, plans to introduce new fuel specifications could pose challenges to local refineries.	Numerous management controls are in place to mitigate risk from competitors, and improved intelligence gathering helps us identify and address competitor technologies.

6. Data:

collecting and validation process, alignment with strategic goals, presence of KPIs, use of standard definitions (e.g. GRI) and taxonomies (e.g. XBRL[1]), raw data download (open data)

Gaps remain in disclosing data collection and validation process, with half of benchmarked companies not describing how they collect data and more than 60% not showing how they validate data. Comparability between companies is almost never mentioned, even when the vast majority of reports refer to the GRI guidelines. Also, the use of open data and XBRL reporting have not yet been adopted by reporters with respectively less than 10% of companies using open data and none using XBRL.these risks could have on the business. Likewise, opportunities are seldom, if not never clearly identified.

7. Context and benchmarking:

contextualisation of performance, comparison to internal targets and external peer performance

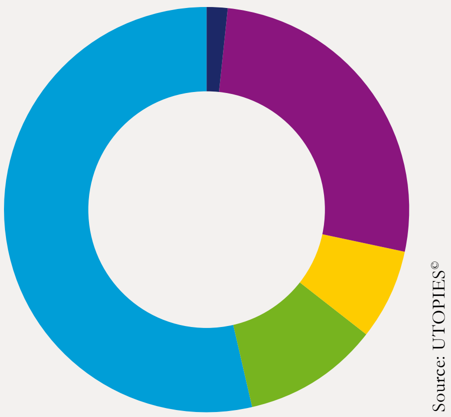
If more than 80% of reporters now widely compare their performance with their internal objectives, a very small number of them (20%) introduce peer company benchmarking.

#7: The Cooperative Group regularly gives benchmarking information throughout its report, mostly using rankings from external agencies and media.

8. Assurance:

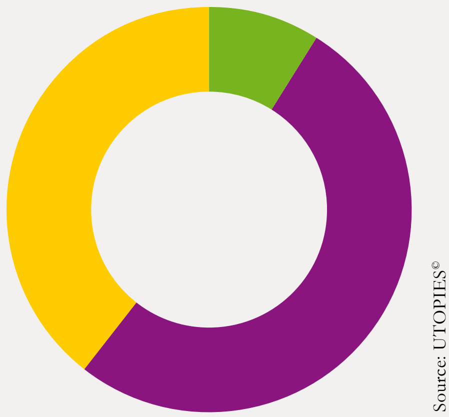
use of assurance, scope and work performed, level of assurance, explanation of reporting perimeter Even if assurance is now adopted by a majority of reporters, the scope and extent of the work performed, as well as the overall level of assurance often remain limited.

> Level of verification



- None (26,8%)
- Auditing of reporting procedures (7,1%)
- Consolidation verified (10,7%)
- Consolidation verified plus random checks at site level (53,6%)
- Audit of all results at site level (1,8%)

> Level of assurance



- None or limited (51,8%)
- Moderate (39,3%)
- Reasonable (8,9%)

[1] This open source language will be used by growing numbers of companies and consultants to draw together digital data on financial and non-financial performance in integrated packages. For details see the box on pxx.

#8: Vodafone explains the different assurance levels used for different parts of the report.

Independent Assurance Statement to Vodafone Management

The Vodafone Group Sustainability Report 2011 (the Report)1 has been prepared by the management of Vodafone, which is responsible for the collection and presentation of the information it contains. Our responsibility, in accordance with management's instructions, is to carry out the following assurance activities:

Assurance scope	Level of assurance[2]	Reporting and assurance criteria
1.Vodafone's application of the AA1000 principles, as described in the Sustainability section of the Vodafone website	Reasonable assurance	he criteria set out in AA1000AS for the principles of Inclusiveness, Materiality and Responsiveness
2. Progress against ObjectivesO	Limited assurance	bjectives set in 2009/10 sustainability report
3.Reliability of selected performance data for 2010/2011 marked with (*) symbol	Limited assurance	Completeness and accuracy of selected reported performance data
4.Vodafone self-declared Global Reporting application level	Limited assurance	G3 Sustainability Reporting Guidelines and application level requirements

9. Financial information:

linkage between financial and non-financial KPIs, financial quantification of externalities, environmental and social accounting

Overall, and although financial incidence of sustainability is mentioned in half of the reports benchmarked, real examples of connections between both dimensions are hard to find. Examples of environmental and social accounting, as well as attempts to quantify the financial impact of externalities are very rare. On the contrary, what is often found is the economic redistribution of revenues between stakeholder groups (cash-value distribution) and the amounts invested in environmental protection.

#9: ArcelorMittal describes the breakdown of its economic contribution to different stakeholder groups.

#10: BT Environmental Cost Avoidance from operations and products, including avoidance from the use of BT solutions.

Travel/carbon avoidance from our use of conferencing services

Carbon avoidance (increase)		2009 tonnes	2010 tonnes	2011 tonnes
Travel	Conferencing	26,565	24,315	30,942
		26,565	**24,315**	**30,942**

For conference calls we derive the benefits using responses to the question 'did your last conference call definitely replace a face-to-face meeting'.

As conferencing become more 'the way we do business' the percentage of positive responses is reducing. From 60% in the first study we commissioned in 2000 this has steadily reduced with each study we have undertaken, we used a 20% figure in 2009. We want to reflect the genuine travel substitution effect so have used only 10% of the total number of conference calls that took place in the company last year to derive this year's results.

Other organisations where conferencing is less well established will see higher travel substitution effect in their early years of adoption.

IR: THE TIP OF THE (MELTING) ICEBERG?

1. A long road to IR…

While it is clearly necessary when viewed in the context of their long-term liability profiles, the fund managers who implement the investment strategies of pension funds, life insurers and other long-term investors etc. are not demanding integrated reporting. So in the absence of different mandates the justification to make it mandatory will be public policy driven rather than market demand.

T. Rotherham, Hermes Asset Management

Despite the growing wave of interest and publications about IR, we seem nowhere close to what experts would call a «true» integrated report.

First, it is understandable that coming up with a definition and framework that is universally accepted will take time to achieve. As a reference point, it took more than 80 years for nations to agree on a common financial reporting framework. With integrated reporting aiming at becoming universally adopted, and with many of its components already subject to local regulations, one could not expect it to happen within a couple of years.

Second, although some investors are calling for IR, the push has not yet reached critical mass and some interviewees believe that the initiative will have to be driven by public policy more than by market forces. To expand the push from the financial community, one key area of research will be credible models to connect extra-financial, financial and economic performance. The publishing of landmark reports such as the Stern Review on the Economics of Climate Change or the TEEB[1] report series are significant milestones on which researchers are now building.

Third, **integrated reporting means a lot more for companies than just new ways to report.** It advocates for a full transformation of how businesses define value creation and their role in the economy. Integrated reporting is a first brick, but certainly not a silver bullet.

[1] See www.teebweb.org for more information, including on the reference report «The Economics of Ecosystems and Biodiversity» (UNEP, 2010) as well as the TEEB for Business report (Bishop, Earthscan 2011)

2. Strategy first, then management, and reporting

a. A Trojan horse for integrating strategies

You can only integrate sustainability reporting meaningfully if sustainability issues are integrated into the main business strategy. Otherwise the sustainability issues will not be perceived as material by investors.

S. Uren, Forum for the Future

Our expert panel is unanimous. IR is meaningless if it is not a consequence of the integration between sustainability and wider business strategies, and of integrating thinking. At the same time, one of the benefits of IR can certainly be to act as a driver towards more integration, as the picture described in the integrated report may outline a previously unknown vulnerability or unidentified opportunities linked with sustainability. It may also help companies to take a hard look at whether or not sustainability is a vital issue for them.

#10: BT presents an overview of the areas where sustainability connects with profit.

CR and sustainability opportunities

The most important contribution we make is through our investment in communications networks and services. Our networks connect people and organisations to each other, and to information. They support business growth, job creation and access to services.

We want to help give everyone the opportunity, skills and confidence to use digital services, including elderly, low income and disabled people, and we support efforts to increase digital inclusion programmes and help for customers..

Reducing global greenhouse gas emissions requires a transformation in the way business and society operates, to create a low-carbon economy. ICT will enable other sectors to become more efficient, by streamlining their processes and providing transparent data for managing energy use. See the low carbon economy section for more details.

BT already offers products and services that help customers to reduce their carbon footprint. Services which help reduce business travel, such as video- and audio and video-conferencing, are well-established parts of our portfolio. We are reducing the energy consumption of the ICT products we provide, including the Home Hub wireless network router, the BT Vision digital TV box, and our telephones. See the product stewardship section for more details.

I hear a lot about confidentiality, competition concerns etc. I fear that in its early stages the move to IR could end up with a degree of boiler plating.

R. Adams, ACCA, GRI Technical Advisory Committee

b. A true organizational challenge

There is likely to be a continuing tension between investor relations and/or finance functions on the one hand, and the sustainability and/or corporate affairs functions on the other.

J. Hanks, Incite

IR will bring important organizational challenges. As financial information is regulated, and its disclosure subject to liabilities, one can expect a cautious approach of IR at first. In that move towards merged reporting, will reporting systems and processes, and ultimately departments in charge of it, go on co-existing with financial ones, or blend into one single entity with the risk of sustainability being handled by Financial and Legal departments? Or will dedicated IR or finance/sustainability officers be appointed, so as to build bridges between the investor relations' people and the SD team? Danone Group has paved the way by appointing a VP Finance for its Nature Strategy in September 2009.

Whatever organisational choice companies make, it is certain that **Chief Financial Officers (CFO) and Chief Sustainability Officers (CSO) will have to play a leading role.** The challenge will be to merge the two «cultures», with the benefits being the injection of sustainability into the lifeblood of the organization, as well as sustainability data benefiting from the rigorous approach of financial reporting. That is an ideal vision, of course. In the worst case, it could also mean the end of corporate sustainability (reporting), as we know it, and the rise of a legally compliant, boiler-plated version of it.

Key departments that will have to work together will include sustainability, finance, audit and IT. Again, time will be needed to invent and trial new organization modes.

As of today, what we are thinking of is to trial a «shadow» IR report for this first year, reworking it in the shape of what would be our integrated report. For this, we will set up a team of representatives of different departments in the company to share and invent together. This should change we work.

L. Palmeiro, Danone

c. Stronger guarantees

There will be a greater burden on the audit side, but if it is material, the cost is justifiable.

K. Litvack, F&C Asset Management

IR will also mean a need for stronger assurance on data. As seen, the accuracy of data is key for financial stakeholders, and with regulators and investors in the game, data reliability will have to be improved through assurance. Among benchmarked companies, the level of assurance is low, compared with what financial stakeholders expect . In most countries, assurance of sustainability reports is voluntary, and no specific requirements exist for organisations conducting assurance. This is in contrast to financial reports, where corporate measurement, control systems and standards with regard to financial information are very sophisticated.[1] This complexity leads some to worry about the feasibility of credible assurance on integrated data.

[1] CA Chevreux, Pocket Guide to ESG Disclosure
[2] Carrots & Sticks II, Promoting transparency and sustainability, UNEP, GRI, KPMG, UFCGA, May 2010

Level of confidence in the data

Level of confidence in the data

Level	Topic	Wording	Standard	Author
High	Credibility of the E&S data	Reasonable assurance by auditors, compliant with ISAE3000	ISAE3000:2005	International Auditing and Assurance Standards Board
Medium +	Credibility of the E&S data	Moderate assurance by auditors (see above)	ISAE3000:2005	International Auditing and Assurance Standards Board
Low			All the others	Various

Source: CA Cheuvreux

d. Merging reporting systems?

From an IT point of view, some believe that IR may mean increased data collection costs during a «transition» period – the necessary time to merge reporting systems and conduct change with teams involved.

There are practical, logistical issues in being able to measure and collect data. For example, sustainability information gets collected and reported in different time frames. This must be fixed in internal information systems.

T. Rotherham, Hermes Asset Management

Status report on XBRL reporting

There are a number of projects around the world that aim to use XBRL (for eXtensible Business Reporting Language, an open-source tagging language similar to the XML system used worldwide for tagging data in financial reports) in a non-financial context, and where XBRL taxonomies have been developed. The Global Reporting Initiative (GRI), in conjunction with Deloitte Netherlands, has launched an XBRL GRI taxonomy to reflect GRI Sustainability Reporting Guidelines beginning of March 2012. By using the XBRL language, companies can make their data readable by both humans and computers, making the data more accessible and easier to transfer. One could also note that XBRL is well suited for very standard, reliably measured data…, which is often not the case with sustainability information. This shows importance of measurement standards.

e. Goodbye sustainability report... but not reporting

> *I am a big believer in the power of multilayered reporting. A single short report for investors, and, in addition, further layers on the website accessible and searchable by a whole range of other stakeholders.*
>
> **K. Litvack, F&C Asset Management**

Capacity and budgets available for annual reports and sustainability reports often differ by a factor of ten. With IR being directed mainly at financial and institutional stakeholders, does this mean the end of sustainability reporting?

Here again, our panel is unanimous. To some extent, **IR may mean the end of the lengthy «carpet-bombing» sustainability report, but it will definitely not become a one-stop shop.** Different types of sustainability communications with different contents, adapted to the expectations of all other stakeholders, will flourish with the help of new communication technologies. Reporting leaders are clear. IR will not mean the end of other sustainability communications. The following chapter aims at providing extensive details on how ICT will help transform sustainability reporting.

Illustration #1: BAT's position on IR vs. SDR

There is much talk of integrating sustainability and financial reports. Is this something you intend to do?

We have looked at this and we talked to our stakeholders. They reaffirmed that while it is a good thing to improve the quality of sustainability information within financial reports, there are different audiences who want different types of communication. We were pleased to hear that they thought we have made good progress in integrating sustainability information in our Annual Report. We intend to continue producing stand-alone Sustainability Reports in addition to our Annual Report and we will complement these publications with tailored communications.

WHAT MATTER IS THE JOURNEY..

a. IR is complicated... why bother after all?

So if a common framework for integrated reporting is not likely to emerge soon, and if IR is not easy to implement, what are the benefits that companies could reap after trialling IR? First, companies cannot escape IR. Sooner or later, integration is going to happen – driven by socio-economic and biophysical trends. Second, there is a lot to learn, and a lot to show. **With no standard available, and no specific constraints, the room for innovation – and differentiation – is wide.** Reporting seems to be exciting again: **first movers and innovators will be rewarded by the amount of attention they will receive from the market.** In the process of progressing towards IR, businesses may also find compelling business cases for a more proactive and business-oriented approach of sustainability… while building trust and recognition for their efforts.

The benefits of integrated reporting

IR can have several benefits for a reporting organization such as…

- an in-depth understanding by top-management of how strategy it is affected by environmental, social, financial and economic issues
- a demonstration of C-suite commitment to a sustainable long-term future
- an holistic view, useful for stakeholders wishing to make decisions
- a greater balance resulting in better trust and confidence in the company
- better risk management and access to capital
- better management of key resources
- the development of a culture of innovation
- a new and better understanding of the business environment and better spotting of new business opportunities

b. Steps towards your IR:

1/ Make it short and focused

• A stand-alone Integrated Report, targeted at investors and shareholders, may be easier to start with than trying right away to embed sustainability information in your financial report, which may lead to confront overly cautious in-house lawyers and thus going backwards in transparency (compared to previous sustainability reports, on content such as forward-looking statements among others).

• Keep it clear and concise, with a focus on key aspects of interest to your shareholders:

> what is your business model and how it might be impacted by social and environmental issues (how the company creates value and how it will do so in the future),

> how the sustainability strategy contributes to the financial/business strategy,

> what are the key sustainability-related risks (including climate risk) and opportunities, what is the current and projected financial value of negative and positive externalities,

> what are the sustainability roadmap (with link to decision-making, including incentives), with key targets and integrated KPIs.

• Include links to on-line supplements: raw data and downloadable tables for investors, detailled content on all sustainability issues for other stakeholders…

2/ Take time to produce a good IR

• Appoint a dedicated IR officer in charge of linking financial and sustainability information.

• Engage with your key investors (SRI and mainstream) upstream to better know the questions that they have and that the IR should address.

• Produce a «shadow» report on year #1, to see what information is or could be available internally, to engage internal teams from key departments (e.g. strategy, risks, finance, legal…) but also with your external financial stakeholders.

• Start with the fields where the switch to IR is easier : human capital (composition of workforce, health & safety), energy and climate, risks (to demonstrate how good policies and systems are good prevention).

Data visualization

5. FROM REPORTING TO DIALOGUE: the future of sustainability communications

IN THIS SECTION

• Communication is shifting from vertical/top–down/one emitter, many receivers to horizontal/many emitters, many receivers. Companies have to understand the new rules.

• New media bring new opportunities to cut through data and information complexity towards better and closer dialogue with stakeholders, as well as innovation, with new practices like crowdsourcing or open data.

• Social networks, mobile Internet and the localization of communications need companies to rethink their communications, including sustainability comms.

• To this end, it can be key to hire a pivotal individual, a «connector» between, the company and its community, the sustainability department, and other parts of the organisation.

The ultimate objective of communication is to build trust - in a brand, a product, a company in a world where businesses are not trusted easily anymore.[1] With more than 10% of the world's population now part of social networks[2], and information on companies and products easily available through a diversity of channels, stakeholders know a lot about companies.

While the use of New Information and Communication Technologies (ICT) is soaring, focusing on the trendy only could blur the other – more important – truth: behind the interactive, the fun, the hip, is a profound societal change that turns the way companies communicate upside down.

The old paradigm of communication, based on a vertical process where companies emitted a message towards receivers that were not empowered to react, has had its day. With social media, there are now more «receivers» than companies emitting messages and each of them is able to interact not only with companies but with each other.

Three major aspects are shaping this paradigm shift:

- The rise of social networks (SO)
- The development of mobile access to the web (MO)
- The localization of communications (LO)

The Internet now echoes with billions of tweets, and businesses have to build an «attention economy» to avoid stakeholder loss of interest. Through ICT, they can leverage a new dynamic built upon sharing and peer endorsed authenticity.

At a sustainability reporting level, printed reports are often seen as «window-dressing», conveying bland messages and dead content. ICT has the power to revive the «reporting zombie», giving stakeholders a voice and a role in the reporting process, providing an opportunity to solve two of the key challenges of sustainability reporting: the «carpet-bombing» syndrome, and the lack of attractiveness for readers. But beware, there are rules to follow and ICT cannot be a decoy for otherwise weak reporting practices.

The time when companies published a one-size-fits all, standalone pdf sustainability report may soon be over.[3] Instead, sustainability reporting will increasingly build on a database of ESG information and data, packaged in different formats[4], with different stories, using different communication channels and media, in order to match the diversity of stakeholders' expectations. It will bring new internal challenges in terms of information governance and communication.

[1] Edelman Trust Barometer, 2010
[2] More than 750 millions Facebook users in Aug. 2011 for instance.
[3] KPMG International Survey of Corporate Responsibility Reporting 2011
[4] Which may include a « sustainability review or report

TREND#2: 360° REPORTING

1. Power to the people!

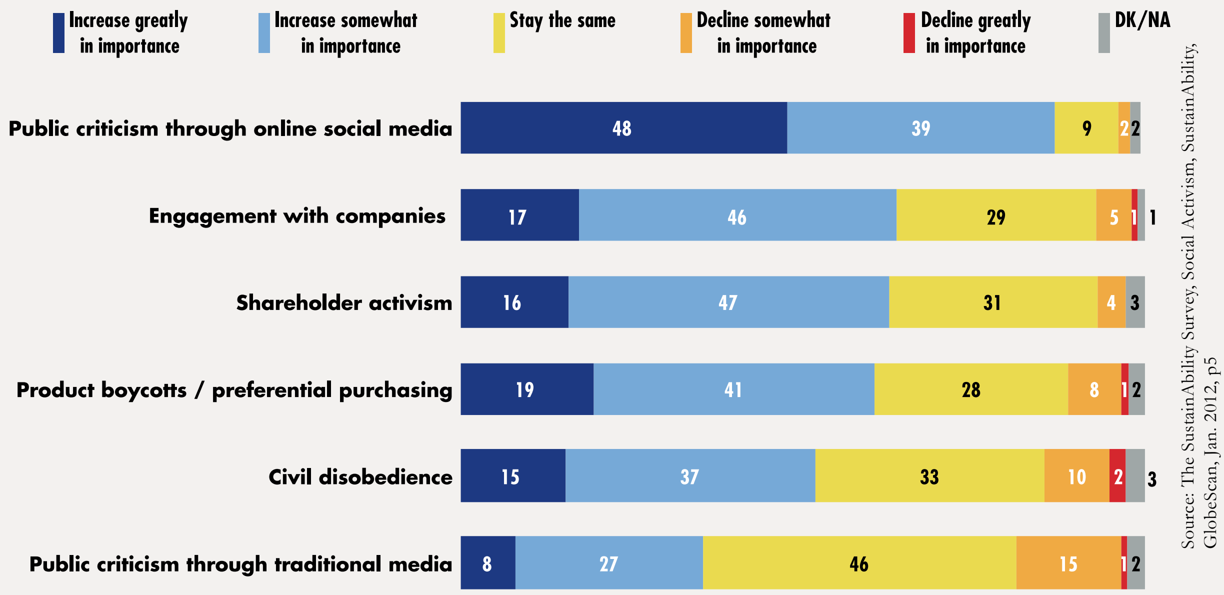
Over the next five years, we will see a dramatic shift in the way companies leverage data and how others engage with it. Early adopters will benefit when it goes mainstream. The others will be seen as less credible, using one-way old-school communication. Today publishing a report makes you seem progressive and transparent, in five years from now it will make you look like you are trying to hide something.

Expert, Global clothing company

Say you want a revolution? No need to get on your feet, a few clicks may start it. Your customers control your brand. **No company can regulate and answer the totality of messages posted by its stakeholders on the Internet.** They now have the power to question companies, governments… and hold them accountable. And they intend to use it forcefully, as indicated by the number of political and activist events that have harnessed the power of the Internet in recent years[1]. Social networks, mobile access and localization have given power back to people! And this is expected to significantly develop in the coming years.[2]

While these online bursts of discontent can be very damaging to a company's reputation – and ultimately share price value[3], **the increased reach, sense of proximity and access to information between members of networks is a fabulous opportunity for businesses** that will have captured the value of a sea change in their communications. Ultimately, ICT remains a powerful tool for fostering a better understanding between companies, brands, people, and their stakeholders. For that, companies have to understand the rules and organize to foster new interactions with their communities.

> Nearly nine in ten experts expect public criticism through online social media to increase in importance over the next three to five years



[1] See campaigns like Greenpeace against Mattel, Unilever or more recently Volkswagen http://www.vwdarkside.com/
[2] Nearly nine in ten experts expect public criticism through online social media to increase in importance over the next three to five years. The SustainAbility Survey, Social Activism, SustainAbility, GlobeScan, Jan. 2012
[3] Taking into account the growing share of «intangibles» in the market valuation of companies

2. Towards 360° reporting

I am a big believer in the power of multilayered reporting. A single short report for investors, and, in addition, further layers on the website accessible and searchable by a whole range of other stakeholders.

K. Litvack, F&C Asset Management

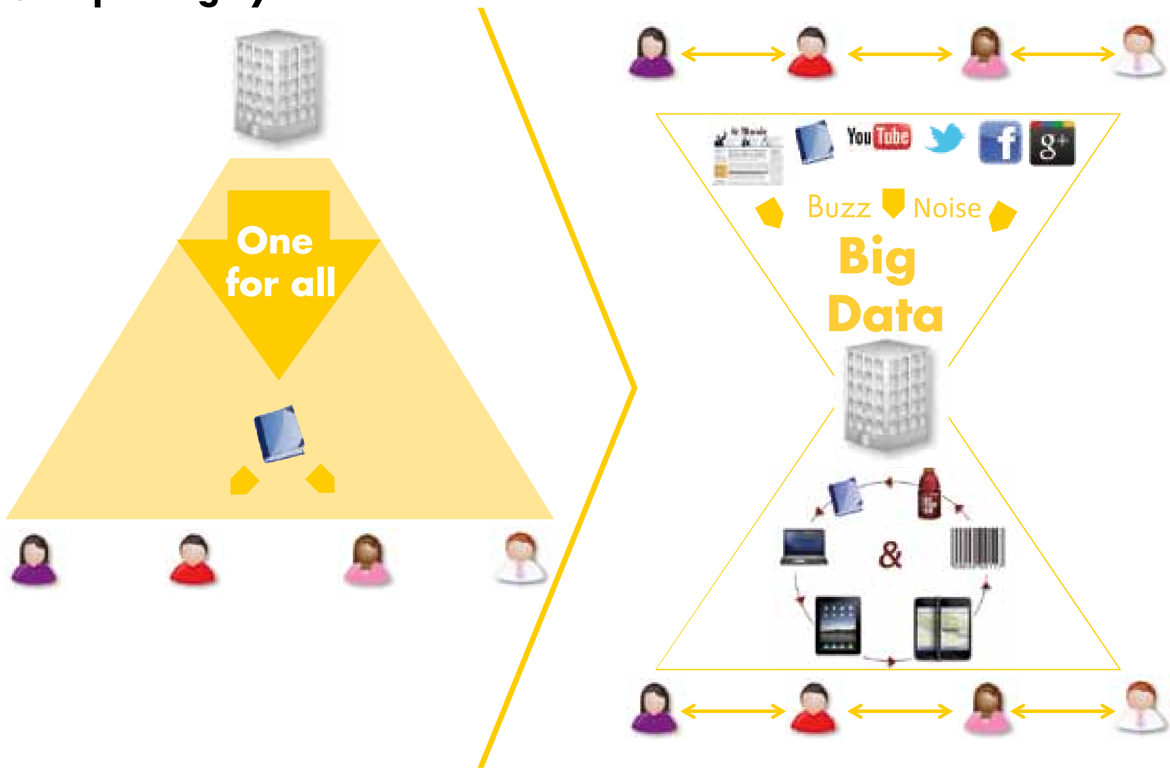
In order to effectively respond to these new expectations, businesses must switch to what we call **360° reporting**, which allows companies to communicate through the right channel, to the right stakeholders, with the right data. It also implies a change from top-down communications to a more «bottom-up» approach, as show in the scheme below.

What sustainability communications used to be:	What it will become:
• Static and annual • One size fits all and pdf based • Corporate • Read mostly by analysts and consultant	• Highly interactive, participatory and real time • Multichannel • Localized, target specific and personalized • Efficient in reaching stakeholders on issues and information that they are interested about

Scheme: Towards 360° reporting

#11: Microsoft's explanation of their sustainability communications system

> **A 360° reporting system**



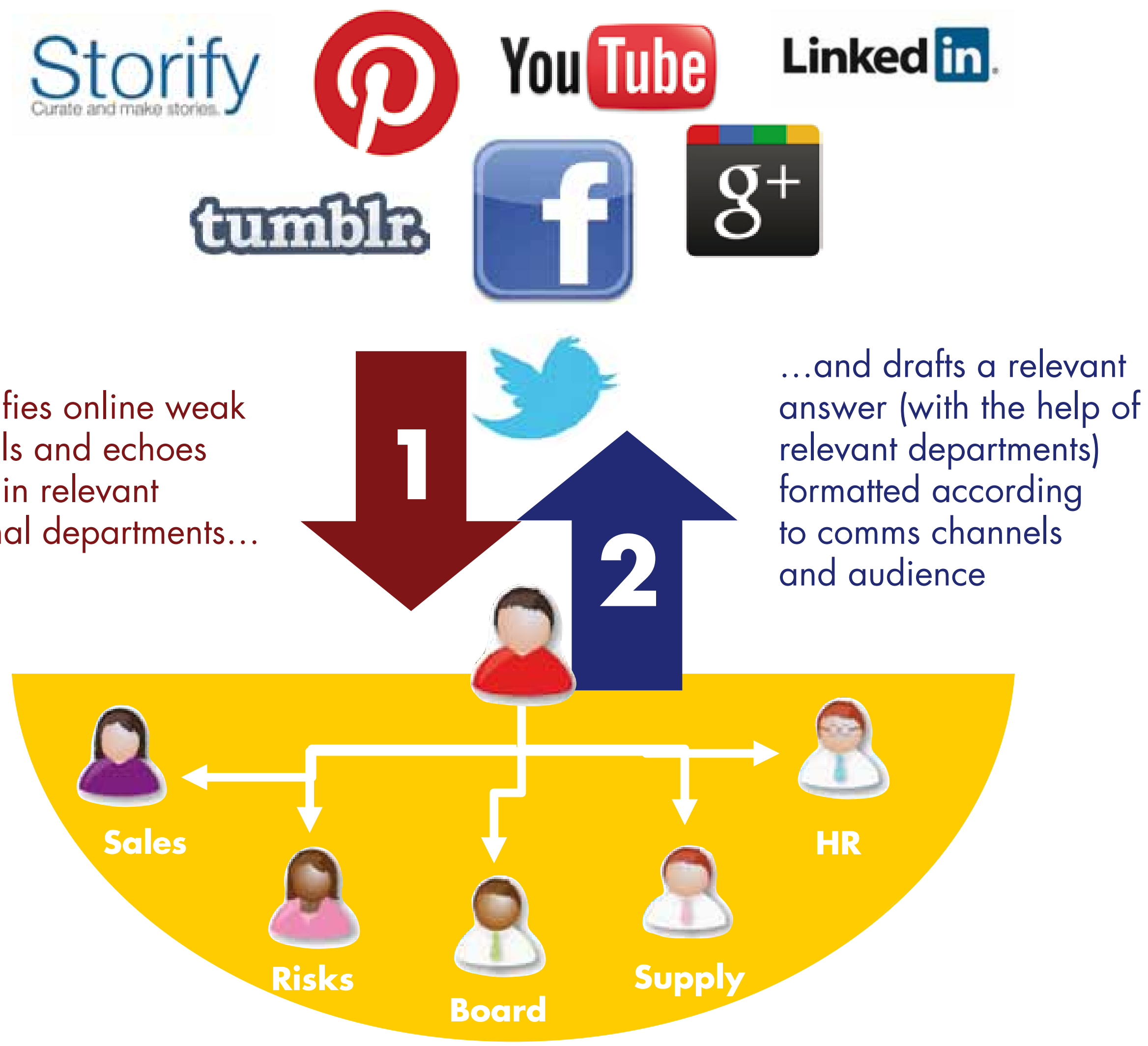
a. Introducing the reporting «connector»

> *It is essential that there be connectors capable of communicating simply with the various functions involved, to serve as a bridge between cultures. This pivot could be a designer.*
>
> **G. Dorne, Designer**

Capturing the value of new media in a 360° reporting scheme will require organizational changes, and individuals to act as «connectors» between the company (and its people), and the community (and its people). It is all about people, and the way they engage and interact with one another. The pivotal role of this individual (or these individuals – GE, for instance has a team of 20 community managers) is to stir up the communication game, looking at its structure, efficiency and fluidity.

What profile and skills for a «connector»

The connector picks into a pool of communication elements provided by internal contributors to provide answers to questions raised by the community. He also acts as a watchdog to identify weak signals related to his/her organization.



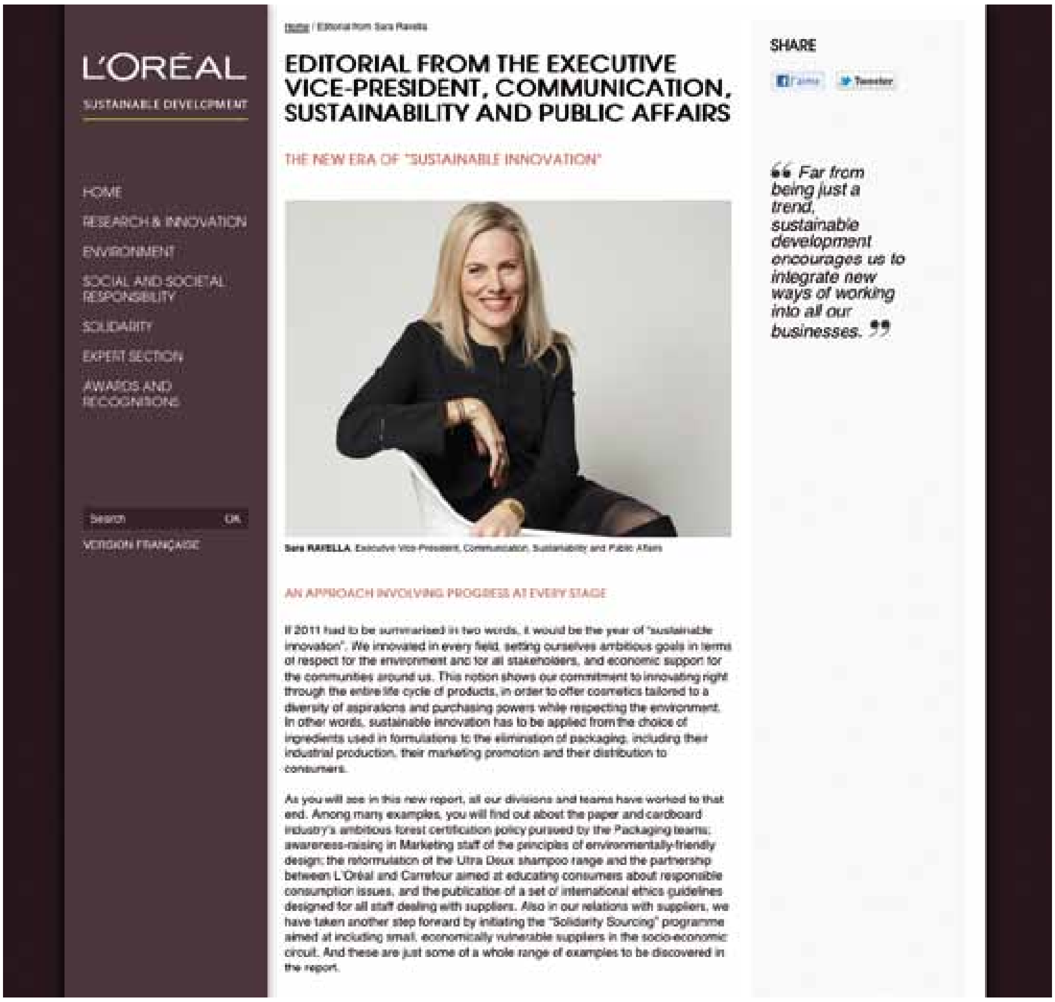
3. Don't be alone together

a. Distant but close

Web-based sustainability communications are becoming the norm. While sustainability reports - either readable online or downloadable in pdf format – are still widely used, **companies have adopted the Web for the bulk of their sustainability communications.** From access to educational and institutional videos[1], dynamic charts and tables or infographics, to posting your questions in real time on reporting elements and being able to rate and share the best articles with your community - the web 2.0 enhances the readers' feeling of being talked to and listened to directly.

Among companies benchmarked, the use of video and social media to share sustainability content is widespread with two thirds of companies using it, and fully interactive video reports are starting to appear[2]. Meanwhile, interactivity is gaining ground in the other areas at a slower pace, with a significant part of benchmarked companies (one out of four) using infographics and interactive maps.

#12: L'Oréal stakeholder conversations with the management team in video format



[1] From messages by key decision makers to additional context provided in an educational video format, the possibilities are huge.
[2] See for instance this commercial introducing the interactive video annual report http://www.youtube.com/watch?v=wqqTkU7j1GY&feature=player_embedded

b. Real virtual dialogue?

> *Transparency is important for reputation and trust, but to truly unleash greater forces, we need to be open, to better enable people outside of the company to engage and collaborate with us.*
>
> **Expert, Global clothing company**

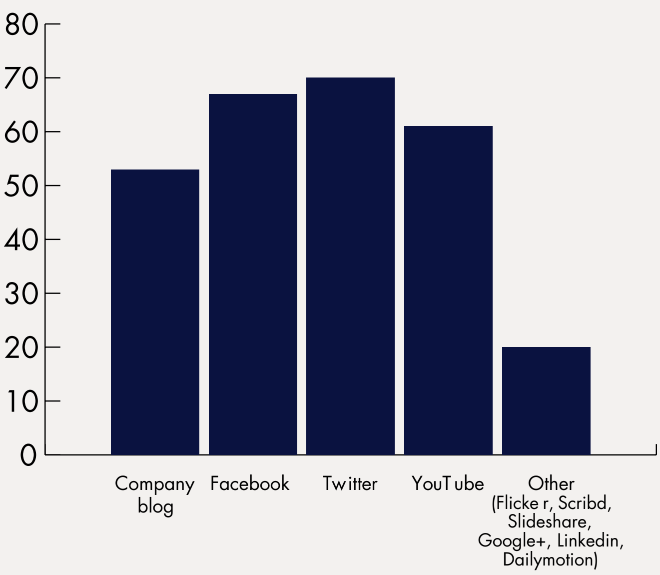
The use of social media is developing exponentially and sustainability communications are increasingly using these channels.[1] The use of blogs, Twitter/Facebook accounts and YouTube channels is a bigger and bigger part of sustainability communications. Indeed, social media can quickly become a powerful tool, provided one is well-prepared and willing to play by the rules. But while a lot of companies have now learned how to engage on social networks, few have acknowledged or accepted the fact that power has shifted.

c. Preparing for #Fail

Social media is a place where attempts at dialogue can quickly transform into crisis communication. Be prepared to hear nasty things about your business or brand. That said, **social media and sustainability can also be a particularly powerful combination as both are rooted in the principles of authenticity, transparency, collaboration and community.**

A high profile on social media also means attracting attention from potential detractors of your company or brand. Well-known examples of social media fails (coined under the #Fail hashtag on Twitter) include the compelling (and hilarious) example of Chevrolet asking the crowd to submit claims for its new SUV.

> The breakdown of social media platforms used to communicate sustainability



Source: The SMI Wizness, Social Media Sustainability Index 2011, p10

[1] In 2011, 250 major corporations are engaged in some form of social media sustainability comms and more than 100 have a blog, YouTube, Facebook or Twitter channel dedicated to talking about sustainability.» The SMI Wizness Social Media Sustainability Index, 2011

While criticism can always be damaging, being well prepared for social media communication makes a real-difference. Analysing 50 of the most famous social-media «screw-ups», social media guru Matthew Yeomans observed three common trends:

1. Companies underestimate the collaborative and viral power of social media;

2. Marketing, PR, crisis and sustainability teams fail to communicate with one another before communicating to the public;

3. Brands think they can use old-school marketing tricks and messages to control conversations.

To prevent these failures when adding social media to their sustainability communication system, companies will hence need to…

- Learn the difference between «cold» (corporate website) and «warm» (social networks) communication channels;

- Associate sustainability experts with social network experts to engage with stakeholders on these communication issues in a preventive way.

- Set up a clear organization with fast decision loops to take action in the event of a social media «screw up».

- Build on a pivotal community manager who will act as a bridge between several cultures: geeks and tweetos on the one hand, operational and communication managers on the other hand, along with other departments too. He/she will also help identify weak signals before a crisis really starts (cf. page XX).

#13: Danone's sustainability social media communication vehicle

[1] Excerpted from the SMI Wizness Social Media Sustainability Index, 2011

Examples of companies building dialogue through social media[1]

What	Why	Who	Results
Crowdsourcing	Tap the public for big innovative ideas	General Electric	In 2010, GE created the Ecomagination Challenge to crowdsource innovative clean energy ideas across America. To further emulate interest, GE launched a social media magazine and content hub on its main Ecomagination site, where it builds on a 20+ strong team of editorial contributors to ensures its Twitter, Facebook and YouTube channels are useful, fresh and relevant.
Crowdfunding	Enable collaborative fundraising and donations	BBVA	Last year BBVA launched the Banca Para Todos (Bank for Everyone) platform along with Twitter, YouTube and Facebook “satellites” to highlight its commitment to sustainability. It also started two new social media projects: Friends & Family, a fundraising effort for local causes through Facebook and Twitter and Open Mind, a knowledge sharing network of 300 members and 70 experts who make their insight available to social media communities.
Leveraging community	Task your massive online following to build a better future through campaigns, contests	PepsiCo	For two years running, PepsiCo has been riding the wave of cause-related social media marketing thanks to the groundbreaking Pepsi Refresh Project. PepsiCo uses its online credibility to speak about its own commitment to sustainability or give visibility to causes like its collaboration with 7-Eleven to raise money for Feeding America, the partnership between PepsiCo’s Mountain Dew and Burton to create sustainable snow- boarding clothing from recycled plastic bottles.
The wisdom of your crowd	Collaborate with fans to break taboos and challenge status quo	Kimberly-Clark	Kimberly-Clark highlights its support for target communities through the Moms’ Inspired entrepreneurial programme and through the Break The Cycle YouTube account, Twitter account and Tumblr blog for Kotex tampons that seeks to «empower women and girls to celebrate their bodies and talk openly about periods and vaginal care.»

[1] Excerpted from the SMI Wizness Social Media Sustainability Index, 2011

TREND #3: DATA VISUALIZATION

Sustainability is a complex topic. Couple that with the ever-growing amount of information published by companies and one will understand that making the very essence of information, and data visible, accessible and understandable is a great challenge. New technologies have an important role to play here.

1. Information is beautiful

a. Data, data everywhere

Will the sustainability report finally become just a cross reference of a broader mass of information? For people who want to research comparability and performance, the mass of online information becomes problematic unless they have access to tools such as a user-friendly XBRL system.

R. Adams, ACCA, GRI Technical Advisory Committee

Every day, every second, companies, individual and networks produce and store a gigantic amount of data and information. In a recent article, McKinsey & Company states that in 15 of the US economy's top 17 sectors, companies with upward of 1,000 employees store, on average, more information than the American Library of Congress does. We have entered an era of «information obesity». Is it a good thing for disclosure? Not necessarily, for too much information might as well kill information. The capacity to access, organize and mine that data for insights will therefore be key to future competitiveness[1], and a powerful tool for innovation.

What is big data?

Big data is data that exceeds the processing capacity of conventional database systems. It is data that is too big, moves too fast, or doesn't fit the structures of your database architectures. To gain value from this data, one must choose an alternative way to process it.

b. Data visualization: more than meets the eye

Data is a scary thing: most people do not like data, as it is not particularly fun. In the way that most people are literate, the next evolution is for them to become data-literate. We see visualization as a key tool to do this.

Expert, Global clothing company

A major challenge of «big data» resides in interpreting and communicating the data, and the analyses that flow from it. Data-visualization skills are a critical part of solving that issue.

What is data visualization?

Data visualisation is the application of graphic design techniques in order to make a complicated set of data easily understandable to the profane. It can take the shape of infographics, maps, and any other designs serving that purpose.

[1] For example, according to McKinsey, a retailer using big data to the full could increase its operating margin by more than 60 %. Big data: The next frontier for innovation, competition, and productivity, McKinsey & Company, 2011

Even though data visualisation possesses a great potential, it is still seldom used in company reporting. In fact, only 10% of benchmarked organizations use it. One explanation could be the complexity of finding a suitable «connector» that would have a good understanding of both sustainability reporting and its codes, and the web and data visualization.

c. The power of interactivity

Infographics, videos, animated maps and other interactive features allow readers to have a quick overview of a situation and quickly navigate into a topic. They are now used by more than one out of four benchmarked reporters to provide educational and synthetic insights on issues.

#14: BT's website offers interactive "serious games" to involve the reader in dilemmas the company encounters. One is invited to stand in the shoes of an entrepreneur having to balance social, economic and environmental choices while remaining profitable in different market scenarios.

2. Look, I've got the latest toy!

> *Companies will have to be careful not to let themselves be distracted by the «latest toy». Data visualization will only be effective when companies draw in third party sources (contextual data) to compare and analyse their data. As long as data visualization is kept solely to company data it is not so helpful.*
>
> **N. Robinson, Independent**

At the same time, some interviewees are concerned that data visualization would be a decoy for an otherwise weak reporting or, worse, a way to bend data in a favourable way. The quality, verifiability and integrity of how the data is used in data visualization is thus important. Data visualisation has to...

- build on consistent, material, verified information;
- be honest in the use of scales graduations and contextualization, in order not to distort the message.

#15: GE provides a wide array of visualizations on its Data visualization Blog, including on its Ecomagination plan.

One is invited to stand in the shoes of an entrepreneur having to balance social, economic and environmental choices while remaining profitable in different market scenarios.

TREND #4: REPORTING IN CONTEXT

1. Local counts: reporting in context

Local reporting is about providing information at a level that will engage with elements affecting the life of an individual, may it be the sustainability of her/his consumption choices or that of her/his neighbourhood. This type of «micro» reporting (as opposed to corporate consolidated indicators) has found in the mobile Internet a powerful vehicle to develop.

a. Mobile frenzy

According to Morgan Stanley, a revolution will take place **in 2014: mobile Internet users will have outnumbered desktop Internet users.** Conversely, the worldwide web is spreading extensively in countries experiencing strong economic growth, the so-called BRICs, with almost half of all Internet users located in Asia in 2011.

At a communication level, the move from desktop to mobile requires adapting contents to mobile screen formats. That means shorter, more direct and accessible contents. What's more, with mobile terminals, people are constantly connected. In the street, at home, in a shop… every situation can require the use of information made available by companies about their products and services. **Businesses have to anticipate this trend and design contents fitting «mobile» use,** looking at new distribution channels like app stores or special websites for retail. As a result, companies may also be able to gather new data on user needs and habits.

#16: GE added an IPhone application of its Ecomagination Annual Report to access visual elements and concise information on its sustainability performance

b. Tell me what's goin' on

Sustainability reports are usually published at «corporate» level, but there will be increased demand to get more detailed information on the impact of the various facilities belonging to the company.

J. Aloisi, UNEP

At industrial site level, **mobile Internet also has the power to provide local stakeholders with instant online access to data and reporting, and could serve as a basis for local stakeholder engagement.** Looking at the results from our benchmarking, it seems that, although one fifth of companies report not only at corporate level but also at a local (country or site) level, a link is seldom made to context data that would provide a better understanding of the company's risk exposure (e.g. water consumption vs risk of water stress in the region or country). This lack diminishes the value of local reporting.

Despite this, localization of data, along with the proximity and reach of social networks, will help build communications «closer» to the needs and expectations of sites' neighbours. It could also contribute to building trust and acceptability, and help promote community awareness and preparedness for local / site level accidents and disasters. HSE data could be shared.[1]

[1] As promoted by the UNEP & AccountAbility Guide on Responsible Production and SH engagement – see http://www.unep.fr/scp/sp/saferprod/pdf/Responsible_Production_Framework.pdf

#17: BP gives online access to individual site sustainability reports

#18: Nike provides access to a «zoomable» global manufacturing map with local information and local contacts available

c. Make it personal

It is easy to connect local and personalized reporting as both go towards a greater match between the user, his/her expectations and the content offered. As far as sustainability reporting is concerned, it is just beginning to take shape. What matters is that customized reporting does not become a «gadget», but effectively contributes to the shaping of content.

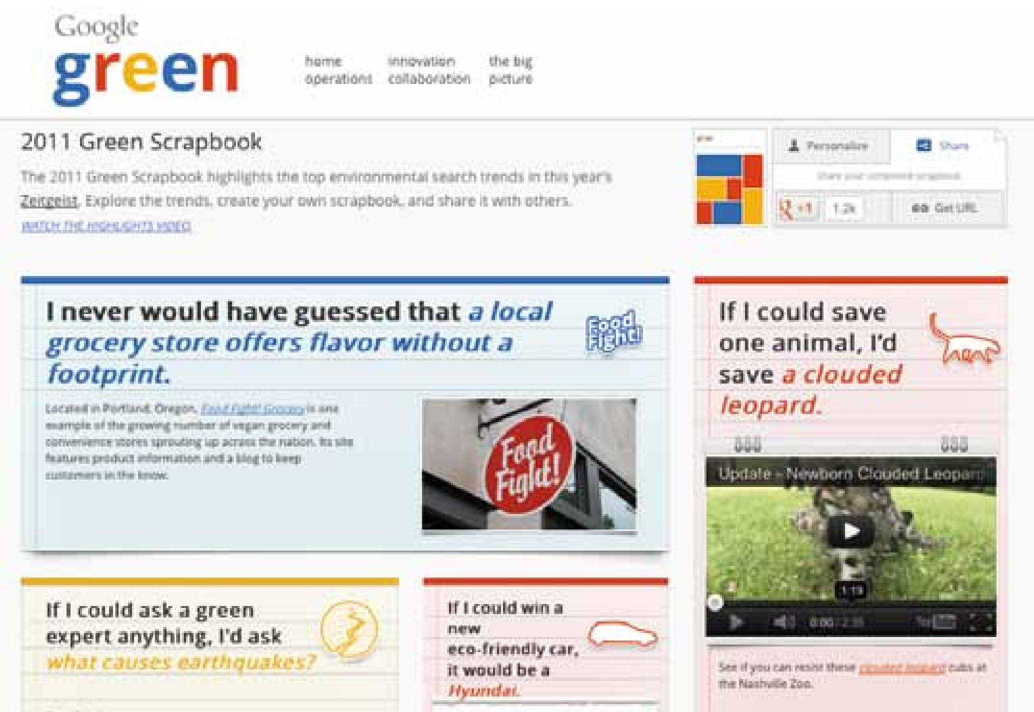
In this respect personal can mean:

- Nice options like «build your pdf» tools, offered by a good number of reporters.
- User's profile and stakeholder groups determining access to a set of aggregated information from different parts of the website.
- Fully customizable web pages with modules to create and aggregate information on the basis of the reader's choice (industrial site, performance criteria, time span, etc.).

When moving to more sophisticated personalization, a transversal approach will be needed for...

- internal contributing departments (sustainability/Comms/IT) to identify relevant contributors and define the expectations of different stakeholder segments
- communication channels, on the basis of the expectations defined earlier.

#19: Google Green website «Scrapbook» section offers an option to generate a personally customized environmental scrapbook



TREND #5: OPEN DATA

The ultimate change new media bring to communications is the chance to collaborate, co-innovate and also build stakeholder trust and interest by co-creating information. Publishing open data and crowdsourcing ideas are ways that a few pioneering reporters are trialling, and that could become widespread in the future.

1. Opening your data: risk or opportunity?

> *Open data is a movement aiming at making public data easily accessible to all. That has been possible thanks to the Internet. It is «open» in that it draws on principles of the «open source» philosophy: universal access and sharing of resources or content.*
>
> *For the private sector, understanding and taking part in this movement will be a strong differentiation opportunity.*
>
> **F.A Talec, OWNI**

a. Seek and you shall find

We are on our way towards a Transparent Economy[1]. Companies will have to deal with stakeholders that know «all about them». In that context, **publishing open data is merely an anticipation of what could be «normal» soon.** While public agencies[2], scientists and NGOs have already started publishing and using open data, companies are slowly starting to consider it as an opportunity to...

- enhance their image as transparent, innovative and open to dialogue;
- start collecting sustainability data and information about their environmental and social ecosystems, outside of their conventional reporting systems.

b. A basis for dialogue and innovation

Open data can fuel innovation by providing new, outside perspectives on internal datasets. But for this to work, one has to take into account the inherent interest and the strength of the relationship between the company and its stakeholders. While some companies have started making their data available for download in open formats (e.g. BP, Akzo Nobel etc.) we believe that without clear guidelines on how to use the information and provide feedback, it remains only a best practice in terms of transparency as it does not explicitly encourage stakeholders to «play» with that data in ways that could help the company progress.

Looking at the benchmarking results, it appears that making sustainability performance information available in an open format is not yet a widespread practice. In fact, only 10% of companies do so. What's more, none of the benchmarked companies encourage stakeholders to use the data and engage dialogue on results.

#20: Akzo- Nobel provides its KPIs in open format for download, and an interactive data visualization interface.

#21: The New York Metropolitan Transit Authority put all of its data in an open format on its website, and organizes contests and challenges for app developers to turn this data intro meaningful services for the company's stakeholders.

#22: Petrobras' biodiversity maps (BioMaps)

[1] Explorations -The Transparent Economy, Volans, 2010
[2] See next chapter for more information

2. The wisdom of the crowd

As we look ahead, when you think about crowdsourcing, it is not hard to imagine others producing reports from their own perspective. For example, one could see a group of consumers doing a report on Nestlé, or workers doing a report on conditions in a Nike factory?

A. Cramer, BSR

As with open data, there is another opportunity to fully open your reporting and involve stakeholders by making them contributors: - Crowdsourcing. Doesn't the most credible information come from third parties? So why not have third parties writing part or all of a company's communications? In that respect, pioneers have started trialling to crowd-source part of all of their sustainability reports with stakeholders, using tools like wikis for the writing and editing of contents, or allowing readers to impact some of the reporting elements by providing their view of it.

#23: Natura co-writes its sustainability report with its stakeholders, through the «Natura Conecta» web portal, which allows great scale stakeholder dialogue.

#24: SAP's web report offer the possibility to give real time feedback on the sustainability report, to rate articles and modify with some reporting elements (e.g. materiality matrix).

#25: Oxfam America, The Coca-Cola Company, and SABMiller released an in-depth study about the economic and social impact of The Coca-Cola Company in El Salvador and Zambia.

Are you interesting enough?

A major question to ask when thinking about crowdsourcing is whether the company is interesting enough and can count on a small group of committed fans to provide ideas or content. It is no surprise that among the 20 leaders of the SMI Wizness award, more than half are consumer goods and services companies, the rest being IT or customer-oriented financial services.[1]

Companies with strong international brands, and a community of fans, can engineer great success and innovations by tapping into the so-called «wisdom of the crowd». But, as expressed by several interviewees, it is less likely that a lower profile company would raise sufficient interest and feedback.

You reap what you sow

Through the use of ICT, and the internal and external adjustments required to build value out of it, sustainability communications and sustainability as a whole can make progress in a win-win manner:

For businesses this could mean…

- more relevance in meeting stakeholders' expectation
- better credibility through peer-endorsed communications
- a flexible and resilient communications system
- an insider view to spot weak signals and emerging trends

And for stakeholders…

- the recognition of their importance for the company
- a real visible contribution to change

[1] The SMI Wizness Social Media Sustainability Index, 2011

6. «SHADOW» REPORTERS IN THE SPOTLIGHT

IN THIS SECTION

• Public agency reporting, although not widespread, could become more common in the future, pushed by increased public interest in transparency and the need to rebuild trust in institutions.

• Sustainability reporting is emerging in key countries for the global economy. Local specificities have to be taken into account by foreign businesses with local operations.

• Defining report content is not easy as public agencies have different layers of responsibility.

• The business case for SMEs to report is not clear, apart from supply chain requirements.

• The sustainability report format as such is probably not adapted to public agencies and SMEs alike.

Sustainability reporting is still an exception. In the perspective of an integrated economy, collection and disclosure of environmental and social data will have to spread. For that, opaque parts of the economy will progressively have to engage in sustainability reporting. Among these public agencies - as part of their national sustainability efforts, SMEs – as part of increasingly globalized supply chains, but also emerging countries with an increasing weight in the global economy have a special to play. But what are the drivers, and are they mature enough? This chapter aims at opening the debate.

TREND #6: PUBLIC AGENCY REPORTING

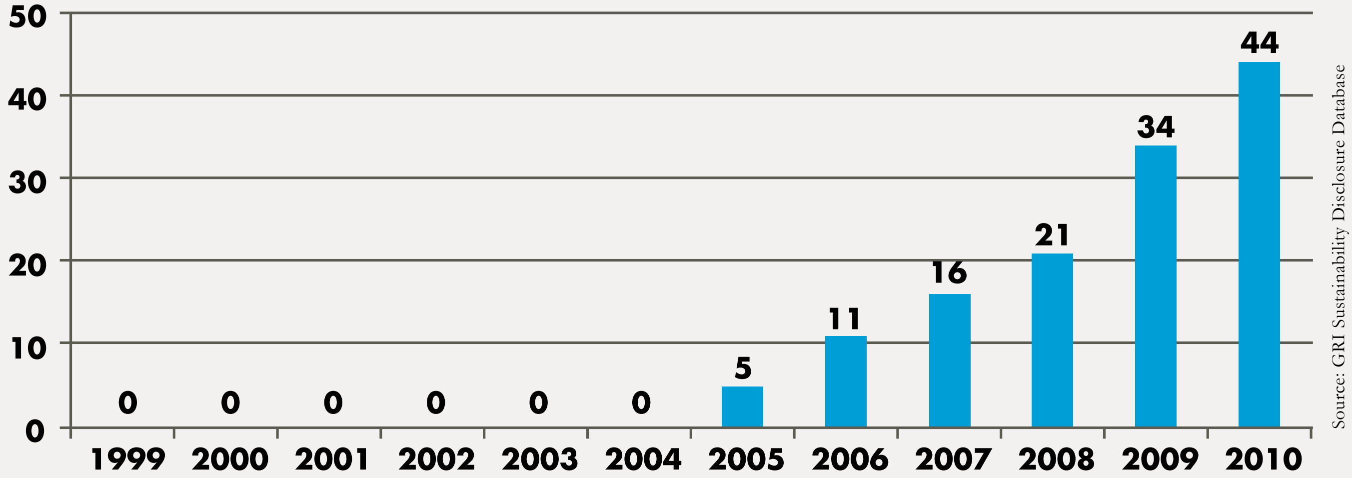
While our expert panel agrees that sustainability reporting is likely to be more regulated, public agency reporting is still rare. But drivers exist, from citizen pressure to better management.

1. To run is nothing, we must timely start

Although reporting by public agencies is developing, it is still far from widespread. **Only 0,8%[1] of all organizations reporting against GRI Guidelines are public agencies.**

When asked about whether it will develop in the future, our expert panel had mixed opinions. Transparency and participation are impacting the public sphere and sustainability reporting could be part of the set of measures addressing these expectations. But several barriers to a strong adoption of sustainability reporting remain, one being the general economic context not in favour of extra public spending. Despite that, looking at the drivers of reporting by public agencies, we see several opportunities and benefits for potential reporters.

> Evolution of the number of GRI registered public agencies reports



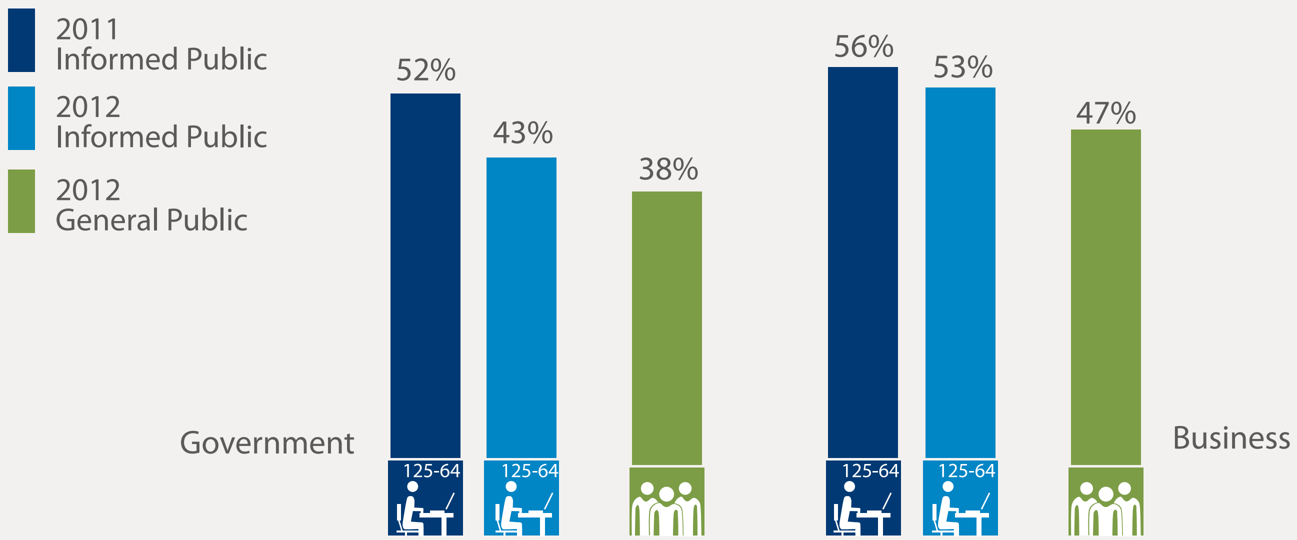
[1] 2011, GRI Sustainability Disclosure Database, database.globalreporting.org/

2. The drivers of public reporting

a. Earning trust back

It is about trust again. With the eurozone battling the debt crisis and world governments failing to reach agreements on global issues… trust in public institutions has hit a record low.

Citizens value transparency and accountability, and governments are starting to respond to these expectations, as shown by the multiplication of open government initiatives like the one from the White House in the USA.[1]



Source: Edelman Trust Barometer 2012, http://trust.edelman.com/trust-download/global-results/

Map: Governments and public bodies publishing open data

Open government is the governing doctrine, which holds that citizens have the right to access the documents and proceedings of the government to allow for effective public oversight.

Meanwhile, between civil society organizations and citizens new systems are developing[2] and public agencies are learning to collaborate with citizens and NGOs to better tackle environmental and social issues. In this respect, sustainability reporting can be a valuable tool for dialogue and participation, ultimately contributing to sustainable development and resilience of territories.

Illustration #2: The World Bank has put online in an open data format more that 7000 of its indicators, with an interactive data visualization interface.

[1] http://www.whitehouse.gov/open
[2] Edelman Trust Barometer 2012, http://trust.edelman.com/trust-download/global-results/

b. Citizen pressure

We have identified a move towards more transparency from public agencies and governments, particularly in terms of environmental and social impacts (open data, open government etc.) As a result, voluntary or compulsory sustainability reporting initiatives are gaining momentum.

E. Lagadec, City of Paris

As a result of new technologies, citizens can now voice their concerns directly at a high level. Teams of volunteers now mine open public data and produce independent analyses and visualizations to hold governments accountable.

The French website «Regards citoyens»[1] compiles and analyses open data on the activity of the French parliament, to hold MPs accountable for their actions.

c. National targets

Regulation is a powerful driver. **With countries having to deliver on national sustainable development targets, it is likely that public bodies will have to bear their share of the effort.** In some countries, the regulatory framework is strengthening and asking for mandatory reporting by public agencies. In France for instance, the «Grenelle 2» Law now asks for jurisdictions of more than 50000 inhabitants to produce a sustainability report. Other examples include China and Sweden, where state-owned companies are required to publish social and environmental information.

Major elements of the Grenelle II Law in France

According to the Grenelle Environnement Act of March 2011 towns with more than 50,000 inhabitants, départements and regions will, as of 2012, have to produce a yearly sustainability report containing three main elements:

- A review of sustainability actions undertaken for asset management, or other internal activity of the public body;
- An assessment of public policies, guidelines and programs implemented;
- An analysis of methods for developing, implementing and assessing actions, public policies and programs.

d. Driving internal change

There are good studies that show that organizations which start to measure and manage their environmental impact also become more efficient. A better understanding of environmental impact also helps an organization manage its risks, and generally fits in with the government's objective of encouraging organisations to become more sustainable.

S. Whitehead, DEFRA

[1] http://www.regardscitoyens.org/

Sustainability can act as a bridge between departments that often work in silos. Indeed, public agencies often have to deal with a double agenda: a political one, with attention peaking during election times, and the agenda of departments, in charge of implementing the long term vision and strategy of the State. Sustainability reporting can be seen as an opportunity to bring together teams from different backgrounds and technical departments, around a common vision of the final goals of public action.

It is also an opportunity to become more efficient and to cut unnecessary costs. This last point is very relevant considering the transition towards an integrated economy, where environmental and social costs would be increasingly internalized.

e. Looking good... for the greater good

Local governments often compete on how to attract investment and economic activity. **A strong commitment to sustainable development and accountability can contribute to better attractiveness** as demonstrated by the growing number of «green» city rankings.

European Green City Index

The European Green City Index measures the current environmental performance of major European cities, as well as their commitment to reducing their future environmental impact by way of on-going initiatives and objectives. The methodology was developed by the Economist Intelligence Unit in cooperation with Siemens. An independent panel of urban sustainability experts provided important insights and feedback on the methodology. The Index scores cities across eight categories — CO_2 emissions, energy, buildings, transport, water, waste and land use, air quality and environmental governance — and 30 individual indicators.

f. Do as I say...

Educating people about the stakes and importance of sustainable behaviour for sustainable development is crucial. Public agencies thus have a moral obligation to embody what they require from citizens.

> *"The public sector can contribute to wider and better SD reporting through its own reporting, which offers the chance to lead by example, by advocating for greater transparency on the part of the private sector, and by creating incentives for companies to report."*
>
> **A. Cramer, BSR**

3. Peeling the reporting onion

> *The definition of reporting parameters is a key issue. This comes down to an organisation reporting what is meaningful, or 'material'. For example if a bank reported only on its housekeeping – paper consumption, recycling, office heating & lighting etc. – and ignored it's much more significant impact arising from investment (such as what it does or doesn't invest in) then I'd say it isn't reporting on its material issues.*
>
> **P. Scott, CorporateRegister.com**

From our interviews, it appears that while the drivers for reporting are clear, the reporting content is sometimes hard to frame. Defining which perimeter to report on can be complex for public agencies, as their responsibility is similar to the layers of an onion…

they have impact through their activity as organizations;

- Level of control: HIGH. The influence is direct, public bodies are in control.
- Levers: internal policies and processes.

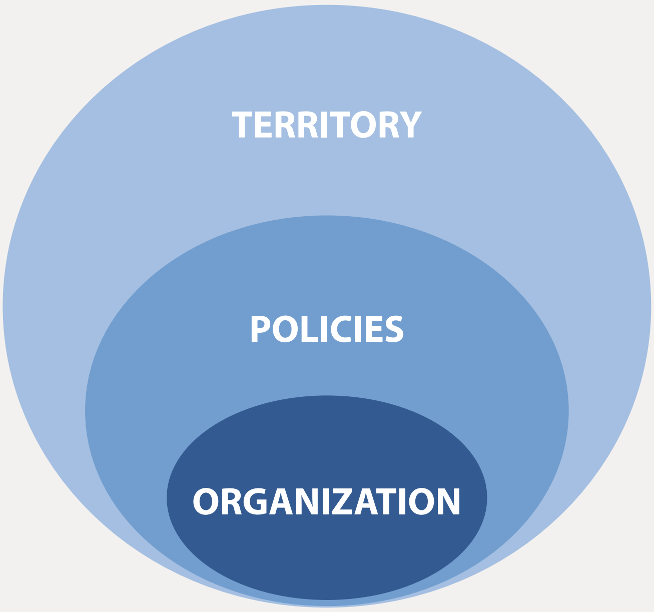
they are entitled to implement policies, which has impact;

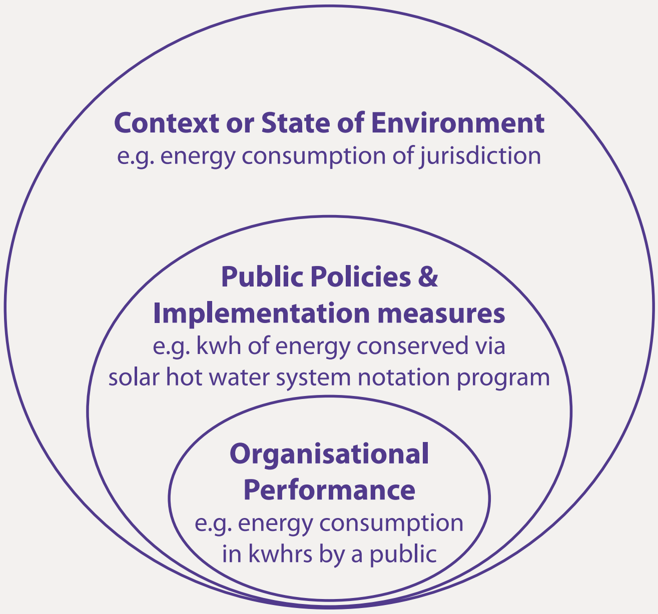
- Level of control: MEDIUM. The influence over policy development is limited (depending on countries and levels of decentralization) but local implementation plans often benefit from a wide degree of freedom.
- Levers: conditionality to and stewardship of public spending's contribution to sustainability.

they are guardians of the sustainable development of a given local government area, where several other stakeholders have an impact.

- Level of control: LOW. Public agencies can organize public debate and engage with stakeholders. They can request transparency on impact for major contributors to externalities.
- Levers: stakeholder engagement, public participation, law (in federal states).

> The reporting onion[1]





[1] GRI Public Sector Supplement

a. Where to draw the line?

> *The UK guidance recommends organizations to first report on their direct impacts as they are easier to measure or calculate, although we also encourage organizations to look at the indirect impacts, especially those in the supply chain that they can influence.*
>
> **S. Whitehead, DEFRA**

Defining what is material for a public agency is not easy. Standards don't often match the diversity of situations encountered (different types of public agencies, with various level of power, influence and capabilities). Plus, virtually all sustainability issues matter at a jurisdiction level, as well as all stakeholders . While interviewees don't have a clear stance on this issue, one way to prioritize issues could be to peel the reporting onion looking at...

- **Organizational performance:** material issues are the ones on which the organization has the most impact, and that matters most for stakeholders;
- **Public policies:** material issues are the ones over which the public agency has an influence through the implementation of public policies;
- **State of environment:** material issues are the ones that are critical for the environmental and social resilience and sustainable development of the jurisdiction.

The complexity also derives from the fact that areas where citizens expect transparency, are not the ones on which public agencies have direct control (organizational performance). One could also expect regulatory requirements to set the reporting perimeter, but would it be relevant? **According to our panel, providing a set of KPIs on which to report would make no sense, given the variety of public bodies and the diversity of issues.**

GRI sector supplement for public agencies

In 2005, the GRI published a specific sector supplement for public agencies. After several years of availability, the framework has only been used by a handful of actors. Among critics, it was considered that the supplement was too generic for the complex array of organizational types and levels of government existing in the public sector, and that it did not include sufficient sector-specific variables.

Defining the reporting vehicle is especially important for public reporters. It is likely that the standard form of sustainability reporting (pdf, paper based) would not fit the audience, which for the most part is the general public. Instead, **public reporters could look at publishing open data,** and using data visualisation techniques to make datasets more accessible.

#26: the General Council of the Saone & Loire Region publishes open data with visualizations available on its website.

4. Data puzzles

The standardization of data will also be an issue. How can public agencies consolidate data in standardized way to allow comparison?

N.Robinson, Independent

Back to data, as **gathering and consolidating data is significantly more complicated for public agencies than for companies.** Each layer of their reporting perimeter has specific challenges that reporters have to overcome. The key is to foster horizontal communication, navigating through departments, organizations and means to collect information.

a. Data from silos

The complexity of reporting on the organizational performance of public bodies stems from…

- the separation and lack of connectivity between departments in charge of various aspects of public policy and administration, making collaboration and data gathering difficult;
- the lack of a «performance evaluation» culture, which is very private sector specific, although this may be changing in some countries.

Here again, there is a role for a committed individual, or a transversal organization to act as a «connector» between departments.

b. Quantifying influence

Public reporters have to find ways to quantify their influence on sustainability though public policies. The basis is through the analysis of public spending's contribution to social and environmental development. While this may seem easy at first, the taxonomy of budgetary lines is often not suitable and not precise enough for this job.

c. Citizen science

The collection and monitoring of macro indicators at a local level is often the duty of national statistical bodies and local environmental protection bureaus. Public bodies then depend on the frequency and accuracy of sets of indicators they cannot control, and which are not always likely to capture changes at the right level. While monitoring its own set of indicators would be costly, public agencies can use citizen participation in order to monitor the state of sustainability in their jurisdiction.

Citizen science and participation

Citizens can participate in data collection and analysis efforts. A well-known example of this is the open source platform Ushahidi, providing free web tools to map signals sourced out of the Internet and cell-phones. This can prove immensely helpful in the event of a crisis like the Fukushima nuclear disaster, where a team of local developers put online a real time map to track the location of survivors and resources such as food and water, or the on-going Syrian spring with citizen reporting on army actions. From a public agency perspective, the same could be used in a crisis context, but also to set up accountability systems based on citizen participation, building partnerships with local environmental and social NGOs, and contributing to a new paradigm in the governance of public data and information.

5. What public agencies' reporting may change for companies

Public agencies may be able to start reporting on issues that are embryonic, or cutting edge more comfortably than a company could. Also, as more and more countries are starting to reduce their CO_2 emissions, more and more national governments may demand local reporting on that type of data.

N. Robinson, Independent

a. Fuel for (reporting) thought?

Public agencies have no shareholders and share price value to worry about. This can make a significant difference as they may be better placed to…

- report in a transparent way, avoiding boiler-plating;
- report on issues that would be discarded as weak signals by businesses.

b. Disclosure on challenges

With public bodies starting to report on issues that affect their jurisdiction, potential cover-ups by companies will be made very difficult. For example, a public authority reporting on corruption and alleged fraud cases could enhance visibility and accountability of companies involved.

c. Local business intelligence

Companies could find a new source of business intelligence in the growing number of local authorities publishing open data, For example, site managers could gain a better understanding of the context they are operating within and tailor their sustainability actions in order to limit their impacts on issues that are the most pressing at a local level. Conversely, when moving to managing impacts at local level, public authorities may require increased transparency from local companies on how they contribute to the local sustainability strategy.

The rise of open data will also give companies a better understanding of their operating context. They will be able to triangulate their data with local public data.

N. Robinson, Independent

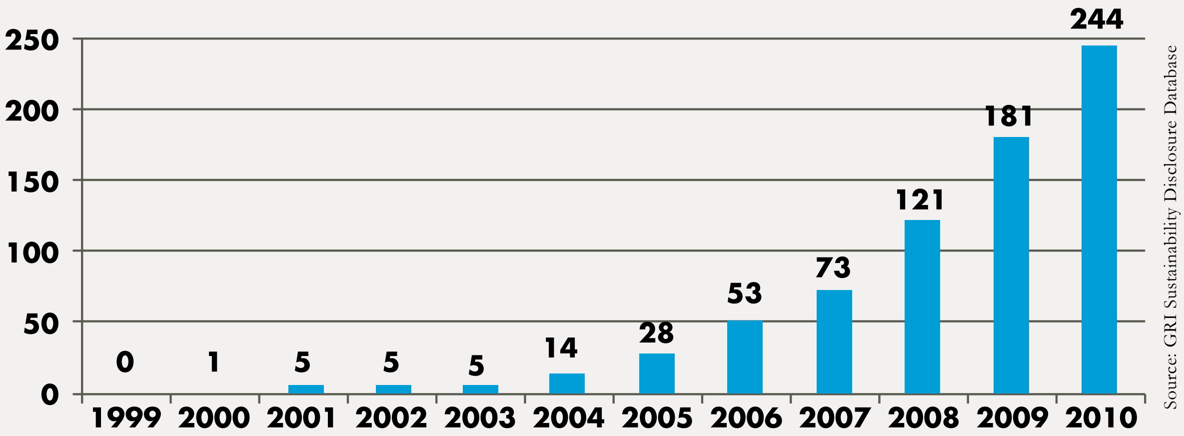
TREND #7: SME REPORTING

Our research has shown that many enterprises feel that they have a role to play in society, particularly in the communities they operate in, and that they engage accordingly, though they do not necessarily publicize their efforts, which has led to coining of the term 'silent CSR'.

N.Wiesert, UNIDO

SMEs might be individually small in size, but their overall impact is clearly substantial. They make up more than 90% of businesses worldwide and on average account for 50% of GDP of all countries and 60% of their employment.[1] **SME sustainability reporting figures show that a relatively small number have embraced GRI reporting.** The underlying questions are to what extent sustainability reporting can create value for SMEs, and lead to better sustainability stewardship.

> Evolution of the number of GRI registered SME reports



1. Should all companies report?

While all interviewees agree on the importance of SMEs embracing sustainability, they also tend to see a **lack of clear business case for engaging in sustainability reporting.** SMEs often deal with constrained financial and human resources. Making good use of limited resources makes additional reporting costs difficult to bear. This in turn makes a lack of general sustainability background and sustainability reporting skills even more of a challenge. But despite these challenges, drivers do exist, some of them powerful enough to inevitably drag SMEs into monitoring and reporting their sustainability performance.

Important limitations of relevance to CSR reporting relate to the availability of human resources and adequate skills. In many of our projects, SMEs have noted that in order to comply with reporting requirements such as GRI, they would need to hire additional staff to accomplish this.

N. Wiesert, UNIDO

[1] Forstater, M., MacGillivray, A. and Raynard, P. in cooperation with the UNIDO Private Sector Development Branch, Responsible Trade and market Access: Opportunities or Obstacles for SMEs in Developing Countries? (2006), Vienna, Austria: United Nations Industrial Development Organization (UNIDO), p.12.

2. Drivers of SME reporting

Also, most SMEs are somewhere in the supply chain. Their reporting will be strongly driven by reporting of bigger companies they are in business with.

N. Robinson, Independent

a. Traceability: the domino effect

Interviewees all agree. **Pressure to report will first come through supply chains.** A key driver for SMEs to start reporting is customer requirements, as many SMEs are now part of global supply chains. Traceability is demanded by customers and regulators, and drives the growth of their expectations.

Although it may be seen as a constraint for SMEs, it is also an opportunity for them to gear up for the future on condition that they find help and incentives to progress. To this end, MNCs are increasingly setting up programs and platforms to engage with their suppliers on these issues. This change may also bring new market opportunities for pioneers. High impact sectors, and sectors where end customers require transparency will be the first in.

But as more major supply chain players start to demand compliance with their environmental and social standards, the differing standards, KPIs and methodologies makes it difficult for SMEs to adapt. To lighten the burden on SMEs and enhance comparability, it is important to pool reporting criteria at industry or supply chain level.

The Supplier Data Ethical Exchange

Pooling information on suppliers can result in better visibility for responsible businesses. The Supplier Data Exchange, a not for profit membership organisation dedicated to driving improvements in responsible and ethical business practices in global supply chains, is the largest collaborative platform for sharing ethical supply chain data and information with multiple customers, helping suppliers to cut down on unnecessary paperwork.

#27: The Global e-Sustainability Initiative (GeSI) suppliers CSR online questionnaire, is one of the first shared databases created with ICT industries. See www.gesi.org

The Russian dolls

Depending on where a company fits in a supply chain, its capacity to monitor sustainability information may depend on one of its own suppliers providing such data. This introduces a significant amount of complexity for SMEs willing to report, as these stakeholders may be unfamiliar with sustainability. As such, they may prove hesitant or unsure regarding how to respond to a supplier's requests for input or even distrustful of the supplier's intentions. This requires additional financial and human resources dedicated to raising awareness, training people and developing working tools.

b. Other drivers

> *Many companies report not because they are under pressure to do so, but because their chairman or management team considers it the 'right thing to do'. These companies choose to be seen to be responsible, while others only respond to pressure.*
>
> **P. Scott, CorporateRegister.com**

Other drivers mentioned by interviewees include…

- **The committed CEO.**
  SME and family businesses are strongly driven forward by the will of the founder or CEO. In this respect, having the top-management as a driver of the approach is a key success factor for small businesses wanting to engage in sustainability reporting.

- **Monitoring for green performance.**
  With the coming resources crisis, efficiency in the consumption of raw materials will strongly connect to financial performance[1], although monitoring does not always mean reporting.

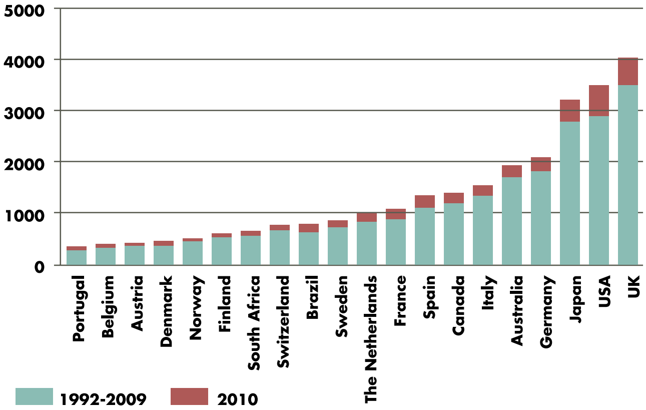
- **Responsible Initial Public Offerings (IPO).**
  With some 94 % of private equity houses expecting environmental, social and governance issues to become more important to their business in the next five years,[2] there could also be a business case for SMEs to engage in sustainability when they want to grow and diversify their shareholders base or go public.

[1] For example, in its latest report, PWC estimates that seven core manufacturing industries – including the renewable energy sector – could be seriously affected by a shortage of minerals and metals, which could disrupt entire supply chains and economies. Minerals and metals scarcity in manufacturing: A «ticking time bomb», PWC, 2012
[2] Responsible Investment: Creating Value from Environmental, Social and Governance issues, PwC, 2012

TREND #8: EMERGING REPORTERS

With the economic balance shifting weight towards developing economies and the move towards greater regulation of transnational environmental issues, we believe the evolution of transparency requirements in key emerging markets must be closely watched. Especially since some are already ahead of the game when it comes to reporting.

> Top 20 reporting countries



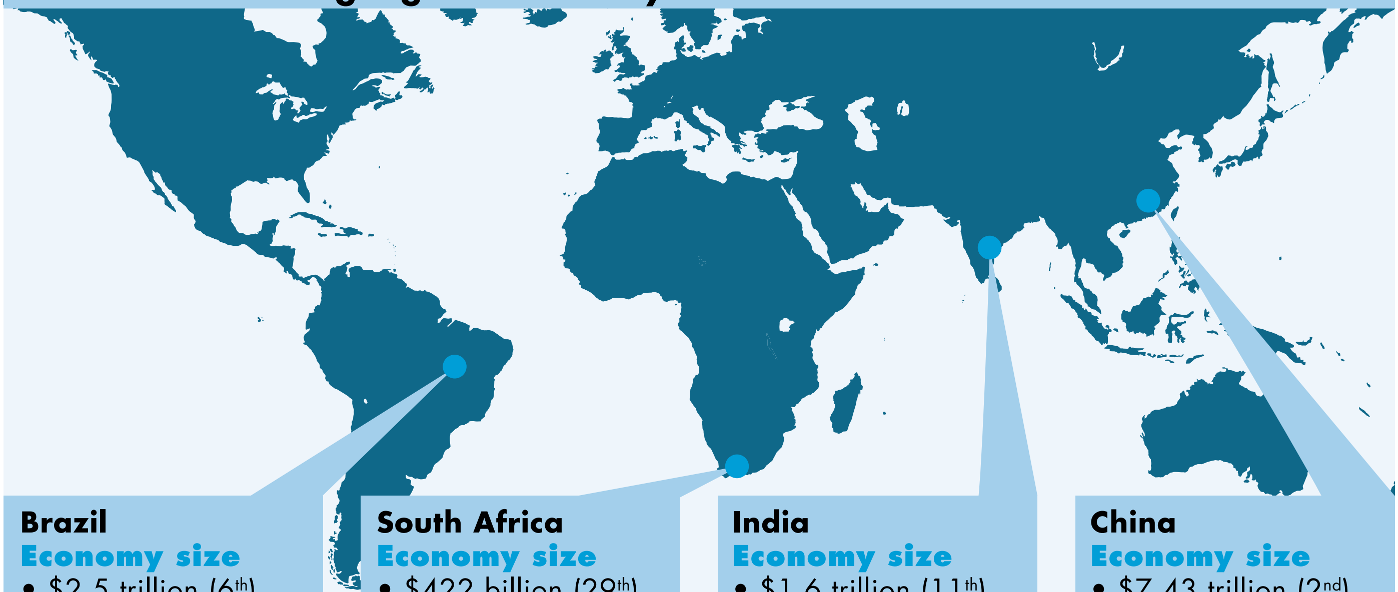
Source: Corporate Register Reporting Awards, CorporateRegister.com, 2011

For multinationals having or willing to set a presence in these countries, the issues are to

- ensure reporting conforms to local standards and prevent legal and communication risks;
- Consider what influence they can have in shaping the format and content of reporting by local branches and subsidiaries.

Utopies builds on a network of local expert partners that contributed a short country specific focus on the state and trends of reporting in three key countries:

> Four countries highlighted with key stats for each:



Brazil

Economy size
- $2.5 trillion (6th)

Key sectors (GDP)
- agriculture, (5.8%)
- industry, (26.8%),
- services, (67.4%)

Population
- 190,732,694 (6th)

State of disclosure: mandatory, report or explain etc.[1]
- Voluntary

South Africa

Economy size
- $422 billion (29th)

Key sectors (GDP)
- agriculture (2.5%),
- industry (31.6%),
- services (65.9%)

Population
- 49,991,300 (27th)

State of disclosure: mandatory, report or explain etc.[1]
- Mandatory for listed companies

India

Economy size
- $1.6 trillion (11th)

Key sectors (GDP)
- agriculture (18.1%),
- industry (26.3%),
- service (55.6%)

Population
- 1,210,193,422 (2nd)

State of disclosure: mandatory, report or explain etc.[1]
- Voluntary

China

Economy size
- $7.43 trillion (2nd)

Key sectors (GDP)
- agriculture (9.6%),
- industry (46.8%),
- services (43.6%)

Population
- 1,339,724,852 (1st)

State of disclosure: mandatory, report or explain etc.[1]
- Mandatory for SOEs

[1] Carrots & Sticks II, Promoting transparency and sustainability, UNEP, GRI, KPMG, UFCGA, May 2010

1. Reporting in South Africa

a. A leadership role

South Africa was amongst the first group of countries globally in which corporate environmental and sustainability reports were published. It is currently playing a leadership role in promoting the move to integrated reporting.

A small number of South African companies began publishing annual non-financial reports in the mid-1990s, closely following the publication of some of the first corporate non-financial reports internationally (predominantly in Europe). These early reports were confined mainly to those companies with high direct environmental impacts. The late 1990s and early 2000s saw an increase both in the number of companies and sectors reporting, as well as in the scope of the issues reported, reflecting the global move towards "triple-bottom-line" sustainability reporting.

As with many of their foreign counterparts, local sustainability reports often appear disconnected from the organisation's financial reports, fail to make the link between societal challenges and the organisation's core strategy, or are guilty of 'carpet-bombing'[1].

b. Specificities

Various South African companies and individuals contributed to the development of the early Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), launched at the World Summit on Sustainable Development (WSSD) in Johannesburg in 2002. Local companies have had a positive influence on their international peers, with a number of them cited as examples of reporting best practice.

Uptake of the GRI Guidelines

A 2011 survey provided by Sustainability Services - a local consultancy and assurance provider, that reviews the reporting practice of South Africa's (almost 400) JSE-listed companies, as well as various NGOs and non-listed companies, and assesses their level of compliance against the GRI's G3 Guidelines - found that of the 392 reports that they assessed, 100 (25%) have explicitly adopted the GRI Guidelines as the basis for their reports.

c. Current drivers of reporting

The early adoption and subsequent increase in corporate sustainability reporting in South Africa can be attributed to various important drivers. These include:

- **Stakeholder and peer pressure:** an important initial driver for non-financial reporting was the publication of environmental reports by international business peers , signalling the growing expectation by stakeholders more broadly for greater corporate accountability.

- **Growing awareness of the strategic importance of sustainability:** the drive to non-financial reporting during the 1990s came at a time of growing institutionalisation of the business response to sustainable development following the Rio Earth Summit in 1992.

- **Changing corporate governance requirements:** the King Code on Corporate Governance. King II (published in 2002) required that "every company should report at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices"; the subsequent King III (effective from 1 March 2010) highlights the importance of integrated reporting. The fact that implementation of the King Code is a listing requirement for the Johannesburg Stock Exchange (JSE) on an "apply or explain" basis has raised the profile and implementation of these recommendations.

- **Awards:** Prompted initially in the mid-1990s by environmental NGO, WWF South Africa, there have since been various annual reporting awards (administered, amongst others, by the Association of Chartered Certified Accountants (ACCA), KPMG and Ernst & Young) that have helped to encourage the uptake and improve the quality of sustainability reporting.

- **Various voluntary initiatives** have contributed to fostering greater corporate accountability, including for example the JSE's Socially Responsible Investment (SRI) Index (introduced in May 2004), the international Carbon Disclosure Project (initiated in South Africa in 2007), as well as initiatives such as the UN Global Compact, Responsible Care and the International Council on Mining and Metals (ICMM).

- Finally, and more recently, there is growing **pressure from social responsible investors** for greater transparency on environmental, social and governance (ESG) issues.

[1] This term refers to the fact that increasingly, some reporters seem to be bombarding report users with facts, with little or no thought for significance and materiality, thus increasing the average page-length of printed report with no associated increase in overall report quality.

d. Reporting trends in South Africa

In terms of current reporting practice there are three key trends that stand out, each of which has the potential to have a significantly positive impact on the direction of future reporting practice in South Africa:

1. The move to integrated reporting;
2. Increasing engagement of institutional investors in ESG issues; and
3. The changing nature of regulatory drivers.

Integrated reporting

In addition to being the first country to promote integrated reporting as a listing requirement on an "apply or explain" basis, the South African discussion paper on integrated reporting (published in January 2011)[1] has had an evident influence on the discussion paper published by the International Integrated Reporting Committee (IIRC) in September 2011. The South African Integrated Reporting Committee (IRC)[2] was established in May 2010 to develop guidelines on good practice in integrated reporting.

Newcomers

This growth in sustainability reporting is visible across various sectors, including amongst:

- South Africa's listed companies – where there has been an increase not only in the number of companies but also in the spread of business sectors that are now reporting on sustainability issues;
- Small and medium sized enterprises – a leading example being Impahla Clothing[3], a Cape Town textile company that has been publishing a GRI-based report since 2007;
- Industry sectoral organisations – such as the National Business Initiative[4], which produced an integrated annual report in 2005;
- Non-governmental organisations – with sustainability reports published, amongst others, by HIV/Aids NGO Cotlands[5], and environmental NGO Delta Environment Centre[6]; and
- Governmental organisations – such as the Provincial Government of the Western Cape, which produced its first annual sustainability report in 2008.[7]

Changing legislation regarding corporate reports

Including: the National Black Economic Empowerment Act that requires annual progress reports to be submitted to government; the Employment Equity Act on annual reporting to government on unfair discrimination in the workplace; the National Climate Change Response Paper that includes provision for establishing a detailed and up-to-national greenhouse gas inventory and requires companies and economic sectors or subsectors to prepare and submit mitigation plans that set out how they intend to achieve the desired emission reduction outcomes.

[1] Integrated Reporting Committee: South Africa (February 2011) Framework for Integrated Reporting and the Integrated Report: Discussion Paper (25 January 2011) www.sustainabilitysa.org.

[2] Five major South African organisations founded the IRC – the Association for Savings & Investment South Africa (ASISA), Business Unity South Africa (BUSA), Institute of Directors in Southern Africa (IoDSA), JSE Ltd and the South African Institute of Chartered Accountants (SAICA). Two more organisations joined the IRC in August 2010, namely the Banking Association South Africa (BASA) and the Chartered Secretaries Southern Africa (CSSA). In 2011, the Principal Officers Association and the Government Employees Pension Fund joined the IRC. Professor Mervyn King – chairman of the King Committee, chairman of the Global Reporting Initiative (GRI), and (more recently) chairman of the International Integrated Reporting Committee, was elected as the first chairman of the IRC.

[3] http://prizmablog.com/wp-content/uploads/Impahla-2010-Sustainability-Report-A4-Final-08-May.pdf

[4] http://www.nbi.org.za/

[5] http://www.cotlands.org.za/legal/annual-report/

[6] http://www.deltaenviro.org.za/

[7] http://www.incite.co.za/wp-content/uploads/2011/03/Western-Cape-Government-_SDR_2008.pdf

e. Challenges for reporters

Low expectations from companies' executives

Many companies are producing reports that might tick-the-box of the GRI recommendations, but that fail to present an appropriately balanced, analytical or strategic review of the company's most material issues. In many instances this is due to an insufficient appreciation of many company directors of the strategic significance of ESG issues or the value of sound stakeholder relationships. Although this is beginning to change, for many local executives sustainability is still seen as a 'soft' issue, quite distinct from the real business of maximizing shareholder value; it's seen as being about 'giving back' to society through a social investment program, encouraging marketing departments to embrace the new 'green agenda', or signing up to voluntary charters in response to external pressure.

Weak pressure from stakeholders

Generally low levels of readership and lack of critical stakeholder feedback have failed to hold companies sufficiently to account on the quality of their reporting practice. Recent stakeholder surveys suggest that investors – a key target audience – are not avid users of sustainable development reports. Not only is this a function of the comparatively low level of importance currently attached to ESG issues by many local investors, it is also a result of the fact that many of these reports are not of sufficient interest to them as they fail to report on the most material issues.

f. Perspectives

South African investors are expected to exert greater pressure for improved corporate sustainability performance and reporting. Recent developments include in particular:

- **Revisions to Regulation 28 of the Pension Fund Act,** which requires that a fund and its board must (before making an investment and while invested in an asset), consider ESG factors. This will require institutional investors to be transparent and disclose how ESG issues have informed their investment decisions.

- **The Code for Responsible Investing in South Africa (CRISA)** is intended to give effect to the principles of King III and the Principles for Responsible Investment (PRI) with the aim of encouraging the inclusion of sustainability considerations into their investment analysis and activities.

- **The Principles for Responsible Investment (PRI).** A growing number of South Africa signatories to the PRI, a network of international investors working together to put into practice six principles for responsible investment.

- **Government Employees Pension Fund (GEPF)** and the Public Investment Commission (PIC) have been particularly active in integrating ESG issues within their investment activities. The PIC's Corporate Governance Rating Matrix (developed in 2008), which places a strong emphasis on disclosure of social and environmental performance; as the single largest investor on the JSE and one of the largest investment managers in Africa, the PIC's commitment to transparency and disclosure is likely to have a visible impact on corporate reporting practice.

2. Reporting in Brazil

a. Embracing sustainability reporting

According to CorporateRegister.com, in 2009-10, the number of reports published increased nearly 4.5 times since 2003. The companies are mainly from the economic sectors that have a direct impact on natural resources and local communities like energy, oil and gas, cosmetics, water and sanitation, pulp and paper, mining and construction, as well as companies that have an indirect impact (but not less important) allowing other sectors to evolve (banking).

In 2010, Brazil was the third country in the world in number of sustainability reports published, with more than 160 reports based on the GRI structure and recorded in the GRI Reports List.

The quality of reports is improving.

The list of reports eligible for consideration in the Road to Credibility 2010, focus on Brazil, survey nearly doubled since 2008, going from 76 to 137 reports. An independent expert advisory group oversaw the survey process, challenging all the steps of the methodology, looking at the approaches to specific criteria of: issue identification and prioritization; values, principles and policies; management procedures; stakeholder engagement; measuring sustainable development performance; top management statement, target setting and assurance.

b. Specificities

A "marketing" approach to CSR

Brazil's culture strongly values image and communication, and companies over the country have been perceiving that sustainability reporting could be an important way to strengthen their branding and marketing strategy. Following this cultural aspect and the growth of Brazilian companies that want to position themselves on the local and international market, marketing campaigns are one of the most important tools used. Today, Brazil is the 6th largest advertising investor country in the world. CSR/Sustainability is one of the subjects on which companies focus when investing in advertising. Specific awards are pushing companies to communicate, sometimes incentivizing companies to keep in a loop that favours greenwashing. However, Brazilian society is becoming aware of greenwashing practices and, in 2011, the Conar (National Council of Advertising Self-Regulation) launched ethical standards to avoid corporate greenwashing, reducing the risk of trivializing the meaning of sustainability or confusing consumers.

GRI friendly companies

GRI has been investing a lot in Brazil since 2000, organizing capacity-building programs for companies from the southeast and northeast regions. This long-term investment was very successful in reaching major companies, such as Vale (mining), Itaú (banking), and Natura (cosmetics) that are frequent winners of several international awards. However, most companies in Brazil that are willing to apply GRI guidelines are still struggling with understanding and implementing them. One of GRI's goals is to help companies to mobilize and define a sustainability strategy that could be measured and monitored through performance indicators. Unfortunately, this is not achieved in a great number of cases. As a result, many companies dedicate most of their CSR resources (budget and teams) to reporting on a long list of indicators instead of achieving real progress.

c. Current drivers of reporting

- **Foreign investment:** the economic growth and the opportunities offered by Brazil, such as the Pré-sal, the World Cup and the Olympic Games, not to mention Brazil's growing middle class and consequent infrastructure needs, are all important drivers. Foreign companies attracted to the country use reporting tools as a way of showing their investments and benefits and engaging with local stakeholders (eg the community, government authorities and customers).

- **Internationalization of Brazilian companies:** The need to introduce the company and start a high quality relationship and communication process with unknown communities and government in new locations is increasing. The use of reporting tools contributes to better local multi stakeholder engagement.

- **Sector-specific regulations:** regulations from public authorities are driving disclosure. For example, ANEEL (National Electric Energy Agency) requirements, published in 2001, require Brazilian electric utilities to publish annual social and environmental reports compatible with both Ethos and GRI Guidelines.[1]

- **Sector-specific initiatives:** specific sectoral, national and international guidelines, such as the Mining & Metals GRI Sector Supplement developed by the GRI and the ICMM (International Council on Mining & Metals)[2], are also key influencers of reporting both for Brazilian companies operating outside the country as well as for foreign companies operating in Brazil.

[1] Reference missing
[2] Allows the ICMM to assess the progress made by each member company against its performance commitments

• **"Report or explain" initiative:** Implemented by BM&FBOVESPA, the Brazilian stock exchange. Listed companies must either issue sustainability reports or explain why they do not do so.

d. Reporting trends in Brazil

IT

The use of Internet as a tool for reporting is increasing in Brazil, but still does not fulfil its potential. It is mainly driven by international trends and also motivated by the increasing use of new media, social networking, smartphones and tablets. Examples of online reporting include: digital reports (pdf and online format), a hot site dedicated to sustainability, blogs, press site, social media, and smartphones and tablet apps.

> *"No company really dominates the new tools that Internet offers to communicate about sustainability in Brazil, although it is already recognized as important. This is due to a lack of a sustainability communication strategy, due to a lack of business strategy in general."*
>
> **Estevam Pereira, Report Comunicação partner**

Newcomers

Reporting by Small and Medium Enterprises is mainly focused on accountability, in response to supply chain management demands or client selection criteria. The two main demands come from: a) large retailers like Grupo Pão de Açucar and Zara, who have suffered pressure from NGOs and local authorities after being pointed out for their environmental and social impacts; b) banks that follow sectorial self-regulation indicators like the Ecuador principles when lending money;

On the other hand, expectations of greater transparency and ethics are on the rise for state owned companies. Some of these companies already have sustainability reports, (eg Petrobras, Sabesp, Banco do Brasil, Nossa Caixa, Itaipu, Eletrobras) but the practice is not yet widespread.

Integrated reporting at an early stage

The subject has been brought to the table in Brazil by organisations such as the GRI (Global Reporting Initiative), the IIRC (International Integrated Reporting Committee), the BM&FBOVESPA and specialists like Ricardo Young. However, only a few companies in Brazil have already integrated their reports: Natura, who started in 2002; Santander, who incorporated this practice after acquiring Banco Real; and Fibria, who launched its first integrated report in 2009, building on the Aracruz experience.

e. Challenges for reporters

• **Governance and strategy** should come first: Reporting should not be at the expense of the work companies must devote to their sustainability strategy, vision and governance in order to deliver real impact. Although many companies disclose materiality processes and CSR issues in their reports, it seems that the meaning of materiality is still confusing and not much used in the decision making process.

• **Continuous reporting** with historical comparable data, showing how companies are organized to deal with their commitments and effectively achieve targets.

• **Transparency and credibility:** finding the right balance between success and failure in sustainability by integrating dilemmas and main stakeholder concerns (eg, toxic materials, GMOs). Providing more information about impacts and externalities through a life cycle analysis approach.

f. Perspectives

New policy framework initiative

In preparation for the Rio+20 Conference, the Brazilian government is proposing an initiative to increase the practice of sustainability reporting among state owned companies, development banks, private pension fund sponsors, open capital companies and large corporations.

The objective is to encourage publication of more complete, timely and objective reports with sustainability performance information.

This initiative is incentivized by the GRI and Aviva Investors.[1] If it proves to be successful, we can expect an important wave of quantitative and qualitative improvement of reporting in Brazil.

[1] See http://www.aviva.com/media/news/item/investor-led-coalition-calls-for-un-declaration-requiring-companies-to-integrate-material-sustainability-issues-into-reporting-13203/ and https://www.globalreporting.org/information/news-and-press-center/Pages/Rio-plus-20-A-global-movement-towards-a-sustainable-economy.aspx

3. Reporting in China

a. Reporting is taking off

Since the first corporate social responsibility report published in China in 1999, sustainability reporting has been increasingly well-known to the public.

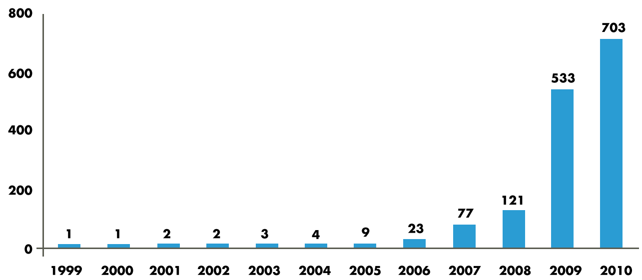
After a decade, sustainability reports of Chinese enterprises have dramatically improved both in terms of quality and quantity, while stakeholder expectations on the quality of corporate responsibility reports are rising too. According to a local consultancy's research, by the end of 2010, 703 companies were publishing a report in Mainland China - a striking contrast with 1999, when there was only one company reporting.

b. Specificities

GRI friendly

In the early days of reporting, many reports were very PR or greenwash oriented, now more and more reporters use the Global Reporting Initiatives (GRI) and other reporting frameworks as a reference to disclose information. For, example, based on research conducted by Syntao in 2010, 57 reports used GRI as a reference. Increasingly, leading companies invite third-party organizations to certify reports. These steps consistently help Chinese companies to effectively improve the quality of their reporting.

> CSR Report Publishing fact from 1999 to 2010



Source: A journey to Discover Values, 2010, Syntao

Government is the key stakeholder

Because of China's specific social structure, the government is the biggest stakeholder for business or non-business, though local community, labour and consumer-citizen pressure on business is becoming more active.

SOEs as the bulk of reporters

At the beginning of 2008, SASAC (State-owned Assets Supervision and Administration Committee, who controls the biggest State-Owned Enterprises on behalf of the Chinese government) released a policy requiring state-owned enterprises (SOEs) to better manage corporate social responsibility and regularly disclose information. This has led to an increase in the number of reporters from 121 at the end of 2008 to 703 at the end of 2010, with 78% of them being SOEs.

c. Current drivers of reporting

Currently, the major and sole driver for sustainability reporting in China is government expectations and requirements. However, some leading companies are going beyond "expectations and requirements". They present sustainability achievements through reporting to global stakeholders such as business partners, local government, community, and non-government organizations. This helps them mitigate risk and achieve a better market position. This is also a result of peer pressure and influence of foreign multinational corporations expecting disclosure form local suppliers. The use of supplier scorecards also puts pressure on smaller or lesser-known enterprises to put adequate information measurement and reporting systems in place (eg for B2B inspections and quality control).

d. Reporting trends in Mainland China

IT

Some companies like China Ocean Shipping (Group) Company (COSCO), Baidu, and China Mobile not only publish a printed report, but have also launched an online report which makes it easier to interact with their audience. A lot of Multi-National Companies (MNCs) release their local report such as Intel, L'Oreal, Microsoft, Hitachi, etc. They target the same audience: government, CSR organizations, academics, media, etc. One very explicit trend is that MNCs are trying to localize their report to meet local stakeholders' expectations.

Newcomers

In terms of the growing reporting from newcomers, private companies and foreign-invested companies are reporting frequently. For example, there were 135 reports published by private firms in 2010, against a mere 29 in 2008.

Integrated reporting

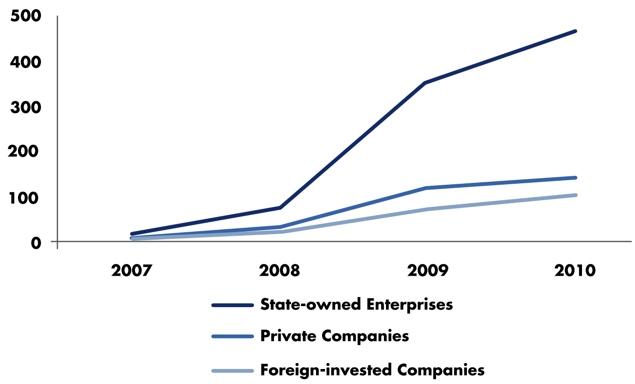
With respect to integrated reporting, BSR thinks it's not a simple format change. It essentially requires the company to integrate sustainability and business strategies first. For most Chinese companies, this will be hard. The Deputy CSR Manager of China Mobile thus commented, "for most Chinese companies it's still early to talk about integrated reporting. And what we need to focus on is how to further improve the sustainability reporting quality."

e. Country-specific challenges

A passive compliant approach

Although reporting has been spreading massively, many reporters are directly motivated by government regulations, which means companies are passively disclosing sustainability information. According to the Research on Corporate Social Responsibility Reporting in 2010 conducted by China WTO Tribune, 49.3% of reports in 2010 are no more than 10 pages.

> Different Types of Companies' Report Fact



Source: A journey to Discover Values, 2007-2010, Syntao

Bottlenecks in information disclosure

Companies who have identified tangible value from reporting are facing bottlenecks in the way they manage information: for example, identifying key issues to disclose, keeping information consistent with former reports and balancing information in the report in order to make it more credible.

f. Perspectives

Regulatory pressure

Key stakeholders such as government and research institutions are likely to have much more detailed reporting requirements. Currently, initiatives to encourage listed companies to disclose sustainability information have been undertaken by the Shanghai, Shenzhen and Hong Kong stock exchanges. Keen to improve their markets for foreign investment, they are also learning from other stock exchanges participating in the international Sustainable Stock Exchanges Initiative.[1]

High impact sectors in the game

Under pressure from government, NGOs and consumers, more firms such as traditional manufacturing companies and mining companies will be reporting on CSR progress in the next two to four years.

Reporting recognized as a value creation lever

Companies will use reporting to improve sustainability management systems, engage with stakeholders, shape social reputation, etc. Based on the integration of business and sustainability, companies will report using an integrated approach. More companies will see added value in such reporting.

[1] http://www.unpri.org/sustainablestockexchanges/

4. Reporting in India

This country focus is excerpted from the State of Sustainability Reporting in India – 2012, study, with the kind authorization of its lead authors: GRI Focal Point India, GIZ and the Thought Arbitrage Research Institute.

a. A slow take off

The Indian economy is the world's eleventh largest by nominal Gross Domestic Product (GDP) and the fourth largest by purchasing power parity. India has become one of the fastest growing economies, and is considered a newly industrialized country; however, it continues to face the challenges of poverty, illiteracy, corruption and inadequate public health. The economic growth over the last few decades has brought with it social and environmental pressures, as well as the need to raise standards in terms of corporate governance. Elements of sustainability have been part of Indian corporate reporting, /New regulations and legislations are designed to encourage and stimulate Indian companies to increasingly adopt composite reporting on sustainability parameters.

With reporting on sustainability still voluntary in nature, companies have a choice of disclosure mechanisms, and this choice is determined by the preparedness of the organization as well as an analysis of the sustainability risk. There are around 80 Indian companies from various sectors that have been reporting, and there are about 60 companies who publicly declare that they follow the GRI Guidelines on almost all aspects of reporting environment, social and governance performance, although the rigour and details vary. A growing number of companies in the Metals and Mining, Oil and Gas, Power, Construction and the Automotive sectors are among the leading adopters of sustainability reporting.

b. Specificities

Completeness

Indian companies have been reporting on almost all aspects of performance indicators ranging from environment, social and governance, although the rigour and details vary. There are also disclosures on the integration of sustainable practices with operations, though they are yet to mature.

Integrated reporting

Indian companies find value in adopting environment-friendly processes and business practices, which is expected to ultimately lead to more efficient processes. The concept of Integrated Reporting which has been evolving over the last few years underlines the importance of demonstrating interdependence between strategy, governance, operations and financial and non-financial performance . With increase in sustainability reporting as well as efforts to develop and refine the practise of integrated reporting globally, organisations ability to create value will undergo changes. However, many companies which prepare separate sustainability reports rarely link them with their annual reports and risk analysis. A lack of integration between these reports can hamper the quality of communication of the value propositions that a company undertakes through its sustainability initiatives.

c. Current drivers of reporting

Sustainability indexes

A key development that brought reporting on ESG parameters to prominence in India was the launch of Standard & Poor's (S&P) ESG India Index in 2008. This is the first index of companies in India that measures and ranks 50 National Stock Exchange (NSE) listed companies on their ESG performance. Fifty of the 500 largest companies listed on the NSE (that meet certain ESG criteria) are a part of the index. The recent launch of the new index called 'BSE-GREENEX' measuring the performance of companies in terms of carbon emissions by the Bombay Stock Exchange is expected to assist investors in their decision making based on the carbon efficiency of stocks according to purely quantitative performance based criteria.

[1] http://theiirc.org/wp-content/uploads/2011/09/IR-Discussion-Paper-2011_spreads.pdf

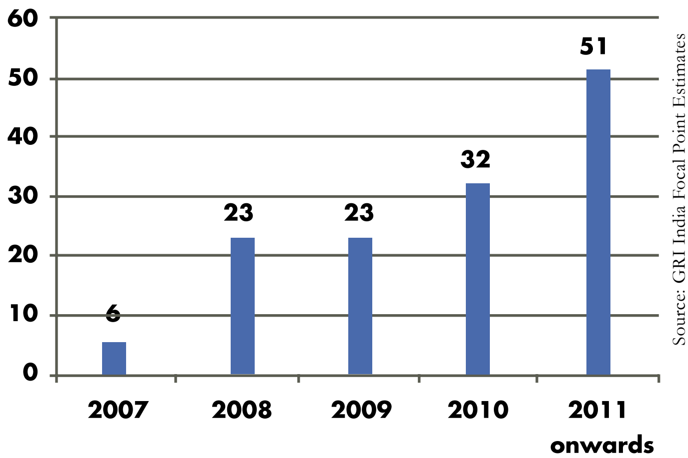
Use of GRI Guidelines

The use of the GRI Guidelines and other guidelines by larger Indian corporates are steadily increasing as evident from the number of GRI reports, respondents to CDP and signatories to UNGC. There are legal frameworks of the Indian government which is promoting greater transparent disclosures of ESG parameters and new laws and regulations are being drafted to make such reporting mandatory for businesses.[1]

Increasing activism and regulations

Increasing activism and changing regulations are seen as risks, which can lead to additional regulatory compliance requirements and can directly impact their adoption of environment-friendly business practices. The Guidelines on Corporate Social Responsibility (CSR) issued by the Department of Public Enterprises (DPE), which is applicable to all companies owned by the Central Government, stipulate mandatory regulations on the quantum and manner in which they should invest and report CSR parameters. The Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs), issued by the Ministry of Corporate Affairs in July 2011, are expected to promote a systemic movement towards sustainability reporting by all responsible businesses.

> Reports from India in GRI website



d. Reporting trends in India

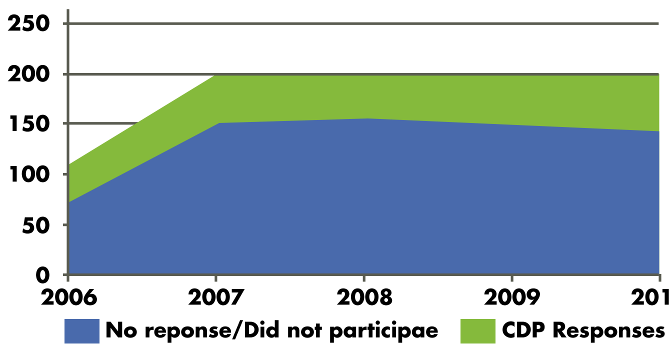
Adoption of GRI Sustainability Reporting in India

GRI launched the third generation of its Guidelines, G3, in 2006 and Indian companies transitioned to the G3 Guidelines in 2007; all reports since 2009 are based on the G3. In a recent analysis by GRI, it has been observed that Indian companies are producing the highest proportion of complete reports globally, implying the disclosure of a complete set of information that is relevant to the reporting organisation and external assurance[2]. GRI published the G3.1 Guidelines – an update and completion of G3, with expanded guidance on reporting gender, community and human rights-related performance in March 2011 and Indian companies are adapting to these new changes in the reporting framework.

Responses to the carbon disclosure project from India

Since 2006, CDP has been inviting top NSE-listed companies to respond to their questionnaire. It started with a request to 110 companies in the first year and then expanded the sample to NSE 200 from 2007 onwards. The number of companies responding has increased over the years. Companies have now started responding to not just those issues related to investors but also supply chain-related questionnaires.

> CDP responses from India

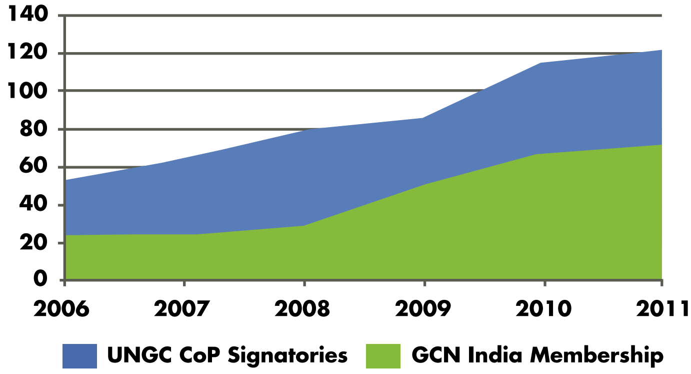


[1] Refer to annexure 1 on policy and legislations in the report.
[2] https://www.globalreporting.org/information/news-and-press-center/Pages/India-produces-most-complete-sustainability-reports.

UN Global Compact

The UN Global Compact has signatories not only from the industry and corporate sector, but also not-for-profit and educational institutions. Global Compact Network (GCN) India was established in 2003 as a non-profit society and functions as the Indian local network of the Global Compact Programme. UNGC has a principle-based disclosure requirement with a leadership expression of commitment. There is a significant overlap of the UNGC and the NVGs in terms of principles and emphasis on the statements pertaining to top management involvement.

> Adoption of UNGC in India



Source: Indicates the extent of adoption of UNGC in India since 2006.

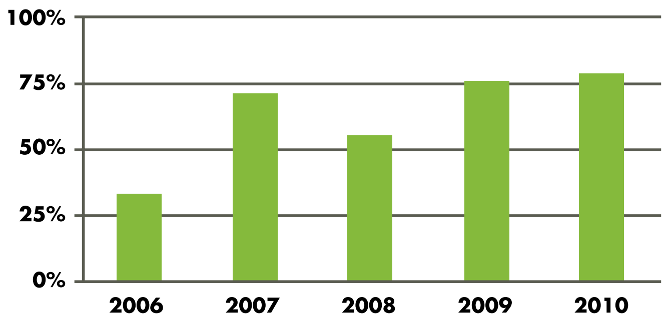
e. Country-specific challenges

Integrity of Data in Sustainability Reports

Trends in external assurance of sustainability reports based on the GRI Framework from India reveal a rise in external assurance from 30% in 2006 to more than 75% in 2010. This rise in percentage is significant, more so when coupled with the rise in number of GRI reports from Indian Industry.

Trends in external assurance of sustainability reports from India

> External Assurance Trends GRI based sustainability reports



Source: Analysis based on information in GRI disclosure database

Information, methodology and reporting processes

Due to the unavailability of adequate information, as also insufficient processes and controls, coupled with the lack of understanding of such a framework within the organization, many companies outsource reporting to an external agency. Further, unlike the case of financial reporting, the disclosure of sustainability metrics to the market is largely unregulated. In many cases, the HR or corporate communications department of the organization is made responsible for the report, as a result of which sustainability reporting often lacks the key management focus. These challenges not only affect the quality of the report but also make the task of preparing it tedious and time-consuming.

Lack of investor interest

Companies are uncertain about the interest prevalent among Indian investors in the use of sustainable business practices for decision-making. Some companies feel that foreign investors and customers have an interest in sustainability report and initiatives. However, some of the investor relations heads of a few of the largest Indian companies claim that during the last few years, global investors and analysts have rarely shown active interest in sustainability parameters.

Quantifying qualitative measures

A fundamental challenge in sustainability reporting stems from the need to quantify qualitative measures. Social impact assessments and measurement of the return on sustainability initiatives are presently in a nascent stage in India, which affects the quality of sustainability reporting. For instance, the link between sustainability and financial indicators is difficult to establish. The research attempted to analyse the financial ratios of reporting and non-reporting companies in the eight sectors under study but could not find any conclusive evidence to support the assertion that companies reporting on sustainability perform better financially than those which do not.

f. Perspectives

Both reporting as well as non-reporting companies have accepted the possibility of sustainability reporting becoming mandatory in the future across all publicly traded enterprises as also of the need to put together a reporting mechanism that is relevant for both the company and its industry sector. This is based on interactions with company executives. It was felt that this can happen because of requirements from the stock exchange or regulation etc mandating reporting or identifying it as a best practice and requiring non-reporting companies to explain.

Further, as written earlier, activism is likely to add extra pressure on companies to disclose their sustainability performance indicators.

Information Needs and Awareness

Sustainability reporting in India is still in its early stage, with only a limited number of organisations exhibiting a continued commitment over the last 3 years for disclosures. While more and more organisations are starting to disclose their performance on ESG parameters, in their annual report, websites and in some cases separate reports, there are several information gaps that have to be addressed.

Increasing Awareness

Corporates do not always integrate sustainability in their operations with the rigour desired for effective and tangible benefits. Bottlenecks in implementation of sustainability initiatives identified by the industry can be effectively handled through increased awareness and understanding. There is increasing trend of companies identifying sustainability initiatives as a likely source of increased efficiencies and the recognition of the need to adopt reporting practices to be able to measure, monitor and be accountable for sustainable operations. Awareness building initiatives need to be undertaken for various stakeholder communities, both at the firm level as well as sector level. This would lead to useful stakeholder engagement and strategic commitment of the top management, making sustainability an imperative and ensuring reliable and transparent disclosures

Need for reporting guidelines in line with local conditions

Many companies are writing their first or second sustainability reports and perceive the need for a simple and phased approach to disclosure, which are sensitive to local conditions. While the GRI reporting guidelines have been developed after considerable stakeholder consultation, actual implementation is likely to unveil challenges requiring swift answers.

7. THANKS AND ACKNOWLEDGEMENTS

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- Our "critical friends": all 28 interviewees, who provided key input for this survey

1. Methodology

a. List of studies analysed

2009 (2)

- GRI, Reaching Investors
- GRI, KPMG, SustainAbility, Count me in, the reader's take on sustainability reporting

2010 (7)

- Volans, Exlorations - The Transparent Economy
- UNEP, KPMG, GRI, Carrots & Sticks, Promoting Transparency and Sustainability
- KMPG Advisory, Integrated Reporting, Closing the loop of strategy
- EFFAS, DFVA, KPIs for ESG, a Guideline for Integration of ESG in financial valuation
- UNEP, SustainAbility BR, Road to credibility
- Harvard Business School, The Landscape of Integrated Reporting
- PWC, Integrated Reporting, What does your reporting say about you?

2011 (12)

- Deloitte, Integrated reporting, A better view
- Fronesys, Materiality futures
- Tomorrow's Company, PWC, CIMA, Tomorrow's Corporate Reporting
- IRC South-Africa, Framework for integrated reporting and the Integrated Report
- IIRC, Towards Integrated Reporting, Communicating Value in the 21st Century
- KPMG, KPMG International Survey on Corporate Responsibility Reporting 2011
- Corporate Register, Corporate Register Reporting Awards 2011
- Black Sun, Leading examples of Integrated Reporting
- FEE, ESG Indicators in Annual Reports, an introduction to current frameworks
- GRI, A new phase : the growth of sustainability reporting, GRI's year in review 2010-2011
- SMI, The SMI Wizness Social Media Sustainability Index
- PWC, Corporate Reporting, from compliance to competitive edge

b. List of companies analysed

Name	Country	Sector (GICS)
Accor	FR	Consumer Discretionary
Akzo Nobel	NTH	Materials
Alstom	FR	Industrials
Anglo American	UK	Materials
AngloGold Ashanti	ZA	Materials
Arcelor Mittal	FR	Materials
Aviva	UK	Financials
BASF SE	ALL	Materials
BHP Billiton	AUS	Materials
Bouygues	FR	Industrials
BP	UK	Energy
BT	UK	Telecommunication Services
Carrefour	FR	Consumer Discretionary
Co-Operative Group	UK	Financials
Coca Cola	US	Consumer Staples
Cosco	CN	Industrials
Danone	FR	Consumer Staples
Dell	US	Information Technology
Deloitte Touche Tohmatsu	UK	Industrials
EDF	FR	Utilities
GDF SUEZ	FR	Utilities
GECINA	FR	Financials
Google	US	Information Technology
HSBC	UK	Financials
Hyundai Engineering & Construction Co	KR	Consumer Discretionary
L'Oreal	FR	Consumer Staples
Lafarge	FR	Materials
Lenovo	CN	Information Technology
Michelin	FR	Consumer Discretionary
Microsoft Corporation	US	Information Technology
Natura Cosméticos	BRA	Consumer Staples
Nestlé	SW	Consumer Staples

Nike	US	Consumer Staples
Novo Nordisk	DK	Health Care
Panasonic	US	Consumer Discretionary
Petrobras	BRA	Energy
PPR	FR	Consumer Discretionary
Publicis	FR	Consumer Discretionary
Puma	ALL	Consumer Discretionary
Rio Tinto	CA	Materials
Saint-Gobain	FR	Materials
Sanofi aventis	FR	Health Care
SAP	US	Information Technology
Sasol	ZA	Energy
Schneider Electric	FR	Industrials
Shell	NTH	Energy
ST Microelectronics	FR	Information Technology
Tata Steel	IND	Materials
The Walt Disney Company	US	Consumer Discretionary
Total	FR	Energy
Unibail-Rodamco	FR	Financials
Veolia Environment	FR	Utilities
Vinci	FR	Industrials
Vodafone	UK	Telecommunication Services
Volkswagen AG	ALL	Consumer Discretionary

c. List of experts interviewed

Organization	Expert
APG	Claudia KRUSE
Association of Chartered, Certified Accountants (ACCA)	Roger ADAMS
BP	Louise TYSON
Business for Social Responsibility (BSR)	Aron CRAMER
CA Cheuvreux	Stéphane VOISIN
Center for Tomorrow's Company	Marc GOYDER
CorporateRegister.com	Paul SCOTT

Danone	Laura PALMEIRO
Independent	Geoffrey DORNE
DEFRA	Sue WHITEHEAD
F&C Asset Management	Karina LITVACK
Forum for the Future	Sally UREN
Global Reporting Initiative	Joris WIEMER
Hermes Asset Management	Tom ROTHERHAM
HSBC	Nick ROBINS
Independent	Nick ROBINSON
International Integrated Reporting Committee (IIRC) Secretariat and Prince of Wales Accounting for Sustainability Project	Jessica FRIES
KPMG China	Sean GILBERT
Natixis Asset Management	Hervé GUEZ
ODDO Securities	Jean-Philippe DESMARTINS
OWNI	Frédéric-Alexandre TALEC
Principles for Responsible Investment (PRI) secretariat	Vanessa PIANI
Railpen Investment	Frank CURTISS
UNEP Industry & Environment Division	Jacqueline ALOISI
UNIDO	Natascha WEISERT
Ville de Paris	Emmanuelle LAGADEC
Volans	John ELKINGTON

2. Introducing our international partners

Brazil: Rever

Rever Consulting was created to support companies in the design and implementation of transformative and innovative solutions to regional and global challenges. Since 2006, Rever has been developing integrated business sustainability reporting in Brazil. We offer our clients custom solutions for defining sustainability strategy and managing stakeholder engagement, strategic social investment, and sustainability communications and reporting.

Through international partnerships, we incorporate trends, best practices and the perspective of sustainability experts in the Brazilian business context.

Expertise in strategy & integration, reporting & communications
Pablo Fuentes & Patricia Byington

China: BSR China

BSR works with its global network of nearly 300 member companies to build a just and sustainable world. From its offices in Asia, Europe, and North and South America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Visit www.bsr.org for more information about BSR's more than 20 years of leadership in sustainability.

South-Africa: Incite

Jonathon Hanks is Managing Director of Incite Sustainability (www.incite.co.za) a leading South African strategy consultancy that has advised companies on many award-winning corporate sustainability and integrated reports. He is a member of the Working Group of the South African Integrated Reporting Committee and of an Advisory Group to the International Integrated Reporting Committee (IIRC). In addition to working for many of South Africa's largest companies, he has provided advisory services to the UN Global Compact, the GRI and various governmental and non-governmental organisations. He recently chaired an international multi-stakeholder negotiating process that developed an international standard on social responsibility (ISO 26000), addressing such issues as human rights, labour, environmental management, consumer protection and organizational governance.

CorporateRegister.com

CorporateRegister.com is a global corporate responsibility resources site. It's free to use, and profiles nearly 40,000 environmental, CR and sustainability reports from 9,000 companies across 160 countries. It has 38,000 signed-up users, who collectively downloaded over 1.5m reports from the website during 2011. CorporateRegister.com hosts the CR Reporting Awards (CRRA), the only global independent annual reporting awards, now in their fifth year. The annual CRRA report together with reporting trends and commentary are freely downloadable from the site – the reports are published in late April every year.

India: GRI Focal Point India, GIZ and Thought Arbitrage Research Institute's Sustainability Reporting Practices and Trends in India 2012 report

The Sustainability Reporting Practices and Trends in India 2012 report is a joint research by the Deutsche Gesellschaftfür Internationale Zusammenarbeit (GIZ) India, the Global Reporting Initiative (GRI) Focal Point India, and Thought Arbitrage Research Institute. It focuses on analysing existing sustainability reporting practices in India across eight key economic sectors: Oil and Gas, Pharmaceuticals, Information Technology (IT), Banking, Metals and Mining, Construction, Power, and Automotive. It also explores the reasons behind reporting, and attempts a root cause analysis to establish factors that impede reporting in India. Partners have analysed 110 annual reports, 75 sustainability reports and disclosures, and scrutinised 110 websites for accessing information on sustainability parameters.

Disclaimer

This report does not claim to be an in-depth scientific study or analysis. It also does not aim to provide complete and consistent coverage of mandatory and voluntary reporting standards in the inventory of countryspecific standards, codes and guidelines.

This document does not constitute legal advice—it is a general research report prepared for the purpose of informing discussion. This report is based largely on desk research and may contain inaccuracies.

Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as on the date it is received or that it will continue to be accurate in the future.

No individual or any other entity, including governments or governmental representatives, should initiate actions solely on the basis of the contents of this report. Readers are encouraged to inform the project partners about any inaccuracies or to provide additional information for future editions.

Evaluations of existing reporting regimes and recommendations take into consideration the socio-economic background and legal systems that are in place. Given the varying approaches to sustainability reporting, the different underlying assumptions and the limited practical experience inherent in some of the more recent approaches, it has not always been possible to draw a justifiable conclusion. The valuations, classifications and judgements expressed here reflect the opinions of the authors or of the quoted sources.

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