

The growing need for expanded corporate reporting

There is no doubt that the world we knew before the global economic meltdown will not return. The causes of the meltdown will not disappear and lurking behind them is another set of even more fundamental issues facing humanity. The often quoted Chinese curse – ‘*may you live in interesting times*’ has never been more relevant than it is today.

Humankind has enormous environmental and social challenges facing it. We can no longer ignore them. The impact of the sustainability threats is affecting business more and more each day. Not only do businesses have to adapt their strategies and their way of doing business, they also have to adapt their way of reporting. No longer is it sufficient to report only on their financial performance to shareholders and potential investors. Today companies have a range of stakeholders who have vital interests in the activities of the organisation, and they expect companies to provide a range of information about the company. Indeed, the notion of a company being a corporate citizen has become a reality in recent years, and that has highlighted responsibilities and obligations for companies. Companies operate in communities, they consume scarce resources and they produce waste. All of these impact society and therefore society needs information about how they are dealing with the related responsibilities and obligations.

There are various names given to such reporting, but the two most commonly used are ‘Corporate Social Responsibility’ (CSR) reporting and ‘sustainability reporting’, which are broadly the same thing. In the past, CSR often referred to the philanthropic activities of a company and some people still see it as that, but in reality CSR reporting has become a much broader concept and an essential element of reporting, and it will no doubt become a legal requirement in the not too distant future.

There are a number of codes and reporting frameworks around, but most companies that do prepare sustainability reports use the Global Reporting Initiative (GRI) Guidelines, which may be downloaded from the GRI website at <http://www.globalreporting.org/Home>. A KPMG Survey¹ published in 2008 shows that 77% of reporting companies use the GRI Guidelines.

The GRI sees sustainability reporting as the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development.

Globally, sustainability reporting is increasing rapidly according to the KPMG Survey. It noted that over 80% of the world’s largest 250 companies (G250) now

¹ KPMG – International Survey of Corporate Social Responsibility - 2008

produce sustainability reports. The Survey, which covered 22 countries, revealed that a rising number of companies are producing sustainability reports. On average, 45% of the top 100 companies in the surveyed countries produce reports; Japan and the United Kingdom lead the table at 93% and 91% respectively; South Africa is some way behind at 45%, but it is one of the leaders in integrating the sustainability report into the annual report.

The recently published draft King Code says:

'By issuing integrated sustainability reports, a company increases the trust and confidence of its stakeholders and the legitimacy of its operations. It can increase the company's business opportunities and improve its risk management. By issuing an integrated sustainability report, internally a company evaluates its ethics, fundamental values, and governance and externally, improves the trust and confidence which stakeholders have in it.'

Whilst the GRI Guidelines are fast becoming the standard for sustainability reporting, there are many other voluntary guides and even legal requirements that are relevant to sustainability reporting. Some industries, such as mining and chemical industries, have developed codes and guides. The Carbon Disclosure Project has developed standard disclosures relating to climate change information and particularly greenhouse gas emissions. In South Africa there is the King II Report and recently a draft King III Code was released. In addition, there are disclosure requirements in terms of the Broad-based Black Economic Empowerment legislation.

The GRI guidelines suggest that a sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organisation – including both positive and negative issues. However, there is always a temptation for companies to tell only the good news so that the organisation can be seen in the best light. Indeed, some companies use the sustainability report as a public relations document. This is known as 'green washing' and it can backfire horribly. In the US there are magazines and websites that constantly look for cases of green washing so that they can be exposed.

Sustainability reporting is not something to be taken lightly. It covers many areas that companies have not traditionally focussed on and certainly not reported on. In addition many companies do not have adequate information systems to generate the necessary information and end up making vague statements, which are not helpful. A fundamental aspect of the exercise is to engage with a wide range of stakeholders to ascertain what the stakeholders see as important. Their views will not necessarily align with the views of management, since some of the areas highlighted by external stakeholders may be sensitive to the company. However, companies that deal with sensitive issues are likely to improve credibility ratings over those that ignore them or gloss over them.

The KPMG Survey suggests, 'Understanding the way a company impacts the economic, environmental and social circumstances of its stakeholders, and vice versa, is at the heart of corporate responsibility. In order to develop a proactive, strategic approach, and a workable management and reporting system that will help change circumstances for the better for all parties, stakeholders should be part of the process. Identifying and prioritising stakeholders, and being transparent about which groups and individuals a company is engaging with, is a key part of building credibility and trust.'

Producing sustainability reports requires a lot of planning and an infrastructure that can generate the necessary information. It is also essential that top management is intimately involved in the process. It becomes very apparent when reading sustainability reports if a company has not embedded sustainability into its strategy and operations. In those circumstances, the report can do more harm than good.

As with any published information the credibility of the information is enhanced if it has some form of supporting assurance. The GRI guidelines outline different assurance models ranging from self-assurance to assurance by certification bodies to assurance by accountancy firms. Assurance can be costly since the areas covered are not necessarily part of a normal audit. The KPMG Survey shows an increasing number of companies moving to an enhanced assurance model. In 2008, 70% of the G250 used accountancy firms to provide assurance.

Given the growing importance of sustainability reporting in organisations, SAICA decided to develop a sustainability reporting course which has been certified by the Global Reporting Initiative. The 2-day course outlines the principles of sustainability reporting and teaches participants how to go about planning for and implementing the processes to develop a sustainability report.

Chartered Accountants have been slow to embrace sustainability. This is unfortunate as it offers many business opportunities. The big danger, however, is if we do not embrace it we will rapidly lose relevance, and other professionals will usurp much of our ground. One area, amongst many, where Chartered Accountants should become involved is sustainability reporting. That is why SAICA is offering the training course.

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