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SDGs and sustainability reporting

INDYPENDENZ

The impact of the SDGs on sustainability reporting

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In May this year, the Governance & Accountability Institute released its sixth annual monitoring and analysis of S&P 500 Index company sustainability reporting. It found that 82% of the companies included published a sustainability or corporate responsibility report in the year 2016 – up only 1% from last year, but still a marked increase from the 20% who were doing so at the time of the first report in 2011.

As companies become larger, the level of sustainability reporting increases. Of the world's largest 250 corporations, the Global Reporting Initiative (GRI) says that 92% report on their sustainability performance. Following the adoption of the UN's Sustainable Development Goals (SDGs), GRI and the UN Global Compact launched a new initiative, SDG Leadership Through Reporting, to promote and advance corporate reporting on the SDGs.

"Businesses around the world are responding to calls to contribute to the SDGs," says Richard Howitt, CEO of the International Integrated Reporting Council (IIRC). "What is most important is to understand the impact of aligning the goals to the business model – how will the business respond from a strategic perspective? The goal is behavioural change – and reporting is part of that change, but it is not an end in itself."

While reporting on the SDGs is at a relatively early stage, Howitt gives some examples of how organisations are integrating their work around the goals into their

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Richard Howitt, CEO, International Integrated Reporting Council (IIRC) mainstream reporting processes. “The first stage for any company is to determine how it can meaningfully contribute to the SDGs,” he says. “Companies such as AkzoNobel, British Telecommunications Plc, Grupo Nutresa, SABMiller and Triodos Bank have reviewed the SDGs against their strategy in order to prioritise their efforts at contributing to them.”

He also cites businesses such as ArcelorMittal, Cbus Superannuation Fund, City Developments Limited and Itaú Unibanco, which have used the concept of the six capitals found in the International Integrated Reporting Framework to understand how their resources and relationships can drive their contribution to the SDGs.

“What is critical about these examples is that they view sustainable development as a strategic imperative, a key way to create value over time,” he explains. “The reporting is therefore not happening in a silo, but as part of how the business is being managed.”

CLAUDIO DIVIZIA

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There are already many established initiatives and frameworks that exist to support and enable effective sustainability reporting. However, Timothy J. Mohin, Chief Executive of the GRI, sees the SDGs as a tremendous opportunity to promote harmonisation among reporting frameworks. He says that GRI has seen a tremendous amount of interest from companies that want to align their corporate reporting with the SDGs.

“The SDGs provide an excellent basis for corporate reporting frameworks, first and foremost, because all of the United Nations member states have agreed to work towards these goals. So we have ‘buy-in’ from nearly every national government on the planet,” Mohin explains. “Also, unlike its predecessor, the Millennium

ELVAN

Coca-Cola is part of the Corporate Action Group

Development Goals, the text of the SDGs explicitly acknowledges the importance of private sector action to make the goals a reality."

Mohin points out that SDG target 12.6 actually calls for corporate reporting, stating that member states should "encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle".

GRI wants to reduce the reporting burden for companies and help them connect their sustainability efforts to the achievement of the SDGs. To that end, it has partnered with the UN Global Compact to set up the Reporting on the SDGs Action Platform, which works with leading companies, as well as representatives from governments, international and civil society organisations, investors, trade unions, data users, statistical offices and academics.

The Reporting on the SDGs Action Platform is comprised of a group of leading businesses. "These are the members of the Corporate Action Group, which includes companies like Danone, Coca-Cola, Telecom Italia, Nestlé and Fuji Xerox to name only a few," says Mohin. "So I think these businesses definitely stand out as standard bearers, as they are not just aligning their current reporting practices to the goals, they are digging deeper and helping us establish best practices. We know that we'll never achieve the SDGs if we have a 'business-as-usual' attitude."

"Together we are going to establish best practices for corporate reporting on the SDGs," says Mohin. This month, a list of priority business disclosures will be

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released at the UN High-level Political Forum, in New York. On September 18, guidance on best practices for reporting on the SDGs will be published at the UN General Assembly.

SDG reporting gaining momentum

Given that most corporate reporting cycles are a full year, the first real wave of reporting on the SDGs should take place this year, looking back at 2016.

Work is already underway. Last year, Dutch multi-national AkzoNobel revised its review of the SDGs against its own agenda and priorities. It was one of a number of companies to use the SDG Compass, a guidance tool developed by the World Business Council for Sustainable Development, the UN Global Compact and the GRI. AzkoNobel said that the findings revealed that it contributes, to varying degrees, to all the SDGs through its operations and supply chain, products and Human Cities initiative.

The SDG Compass provides five steps to guide companies on how to align their strategies with the SDGs, as well as measure and manage their contribution to the Goals. The fifth step covers reporting and communicating: "The SDGs enable companies to report information on sustainable development performance using common indicators and shared set of priorities. The SDG Compass encourages companies to build the SDGs into their communication and reporting with stakeholders."

Analysis undertaken last year by Ethical Corporation into 21 CSR and sustainability reports showed that Ericsson, SABMiller, ARM and IKEA Group had so far done the most in terms of integrating the SDGs into their reporting. Many other companies have also started embedding SDG principles into their operational and reporting frameworks.

The Crown Estate has a set of long-term aspirations that align with the SDGs: to cut out the concept of waste, to reduce carbon and to deliver healthy places and habitats. "We report against the six capitals that impact our business," says Claudine Blamey, head of sustainability and stewardship at the Crown Estate. "Although they take into account what the SDGs are trying to achieve, they are not exactly the same metrics. If we achieve our aspirations, we will be creating a resilient business and contributing to the SDGs at the same time."

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MARKS & SPENCER

M&S has recently published an updated set of 100 commitments, called Plan A 2025, which includes high-level cross-referencing to the SDGs

"The role of SDGs and their relationship with the many competing corporate reporting frameworks is still developing," says Rowland Hill, Head of Sustainable Development Reporting, M&S. "Its future role will largely depend on whether the users of corporate reporting information adopt the SDGs as their primary lexicon and framework – which will inevitably mean relegating some of the other competing metrics."

Hill says that M&S is supportive of the SDGs, but in terms of corporate target setting and reporting, he believes the SDGs are the big new player in an increasingly crowded market-place.

M&S has recently published an updated set of 100 commitments, called Plan A 2025, which includes high-level cross-referencing to the SDGs. "Plan A 2025 is a business plan designed to create social, environmental and economic value for M&S and our stakeholders," explains Hill. "It was developed with reference to the SDGs, particularly for gap analysis, but it's very much our own plan and our own 'voice' speaking. The SDGs were one of a number of inspirations or reference points, but they didn't significantly change what is in essence an M&S plan."

Investor perspectives: too early to tell

At this nascent stage, SDG-based reporting is probably not yet that meaningful to investors when it comes to informing investor decisions.

"'SDGs washing' is what one ought to be paying attention to," says Fouad Benseddik, director of methods and institutional relations at Vigeo Eiris. He says that information praising the willingness, generosity or general intentions of companies is not helpful to an investor's decision-making process.

"It is desirable that companies be capable of demonstrating – by quantifying them – their social and environmental contributions and their efforts to reduce their social and environmental footprint, and limit the negative externalities related to their activities, products and services," says Benseddik. "This would enable investors to better analyse issuers' risk management practices and their capacity to create sustainable value."

"We aim to invest in companies that generate strong, sustainable returns and which create positive change," says Louise Dudley, global equities portfolio manager at Hermes Investment Management. "The SDGs provide a framework for mapping and targeting companies that fulfil these criteria."

Analysing ESG considerations is a fundamental part of what Hermes does. "We consider ESG and sustainability as part of idea generation, portfolio construction and portfolio monitoring," says Dudley. "It is crucial in our view that every company is systematically assessed, as well as doing a deeper qualitative analysis to understand what is driving the attractive fundamental attributes."

As more companies adopt reporting that shows alignment to the SDGs, Dudley believes it is important to assess the information from a sceptical viewpoint: "Merely tagging existing data items is different to strategically positioning a business to contribute to achieving the goals," she says.

Currently, Dudley says there isn't sufficient historical data to conclude either way on the correlation between SDG performance and financial performance. "However, it is our belief that companies that are proactively managing ESG and sustainability concerns – including alignment to the SDGs – are likely to not only be positioned to mitigate business risks but also be able to deliver sustainable returns in the long term," she says.

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Fouad Benseddik, director of methods and institutional relations, Vigeo Eiris

The road ahead

While corporate reporting on sustainability has come on in leaps and bounds, investors and customers are wise to the concept of greenwash. Companies must now provide clear evidence that they are embedding sustainability principles into their day-to-day operations.

In December 2016, the Sustainability Accounting Standards Board's (SASB) annual State of Disclosure report reviewed and analysed sustainability disclosures from hundreds of SEC filings across 79 industries.

Despite the encouraging news that 81% of all disclosures show some level of sustainability disclosure, the SASB found fewer than 24% of these disclosures contained metrics and more than 53% used "boilerplate" language – demonstrating that many companies still take an approach of minimal compliance to sustainability disclosure.

"Companies must improve the quality of these disclosures to improve their usefulness in investment decision-making," said the SASB.

The WBCSD produces an annual report, Reporting Matters, which analyses the sustainability reports of its member companies and assesses them against a set of indicators. The 2016 edition which analysed 163 reports, found more than 50 companies communicating on the SDGs in their reports and 10 companies using the SDG Compass. In it, Richard Marsh, director of sustainable business reporting and insight at BT (one of the companies using the SDG Compass) said: "The information and communications technology industry has the potential to make a huge difference in meeting the SDGs, playing a crucial role in enabling every one of the goals to be achieved." Looking ahead, he said: "More standardised measurement sets will be needed in the future to show an organisation's true and relative contribution towards the SDGs."

IIRC's Richard Howitt believes that there is an understanding by forward-thinking organisations that the long-term success and survival of some industries and businesses depends on the achievement of one or more of the SDGs. Sectors that rely on long-term infrastructure projects or long-term investment, for example, especially recognise the importance of the goals and are doing their best to actively contribute to their success.

"In an increasing number of markets we are witnessing corporate governance changes focused on long-term value creation, corporate purpose and understanding the business model," says Howitt. "These trends will help to set up the conversation inside the business – at board level and just below board level – about how the business strategy can respond to the SDGs."

Howitt says that integrated reporting brings the concept of integration to the table, that performance should be understood in the round. "To achieve sustainable development you need to be able to access information that is decision-useful and of a sufficient quality to be understood and acted upon within the company and externally."

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