Sustainability reporting and performance - observations and trends

By Simon Clarke

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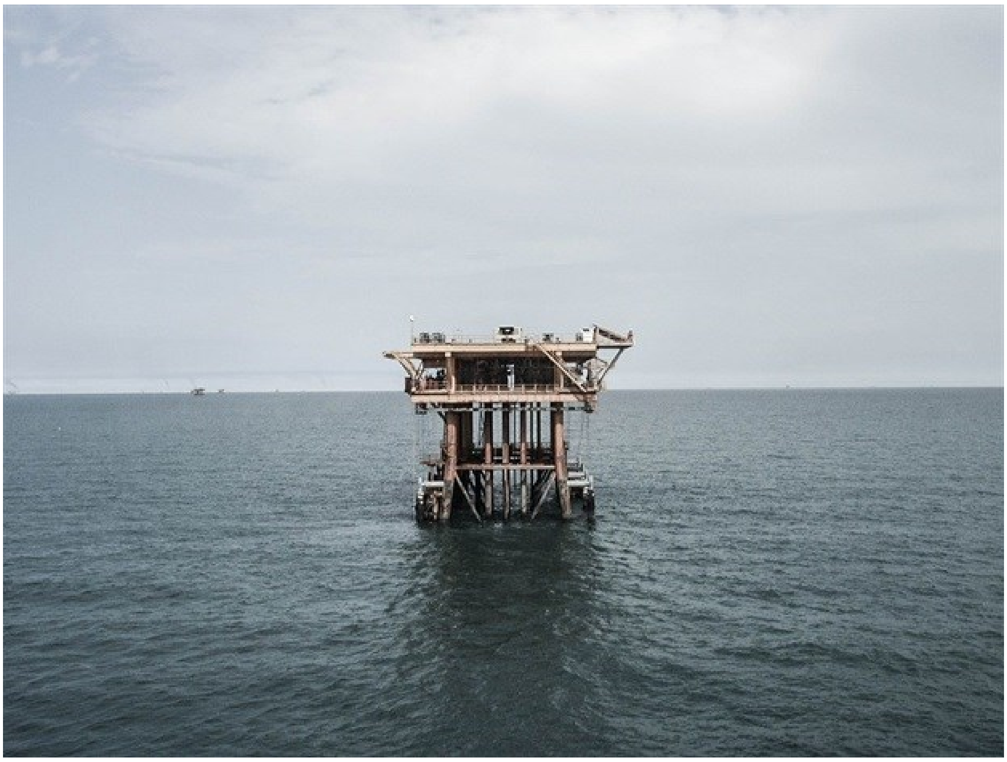
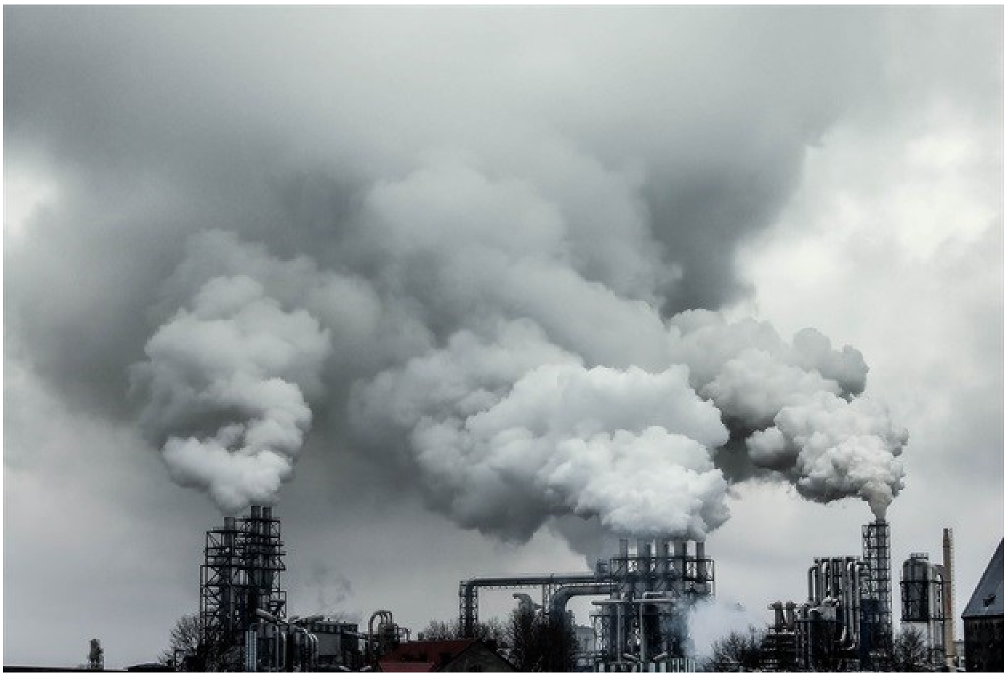
Large companies continue to face an increasing number of sustainability reporting requirements, both internally and externally, every year. And these reporting requirements are only set to increase. Often sustainability professionals are caught in an unending reporting cycle and before they know it are preparing for next year's sustainability report before they have had a chance to do anything else. Below are some of the main reporting trends and some ideas on what companies could do.



As the incidents of environmental degradation, social injustice and economic imbalance started to increase and cause significant economic impacts to companies (BP’s Deepwater Horizon oil spill and the Marikana tragedy are just two examples), so too did the number of sustainability reporting requirements, as stakeholders demanded more honesty and transparency from companies. These reporting requirements include, for example, the UN Global Compact (UNGC), Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP) and more recently the UN Sustainable Development Goals and Task Force on Climate-related Financial Disclosures (TCFD). Add on the International Council on Mining and Minerals (ICMM) if you are in the mining sector and suddenly you could be drowning in reporting soup! And that’s just the external reporting. Most listed companies produce internal environmental, health, safety and social reports on a monthly or quarterly basis for management.

Stringent external reporting requirements

One of the trends we are starting to see is that the external reporting requirements are only going to become more stringent. Governments and stock exchanges the world over are bringing in new layers of regulation for environmental, social and governance (ESG) disclosure. Voluntary guidelines are now rapidly transitioning into mandatory reporting requirements. For example, the EU Non-Financial Reporting Directive (NFRD) is to establish a minimum standard for ESG reporting across the EU. The directive requires the largest companies to report on environmental matters, social and employee affairs, human rights and anti-corruption and bribery issues. National governments transposed the directive into national law in 2016.



Communicating impact

One of the other major emerging trends is about communicating impact, not just statistics. Stakeholders are starting to ask questions about the impacts your business is having on society and the environment, and how this could impact your business performance in the future. The UN's Sustainable Development Goals (SDGs) are further driving demands for impact data. Companies need to start understanding and communicating their impacts in relation to the SDGs.

Addressing threat of climate change

South African business face a number of long-term sustainability challenges. Governments and companies globally are facing increasing pressure to address the growing threat of climate change. Carbon pricing in South Africa, through a carbon tax or a budget is inching its way towards implementation. Water management in South Africa, exacerbated by the recent drought, is a looming crisis. And Broad-Based Black Economic Empowerment is a non-negotiable.

Sustainability reporting

Due to the growing importance of sustainability, most listed companies in South Africa have appointed staff to manage the issue. The problem is when companies don't see the strategic advantage of sustainability and appoint administratively focused staff whose only role is to report. Or senior sustainability staff are appointed, but get bogged down in reporting. As a result, managing and improving the company's actual sustainability performance sadly becomes secondary.

Your company absolutely needs someone to manage the sustainability reporting, as communication on your sustainability efforts is vital. But sustainability is also about looking into the future, predicting trends and using these to influence your business strategy for the better. This requires recognition from leadership in the business that sustainability is a strategic imperative and recruitment of different skill sets.

What should companies do to embed sustainability into the business and make reporting a value add:

- Create the right structures so that sustainability is dealt with by the most senior leaders – a senior executive that is empowered to drive change is vital. They need to collaborate and influence in order to change hearts and minds, and provide the support needed for real change to occur.
- Focus your reporting on the things that really matter, commonly referred to as the material issues. Consider how your company is contributing to achieving the SDGs and what the actual impact of those positive contributions is and communicate those appropriately.
- Systematise your reporting systems to prevent laborious manual capturing and consolidating of data – online, cloud-based systems are becoming more affordable and should be investigated. Having accurate sustainability data is more important now than ever.
- Use the data you capture to inform leadership on risks and opportunities and ultimately drive performance improvement. Wherever possible, quantify that data in easy-to-understand financial terms. For example, a consolidated view on energy costs as a percentage of operational costs, rather than gigajoules of energy consumed, will get your CFO's attention.

Sustainability should never be one person's job. It should be in the lifeblood of the organisation, and inform decision making at all levels. Having the right structures in place to address this properly is vital.

ABOUT SIMON CLARKE

Simon Clarke is director of IBIS Consulting. He has 15+ years of experience in the areas of corporate sustainability and climate change and has worked in South Africa, Mozambique, Malawi, Namibia, Botswana, Zimbabwe, United Kingdom and Australia.

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