

# PART ONE

## **An Introduction to Sustainability Performance, Reporting, and Assurance**

<http://www.pbookshouse.com>  
COPYRIGHT

<http://www.pbookshop.com>

## CHAPTER ONE

# Introduction to Business Sustainability and Accountability Reporting

## EXECUTIVESUMMARY

In this chapter, we introduce the concept of business sustainability and corporate accountability, its importance, relevance, and its various components. The wave of financial scandals in the early 2000s, the 2007–2009 global financial crisis, and subsequent regulatory responses have galvanized considerable interest in business sustainability, corporate governance, ethical, and corporate accountability. Businesses and professional organizations worldwide have also responded by developing a business sustainability framework consisting of five overriding dimensions of economic, governance, social, ethical, and environmental (EGSEE) performance.

The most important and commonly accepted dimension of EGSEE is economic performance, which is the cornerstone of business sustainability. Organizations survive and produce sustainable performance when they continue to be profitable and produce enduring performance that creates shareholder value. However, EGSEE dimensions are not mutually exclusive, they supplement each other and trade-offs can occur between them. On one hand, organizations that are run ethically, governed effectively, and are socially and environmentally responsible are expected to maintain sustainable performance, create shareholder value, and gain public trust and investor confidence. On the other hand, more economically profitable and viable organizations are in a better position to create jobs and wealth, which enables them to better fulfill their social and environmental

## 4 ■ Introduction to Business Sustainability and Accountability Reporting

responsibilities. Although the primary goal of many business entities will continue to be creating shareholder value through producing sustainable economic performance, organizations must also effectively deal with ethical, social, and environmental issues to ensure they are adding value to all stakeholders involved.

### INTRODUCTION

For business, sustainability is defined in several ways. For example, the 2010 United Nations' (UN) publication "Corporate Governance in the Wake of the Financial Crisis" broadly describes business sustainability as "conducting operations in a manner that meets existing needs, without compromising the ability of future generations to meet their needs and has regard to the impacts that the business operations have on the life of the community in which it operates and includes environmental, social and governance issues."<sup>1</sup> The UN report further links business sustainability to corporate governance and suggests that sustainability information pertaining to social, governance, ethical, and environmental issues be incorporated with financial information in a single report that includes professional assurance on sustainability information.<sup>2</sup> The 2009 International Federation of Accountants' (IFAC) "Sustainability Framework" makes a similar recommendation. The IFAC suggests that sustainability be integrated into all aspects of business models from strategic decisions to operations, performance, and communication with stakeholders.<sup>3</sup> The IFAC's approach as described in "Sustainability Framework" addresses four different perspectives: "business strategy, internal management, investors, and other stakeholders."<sup>4</sup> Corporate sustainability can be summed up as conducting business to create value for present shareholders while protecting the rights of future shareholders and stakeholders.

Sustainability is a dynamic term that can be applied to various purposes and in a variety of settings. The modern use of the term *sustainability* was first developed in 1987 by the World Commission on Environment and Development (WCED)—also known as the Brundtland Commission—in a UN-sponsored study entitled *Our Common Future*. WCED described sustainability as an approach that "meets the need of the present without compromising the ability of future generations to meet their needs."<sup>5</sup> This captures a key component of sustainability—it is a process of establishing appropriate strategies, policies, and procedures that satisfy present needs without jeopardizing the future.

A program or an activity is considered sustainable if it meets all of the following criteria:

- Creates economic value.
- Increases public wealth with proper mechanisms for its distribution.
- Socially justified.
- Environmentally sound.
- Ethically conducted.
- Conforms to all applicable laws, rules, and regulations.

Several recent reports and publications, such as those by the United Nations Environment Programme Finance Initiative (UNEP FI) and the Canadian Institute of Charter Accountants (CICA), have discussed various aspects of sustainability performance in the areas of social, ethical, governance, and environmental sustainability.<sup>6</sup> In this book we add one more important dimension: making a sustainable profit through transparent economic performance.

## THE CASE FOR SUSTAINABILITY

The 2007–2009 global financial crisis was caused by many factors, including inadequate risk assessment and management, ineffective corporate governance, and a strong focus on achieving short-term performance. Sustainable practices correct each of these failures and lead to long-term growth. Sustainability addresses all aspects of business and markets, from strategic decisions to operations, performance, and disclosures of sustainability information to investors and financial markets that could in turn prevent future economic, social, ethical, governance, and environmental crises. Integrated business practices and reporting are key factors in fostering sustainability.

### Southwest's "One Report"

The first step to sustainability is transparency. Southwest Airlines annually issues the "Southwest Airlines One Report," which was initiated in 2009 to integrate the management report on financial statements with environmental disclosures and information on other aspects of operational sustainability. This integrated report focuses on meeting expectations regarding shareholders, customers, employees, and the environment by disclosing financial and nonfinancial key performance indicators (KPIs) on all aspects of sustainability.

## 6 ■ Introduction to Business Sustainability and Accountability Reporting

Southwest examines the impact of business practices concerning financial decisions, suppliers, and employee training outcomes, as well as the company's environmental, social, and community impact. Southwest realizes benefits from integrated reporting through more effective and transparent communication with all stakeholders, which reflects the airline's commitment to high-quality service and good corporate citizenship beyond fulfilling its fiduciary responsibilities. It also establishes accountability, which is another key of corporate sustainability.

The 2010 "One Report" contains forward-looking information, disclosing the company's estimates, expectations, beliefs, intentions, and strategies for the future, though this cannot guarantee future performance. The report illustrates the continued steadfast focus on the triple bottom line—the performance (profit), the people, the planet—and conforms to the principles outlined by the Global Reporting Initiative (GRI).<sup>7</sup> Southwest Airlines intends to continue releasing its Southwest Airlines One Report on an annual basis.

### **CURRENT STATUS OF SUSTAINABILITY AND ACCOUNTABILITY**

Several recent surveys have underscored the emergence of sustainability within the global business sustainability community. A study conducted by Ernst & Young in cooperation with GreenBiz Group in 2012 analyzed results from 272 executives and leaders of 24 business sectors in corporate environmental strategy and performance. The study revealed six key trends:

1. Sustainability reporting is growing, but the tools are still developing.
2. The CFO's role is increasing.
3. Employees emerged as a key stakeholder group for programs and reporting.
4. Despite regulatory uncertainty, greenhouse gas reporting remains strong along with growing interest in water.
5. Awareness is rising on the scarcity of business resources.
6. Sustainability performance rankings and ratings matter to company executives.<sup>8</sup>

This report sheds light on the profound shifts taking place in corporate sustainability as efforts move from purely voluntary programs that, while not mandated by laws or regulations, have become de facto requirements due to the expectations of customers, employees, shareholders, and other stakeholders.

These expectations are raising the bar for the quality of reporting and raising risks for companies whose disclosure and transparency do not hold up to scrutiny.

The Ernst & Young Survey reinforced findings from an earlier KPMG 2010 survey. The KPMG survey included 378 senior executives worldwide and revealed amongst its findings that about 62 percent of surveyed companies have a strategy for sustainability compared to 50 percent in 2008; roughly 5 percent have no plan for implementing corporate sustainability and the remaining companies were in the process of establishing such a plan. In addition, more than 42 percent of surveyed executives indicated that sustainability is a source of innovation, whereas 39 percent agreed that sustainability is a source of new business opportunities and growth.<sup>9</sup>

Organizations interested in producing reports to showcase their sustainability actions and commitments should address seven questions related to best practices, voluntariness, content, mechanisms, value relevance, and assurance of sustainability reports, as suggested by Ernst & Young (2010).<sup>10</sup> The questions are:

1. Who issues sustainability reports? (Best practices)
2. Why report on sustainability if you do not have to? (Voluntary)
3. What information should a sustainability report contain? (Content)
4. What governance systems and processes are needed to report on sustainability? (Mechanisms)
5. What are the challenges and risks of sustainability reporting? (Assessment)
6. Do sustainability reports have to be audited? (Assurance)
7. How can companies get the most value out of sustainability reporting? (Value relevance).

In June 2012, Brazil, Denmark, France, and South Africa formed a group to promote sustainability reporting in support of paragraph 47 of the UN Conference on Sustainable Development.<sup>11</sup> It is expected that other developed and developing countries join this group in requiring their listed companies to issue sustainability reports.

## **DRIVERS OF SUSTAINABILITY INITIATIVES AND PRACTICES**

The Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC) was a commitment by nations to reduce their Greenhouse Gas emissions to address global warming. The Protocol was adopted on

## 8 ■ Introduction to Business Sustainability and Accountability Reporting

December 11, 1997, in Kyoto, Japan, and went into effect on February 16, 2005. The UNFCCC is an international environmental treaty with the specific objective of “stabilization of greenhouse gas concentrations in the atmosphere at a level to prevent dangerous anthropogenic interference with the climate system.”<sup>12</sup> A detailed discussion of the Kyoto Protocol Framework and its implications for business sustainability is further discussed in Chapters 9 and 10.

The topic of sustainability is evolving and initiatives are growing around the world. With increasing pressure on energy and commodity prices and growing scarcity of raw materials, sustainable development is essential to ensuring the future viability of organizations. Also, increasing consumer demand and regulatory initiatives make sustainable development more attractive from a fiscal perspective. The 2010 United Nations Global Compact/Accenture study indicates that 93 percent of the 756 global CEOs reported sustainability as either an “important” or “very important” factor for the future success of their organizations and about 81 percent declared that sustainability issues are integrated into their organizations’ strategy and operations.<sup>13</sup> Furthermore, consumer preferences drive organizations to seek sustainable development in order to remain competitive. As consumers become more educated about sustainable initiatives, they have come to expect changes in how products are produced and packaged. An increasing number of consumers are seeking out those organizations that demonstrate an awareness and concern about sustainability issues. Many consumers expect sustainable attributes to be an integral part of the products and services they buy.

Regulatory reforms and standards are also driving sustainability initiatives for organizations. With an increasing amount of pressure from the public, legislators have begun to mandate social responsibility and environmental sensitivity. As an example, the reduction of a company’s carbon footprint, as part of the Kyoto Protocol, has driven companies worldwide to consider the climate change impact of their operations and develop strategies around reducing that impact over time.

A move toward the stakeholder theory implies that business organizations have obligations to a number of constituencies and thus should add value for all stakeholders including shareholders, creditors, suppliers, customers, employees, government, environment, and society. Conventional shareholder theory, however, implies that the primary goal of a corporation is to create shareholder value in a single objective function of maximizing financial performance. Business sustainability promotes application of

stakeholder theory in protecting interests of all stakeholders and thus the main goal of value maximization for all stakeholders under business sustainability can be achieved when the interests of all stakeholders are considered. In the past two years, New York, New Jersey, and California have enacted laws creating a new hybrid type of corporation designed for businesses that want to simultaneously pursue profit and benefit society.<sup>14</sup> Benefit Corporations (BCs) are intended to fill a gap between traditional corporations and nonprofits by giving social entrepreneurs flexibility to achieve the dual objectives of doing well and doing good. The justification for BCs is that that existing law prevents boards of directors from considering the impact of corporate decisions on other stakeholders, the environment or society at large. Boards of directors of BCs are required to consider the impact of their decisions on specific corporate constituencies, including shareholders, employees, suppliers, the community, as well as on the local and global environment. The move toward the stakeholder theory and the more commonly accepted form of BCs is expected to promote business sustainability.

Sustainability reporting and assurance is still in its infant stage with many challenges and opportunities remaining before it will gain wide acceptance. Accounting and auditing standards are long-established for financial reporting and auditing. Standards also exist for measuring, recognizing, reporting, and auditing of governance, ethics, social responsibility, and environmental activities and performance, but these are fairly new by comparison. These include GRI and AA1000 issued in 2008 by AccountAbility (AA). There is an AA1000 assurance standard, as well as ISO standards and accounting profession standards for auditing sustainability metrics. Furthermore, organizations may be concerned about presenting unaudited key performance indicators (KPIs) on their ethical, social, governance, and environmental activities, which may create expectations and further accountability for them to improve their performance in these areas. Another challenge is to disclose concise, accurate, reliable, complete, comparable, and standardized sustainability reports that are relevant and useful to all stakeholders. PricewaterhouseCoopers's 2010 review identified several external drivers of sustainability reporting, including economic factors, competitive forces, trends in society, technology, environmental initiatives, and geopolitical factors. The majority of reviewed companies (74 percent) in 2010—compared to 49 percent in 2009—provided some forward-looking information on market drivers. Companies disclosed this information in response to either the emerging trend toward more relevant sustainability reporting or to mitigate investor perceptions about uncertain future economic prospects.<sup>15</sup>

## 10 ■ Introduction to Business Sustainability and Accountability Reporting

A growing number of policymakers and regulators worldwide are responding to the demand for an interest in transparency and focusing on long-term and enduring performance through either requiring sustainability reporting (e.g., Sweden's guidelines for external reporting by state-owned companies and the Danish Financial Statements Act) or mandatory integrated reporting (e.g., the King Code III in South Africa and the Grenelle II Act in France). The Singapore Exchange, in July of 2011, released its "Sustainability Reporting Guide" for its listed companies, which requires disclosure of accountability for conducting business in a sustainable manner. A 2010 joint study suggests that regulatory requirements along with ever-increasing efforts to manage reputational risk and to identify cost cutting and efficiency savings continue to be the most common drivers of business sustainability initiatives and programs.<sup>16</sup> Recently, many organizations are advocating for increased sustainability reporting and driving the move toward disclosures, as described in Exhibit 1.1.<sup>17</sup>

### BEST PRACTICES OF SUSTAINABILITY PROGRAMS

The Accenture and the UN Global Compact survey of CEOs suggests that while businesses view sustainability as essential to their future success, it is unclear exactly how they will go about making it an integral part of their strategic decision-making.<sup>18</sup> Multinational companies are ahead of the game, particularly in the utility and energy sectors. A survey of global CEOs reveals that 91 percent of CEOs in the energy industry report that their company will employ new technologies to address sustainability issues over the next five years.<sup>19</sup> For the utility sector, government regulation and resource scarcity appear to be the most significant drivers for change.

Even companies that have not fully embraced sustainability as a long-term strategic objective are finding ways to embed sustainable practices into everyday operational choices. In addition to directly influencing policy and procedure decisions, being green helps in recruiting and retaining employees. Moreover, successful companies are able to use sustainability to support their brand and generate a competitive advantage. In many cases, consumers are willing to pay a premium for products that directly support sustainable lifestyles or from companies that have embraced sustainability. Although the paths to integrating sustainability vary and the future is somewhat unclear, what is clear is that there is a significant amount to be gained from embracing sustainability as both a long- and near-term strategy. Exhibit 1.2 presents a

**EXHIBIT 1.1 Organizations That Have Promoted Business Sustainability**

| <b>Organization</b>  | <b>Publications/Activities</b>  | <b>Description</b>  | <b>Year</b> | <b>Web Address</b>       |
|--|---|---|-------------|--------------------------|
| Asset Management Working Group of the United Nations Environment Programme Finance Initiative (UNEP FI AMWG) | <i>Fiduciary Responsibility: Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment</i> | Makes recommendations to help institutional investors integrate ESG issues into investment decision-making. | 2009        | www.unepfi.org           |
| UNEP FI AMWG & the World Business Council for Sustainable Development (WBCSD)                                | <i>Translating ESG into Sustainable Business Value</i>  | Provides ESG insights and considerations.   | 2010        | www.unepfi.org           |
| The United Nations Principles for Responsible Investment (UNPRI)   | <i>Principles for Responsible Investment</i>  | Establishes principles, focused on the provision and use of ESG information.                                | 2005        | www.unpri.org/principles |
| International Corporate Governance Network (ICGN)  | <i>ICGN Statement and Guidance on Non-Financial Business Reporting</i>  | Provides disclosure criteria to assist companies in meeting investor expectations.                          | 2008        | www.icgn.org             |
| Carbon Disclosure Project (CDP)  | Global climate change reporting system  | Harmonizes climate-change data from organizations and develops international carbon reporting standards.    | 2003        | www.cdproject.net        |
| Investor Network on Climate Risk (INCR)  | <i>Investors Analyze Climate Risk and Opportunities: A Survey of Asset Managers' Practices</i>  | Provides overview of investment practices, highlighting best practices and drivers for change.              | 2010        | www.ceres.org/incr/      |
| Ceres  | <i>The 21<sup>st</sup> Century Corporation: The Ceres Roadmap for Sustainability</i>  | Provides a comprehensive platform for sustainable business strategy.  | 2010        | www.ceres.org            |

(continued)

**EXHIBIT 1.1 (Continued)**

| Organization  | Publications/Activities   | Description   | Year | Web Address   |
|---|---|---|------|---|
| Extractive Industries Transparency Initiative (EITI)  | <i>The EITI Principles and Criteria</i>   | Establishes global standard for transparency in oil, gas, and mining.   | 2003 | eiti.org  |
| Harvard Law School – Pensions and Capital Stewardship Project   | <i>Quantifying Labor and Human Rights Portfolio Risk</i>  | Explores how investors can obtain data on the long-term sustainability risks posed by labor and human rights activities of global corporations.   | 2009 | www.law.harvard.edu/programs/lwp  |
| National Roundtable on the Environment and Economy (NRTEE)  | <i>Capital Markets and Sustainability: Investing in a Sustainable Future</i>                                | Encourages the integration of ESG factors into capital allocation decisions.  | 2007 | nrtee-trnee.ca  |
| International Federation of Accountants (IFAC)  | <i>Sustainability Framework 2.0</i>   | Supports integration of sustainability in relation to business strategy, operations, and reporting.   | 2011 | http://www.ifac.org/publications-resources/ifac-sustainability-framework-20 |
| The European Federation of Financial Analysts Societies (EFFAS) and Society of Investment Professionals in Germany (DVFA) | <i>KPIs for ESG: A Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation</i> | Develops standard reporting framework for ecological, social, and corporate governance aspects built on requirements of investment professionals. | 2010 | www.effas-essg.com  |
| CFA Institute Centre for Financial Market Integrity   | <i>Environmental, Social and Governance Factors at Listed Companies</i>                                     | Provides a manual to help investment professionals identify and evaluate risks and opportunities that ESG issues present for investors.           | 2008 | www.cfapubs.org/toc/ccb/2008/2008/2   |

**EXHIBIT 1.2** A Sampling of Global Companies Disclosing Their Sustainability Initiatives

| <b>Name</b>                     | <b>Description</b>  | <b>Website</b>   |
|---------------------------------|---|--|
| BHP Billiton                    | Discloses sustainability issues of health, safety, the environment, and the community as to how management addresses them.  | <a href="http://www.bhpbilliton.com/bb/sustainabledevelopment.jsp">www.bhpbilliton.com/bb/sustainabledevelopment.jsp</a>   |
| Veolia Environment              | Discloses both financial and nonfinancial sustainability information.   | <a href="http://www.sustainable-development.veolia.com">www.sustainable-development.veolia.com</a>   |
| Vancouver City Saving (Vancity) | Received the first Ceres-ACCA North America sustainability award for incorporating the triple-bottom-line strategy into its financial institution reports.  | <a href="http://www.vancity.com/AboutUs/OurBusiness/Ourreports">www.vancity.com/AboutUs/OurBusiness/Ourreports</a>   |
| Telefonica S.A.                 | Received a Corporate Register reporting award for obtaining a third-party assurance on sustainability.  | <a href="http://www.telefonica.com/en/home/jsp/home.jsp">http://www.telefonica.com/en/home/jsp/home.jsp</a>  |
| Gap, Inc.                       | Dedicates a section on its website to social responsibility. The company focuses its social responsibility in four key areas: supply chain, employees, environment, and community investment.   | <a href="http://www.gapinc.com/GapIncSubSites/csr/EmbracingOurResponsibility/ER_Our_Focus.shtml">http://www.gapinc.com/GapIncSubSites/csr/EmbracingOurResponsibility/ER_Our_Focus.shtml</a>  |
| Chili's                         | The popular casual dining restaurant is becoming well known for its partnership with St. Jude Children's Research Hospital.   | <a href="http://www.brinker.com/company/givingback.asp">http://www.brinker.com/company/givingback.asp</a>  |
| The Hershey Corporation         | Discloses corporate strategic initiatives suggested by CSR/sustainability leadership team and four issue-specific subgroups charged with responsibility for climate change tracking and GHG emissions reduction.  | <a href="http://www.marketwatch.com/story/hershey-issues-first-corporate-social-responsibility-report-2010-09-13?reflink=MW_news_stmp">http://www.marketwatch.com/story/hershey-issues-first-corporate-social-responsibility-report-2010-09-13?reflink=MW_news_stmp</a><br><a href="http://www.thehersheycompany.com/social-responsibility.aspx">http://www.thehersheycompany.com/social-responsibility.aspx</a> |
| Starbucks                       | Environmental Stewardship. 2009 and 2011 Shareholders Annual Meeting on sustainability initiatives to create value for all stakeholders including shareholders, customers, and communities by promoting social responsibility, ethical sourcing goals, and environmental stewardship. | <a href="http://www.starbucks.com/responsibility">http://www.starbucks.com/responsibility</a>  |

## 14 ■ Introduction to Business Sustainability and Accountability Reporting

list of global companies that have made progress in their sustainability initiatives in recent years.

### **PRINCIPLES OF BUSINESS SUSTAINABILITY**

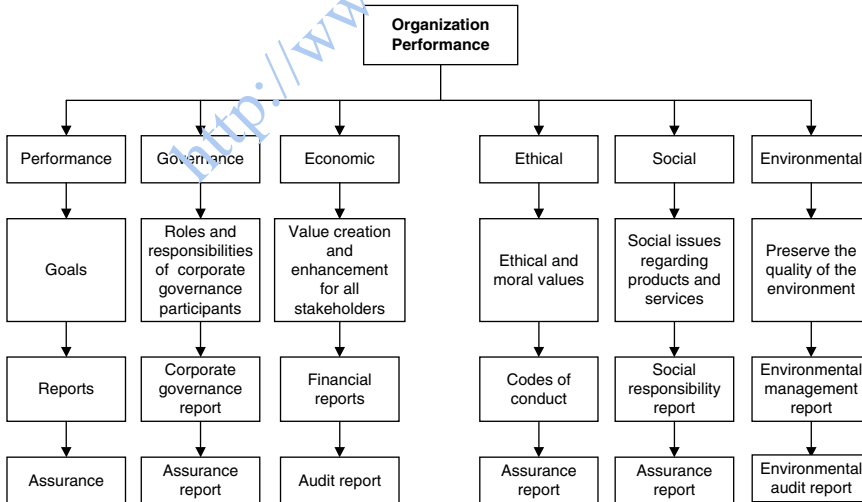
The three overriding principles of business sustainability are: value creation, performance enhancement, and accountability assurance. The value creation principle suggests corporations should create the maximum number of products and services with the least utilization of scarce resources, while maintaining the highest quality and efficiency to yield the utmost customer satisfaction. The primary goal of any organization should be creation of value for all stakeholders including investors, employees, customers, and society. An accountability assurance principle means conducting business in an ethical and socially responsible manner. A proper assurance process requires timely and deliberate planning, bold actions, effective implementation, enforceable accountability, continuous monitoring, and an independent third-party assurance on sustainability reports. The performance enhancement principle indicates achievement of sustainable EGSEE performance by enhancing corporations' positive impacts and minimizing negative effects on society and environment.

### **BUSINESS SUSTAINABILITY AND CORPORATE ACCOUNTABILITY FRAMEWORK**

The business sustainability and accountability framework for an organization consists of performance in five overriding dimensions: economic, governance, social, ethical, and environmental (EGSEE), as depicted in Exhibit 1.3. Exhibit 1.4 introduces the sustainability framework consisting of sustainability performance goals, reporting, and assurance that will be discussed in detail in Chapter 2. The most important dimension is economic viability, the cornerstone of business sustainability. Organizations can survive and produce sustainable performance only when they continue to be profitable, creating shareholder value. Although the primary goal of many business entities will continue to be improving economic performance by enhancing shareholder value, they must also effectively deal with ethical, social, and environmental issues to ensure adding value for their shareholders and other stakeholders. Business sustainability not only ensures long-term profitability and a competitive advantage, but also helps in maintaining the well-being of society as a whole.



**EXHIBIT 1.3** Five EGSEE Dimensions of Sustainability Performance



**EXHIBIT 1.4** Sustainability Performance Framework

## 16 ■ Introduction to Business Sustainability and Accountability Reporting

The sustainability framework presented in Exhibits 1.3 and 1.4 is consistent with “Sustainability Framework” of the International Federation of Accountants (IFAC), which addresses four perspectives:

1. The business strategy perspective by focusing on the achievement of long-term strategic decisions, objectives, goals, and performance;
2. The internal management perspective of directing and integrating management activities to ensure sustainability performance;
3. The investors’ perspective of effective communications with shareholders regarding sustainability performance; and
4. The stakeholders’ perspective of presenting both financial and nonfinancial sustainability KPIs as well as providing assurance on disclosed information.<sup>20</sup>

### KEY PERFORMANCE INDICATORS

The primary goal of an organization is to operate effectively and efficiently in generating sustainable performance. Key performance indicators are measures that are critical to the success of the organization and assessment of its performance. Applying KPIs to sustainability initiatives is a way to monitor and track them. KPIs can be very useful as a means of assessing an organization’s current position and deciding on new strategies to achieve future objectives, goals, and targets. Proper use of KPIs enables an organization to define its goals and establish metrics to measure its performance in achieving them sustainably. KPIs are developed to reflect the critical success factors and are normally classified into financial and nonfinancial KPIs. Financial KPIs deal with information that can be measured in monetary values and reflect key financial positions and results of operations. Examples of financial KPIs are movements in stock prices, sales growth, earnings, return on equity, earnings per share, dividends, and return on assets. Nonfinancial KPIs are relevant to information that cannot be measured in monetary values. Examples of nonfinancial KPIs include information on environmental and social matters, customer satisfaction activities, employee training and turnover, supplier satisfaction, and ethics compliance.

The key to creating usable nonfinancial KPIs is to offer stakeholders sufficient measures to assess sustainable performance. For example, an organization that desires to present a KPI for the generation of wastewater from a manufacturing process can use the volume of wastewater generated each year along with an estimate of the total treatment costs of annual

wastewater. In an attempt to assist organizations in developing effective and adequate nonfinancial KPIs, the Prince of Wales's Accounting for Sustainability Project (A4S) has worked with over 150 organizations to develop best practices to embed sustainability into an organization's structure.<sup>21</sup> A4S is collaborating with the IFAC in promoting sustainable organizations by embedding sustainability into strategy, governance, performance management, and reporting processes. One of the organizations that the project worked with was Carillion PLC, a construction and facilities maintenance firm. Carillion PLC was an equity partner that was created to build a new hospital. The company was tasked with providing design, construction, maintenance, and ongoing facilities management services. From the beginning of the project, Carillion PLC worked with the end users of the facility to understand their strategic objectives and then designed a Sustainable Action Plan that was monitored by nonfinancial KPIs for various sustainability objectives.

In measuring a company's success, it is important to link its stated goals to implemented strategies, reported KPIs, and compensation policy. For example the 2010 PwC report "Insight or Fatigue?" revealed that about 88 percent of ETSE 350 companies identified their KPIs; of these, only 25 percent clearly align KPIs to their strategic priorities and an even smaller percentage (14 percent) disclose the link between KPIs and the metrics that determine executive compensation, operations, and nonfinancial KPIs which often reflect strategic decisions made by management.<sup>22</sup>

KPIs should be used in conjunction with related contexts of narrative information. KPIs should meet the following six criteria:

1. Be prepared for each component of sustainability performance.
2. Consist of both financial and nonfinancial performance metrics.
3. Be prepared based on best practices shared by many stakeholders and procedures.
4. Be conceptualized and supported by narrative description.
5. Measurable in terms of volume and monetary value.
6. Implemented consistently and effectively beyond a check-the-box mentality.

## EMERGING ISSUES IN SUSTAINABILITY REPORTING

Reporting business sustainability has gained significant attention and acceptance throughout the world in recent years due to support and promotion

## 18 ■ Introduction to Business Sustainability and Accountability Reporting

from the Global Reporting Initiative (GRI), the Prince of Wales's Accounting for Sustainability Project, the International Integrated Reporting Committee, and the IFAC, among other organizations. The emerging issues in sustainability reporting, according to GRI, are the three I's: integration, implementation, and integrity.<sup>23</sup>

### Implementation

Sustainability laws, rules, regulations, and best practices are evolving and their effective implementation plays an important role in the future of reporting. Proper implementation of applicable laws, regulations, standards, and best

## KEYGUIDANCE

### Integration

Integration means the adoption of a single set of globally accepted sustainability reports presenting all dimensions of sustainability performance. Integration consists of the three following parts:

1. **Integrated reporting and XBRL (Extensible Business Reporting Language).** The future of sustainability reporting will be an integrated report on all dimensions of EGSEE performance in compliance with the International Financial Reporting Standards (IFRS) prepared on the XBRL platform. This integrated sustainability reporting requires the adoption of the IFRS and the establishment of XBRL taxonomies for all dimensions of EGSEE.
2. **Global standards with teeth.** The establishment of globally accepted and enforced sustainability standards is needed to successfully implement all dimensions of sustainability EGSEE performance. The future of sustainability reporting depends on the recognition, implementation, and enforcement of a set of globally accepted sustainability reporting standards.
3. **Better integration of digital technology and social media** for reporting and engagement purposes. The entire corporate reporting world is rapidly moving toward digital applications with the use of XBRL platforms and sustainability reporting is no exception. The future success of sustainability reporting depends on whether online reporting is used.

practices requires organizations to align their external sustainability reporting practices with internal daily operational culture and behavior. Organization gatekeepers including the board of directors, legal counsel, and internal and external auditors play an important role in ensuring proper implementation and alignment of actual performance with expected performance in compliance with related rules, regulations, and standards.

## Integrity

The future success of sustainability reporting is determined by the integrity of the process of preparing transparent and reliable reports. The integrity of the reporting process and the transparency of the reports themselves can significantly influence stakeholder confidence and public trust in EGSEE sustainability performance reports. Integrity of sustainability reporting can be strengthened by:

- Broadening the scope of sustainability reporting to include the stakeholder perspective.
- Disclosing sustainable performance in all dimensions of EGSEE to enable stakeholders to assess the overall performance.
- Expanding management's discussion and analysis on all dimensions of sustainability performance (EGSEE) by putting the numbers into a sustainable context.
- Developing an integrated sustainability and accountability reporting system to reflect comprehensive performance.
- Disclosure of more continuous and electronic business reporting.
- Providing assurance on all dimensions of sustainable performance.
- Expanding the audit to all dimensions of business sustainability beyond the financial statements.

Emerging trends in business sustainability include: (1) supply-chain business sustainability; (2) board strategic initiatives in business sustainability and accountability; (3) employee involvement; (4) technological development; (5) regulations; and (6) investors' demands for sustainability information.

### 1. Supply chain sustainability management.

High-profile companies such as IBM, Wal-Mart, and P&G, among others, are now more engaged in all areas of EGSEE. Supplier carbon management programs are one way these corporations are managing

**20** ■ Introduction to Business Sustainability and Accountability Reporting

sustainable supply chains, while demanding that their trading partners follow suit.

2. Sustainability board strategies.

Boards of directors are now considering sustainability as an integral component of board strategies. A study conducted by the Conference Board shows that during the 2011 proxy season, the number of shareholder proposals on social and environmental policy issues has increased from 28.1 percent in 2007 to 29.1 percent in 2010.<sup>24</sup> Sustainability is a strategic plan that demands attention and commitment from the board of directors, who need to include it in the organization's vision for future viability.

3. Employee involvement.

Organization employees, from the senior executives to entry-level staff, are now more conscientious about business sustainability.

4. Technological development.

Tech companies and software developers are now investing more in sustainability initiatives, so it can be expected that new technologies will be utilized in this area.

5. Sustainability regulations and standards.

Regulations on climate change (e.g., SEC rules, ISO 14000), guiding standards on corporate social responsibility (ISO 2600), and regulatory reforms on corporate governance (SOX, 2002; Dodd-Frank Act, 2010) are shaping business sustainability and sustainability reporting. However, the main force behind sustainability initiatives as of now is market-driven. Many businesses have implemented sustainability best practices voluntarily to satisfy their stakeholders' demands for sustainability development. Effective, efficient, and scalable sustainability regulations are expected to bring more uniform, standardized, and globally accepted practices of business sustainability and sustainability reporting and assurance.

6. Investor interest in and demand for sustainability information.

Global investors show more interest in and demand for sustainability information regarding environmental, social governance, and ethics performance. The 2011 survey by Institutional Shareholder Services (ISS) indicates that a high majority of both surveyed global investors (81 percent) and issuers (76 percent) believe that disclosure of their companies' environmental, social, and governance information has significant impacts on their long-term investment decisions and shareholder value.<sup>25</sup>

## PROMOTION OF SUSTAINABILITY DEVELOPMENT, PERFORMANCE, AND DISCLOSURES

There is a growing call from corporate stakeholders (including investors) for integrated sustainability performance information in corporate reporting models. Meaningful and sound sustainability development and reporting require organizations to:

- Establish an appropriate tone at the top to ensure commitment and vigilant oversight of the sustainability program and performance by the board of directors and executives.
- Integrate sustainability initiatives and activities into the organization's strategic decision by employing best practices of sustainability policies, programs, and activities.
- Define clearly the organization's mission, goals, policies, and programs relevant to EGSEE sustainability performance.
- Establish financial and nonfinancial KPIs relevant to sustainability performance and design proper metrics to measure sustainability KPIs.
- Develop and maintain sound sustainability reports and obtain independent sustainability assurance on sustainability reports.
- Communicate sustainability initiatives, practices, and performance to all relevant stakeholders and consider shareholder proposal on sustainability-related performance.
- Work with credit rating agencies (e.g., Moody's, S&P, and Fitch) to ensure important sustainability initiatives and programs are considered in their ratings.
- Be proactive rather than reactive regarding emerging regulatory reforms and standards pertaining to sustainability.
- Coordinate sustainability programs and activities with finance and accounting functions to ensure proper financing, measurement, recognition, and reporting.

Following are some suggestions for promoting business sustainability and accountability reporting:

- Investigate input and insight from institutional investors and financial analysts on all aspects of sustainability performance and how it is integrated into their investment decisions.

## 22 ■ Introduction to Business Sustainability and Accountability Reporting

- Integrate all dimensions of sustainability initiative into corporate reporting.
- Encourage research in business sustainability and corporate reporting.
- Evaluate the link between all dimensions of sustainability performance.
- Integrate business sustainability and accountability reporting into the business curriculum.

## CONCLUSION

Business sustainability has emerged as a central, multifaceted theme of the 21st century. Organizations of all types and sizes are focusing on business sustainability as a means of creating enduring value for shareholders and managing the interests of other stakeholders, including creditors, employers, suppliers, governments, and societies at large. Business sustainability and corporate accountability as presented in this chapter set a framework for organizations to achieve their goals of adding value in all areas of economic, governance, social, ethical, and environmental matters and events. Business sustainability is a process of enabling organizations to design and implement strategies that contribute to enduring performance in all areas. Business sustainability not only ensures long-term profitability and competitive advantage but also helps in maintaining the well-being of the society, the planet, and its inhabitants. This chapter presented a framework for business sustainability and corporate accountability reporting, as well as assurance and risk management in the five key areas of strategy, operations, compliance, reputation, and financial management.

### ACTION ITEMS

1. Establish appropriate tone at the top, promoting business sustainability as creating value for shareholders while protecting the interests of other stakeholders, including creditors, suppliers, customers, employees, government, the environment, and society.
2. Make sure business strategies focus on the achievement of all dimensions of sustainability performance.
3. Identify key drivers of your business sustainability initiatives.

4. Ensure that business sustainability shows the interactions between external factors and internal resources in creating sustainable performance.
5. Ensure keen focus as sustainability-related strategies become prerequisite in effectively competing in the global market.
6. Identify your sustainability drivers and priorities, including cutting-edge innovation, to differentiate your products and services from competitors. Understand how cost efficiency and effectiveness support sustainable value creation.
7. Integrate sustainability initiatives into all facets of business planning, strategies, decisions, and actions.
8. Adopt a new sustainability/accountability reporting structure that integrates all five EGSEE dimensions of sustainability performance into corporate reporting.
9. Disclose how you identify, measure, implement, and communicate EGSEE sustainability performance.
10. Tell your "sustainability story" while ensuring compliance with all applicable laws, rules, regulations, standards, and best practices.

## NOTES

1. United Nations. 2010. United Nations Conference on Trade and Development, "Corporate Governance in the Wake of the Financial Crisis," viii. Available at <http://www.unctad-docs.org/files/CG-in-Wake-of-Fin-Crisis-Full-Report.pdf>.
2. Ibid.
3. International Federation of Accountants (IFAC). 2009. "Sustainability Framework." Available at <http://www.ifac.org/publications-resources/ifac-sustainability-framework-20>.
4. Ibid.
5. World Commission on Environment and Development (WCED). 1987. *Our Common Future* (New York: Oxford University Press), Chapter 2.
6. As discussed in: Canadian Institute of Chartered Accountants (CICA). 2004. "Financial Reporting Disclosures about Social, Environmental and Ethical (SEE) Issues: Background Paper for the Capital Markets and Sustainability Program of the National Round Table on the Environment and the Economy"

24 ■ Introduction to Business Sustainability and Accountability Reporting

- (Toronto: CICA) and UNEP FI. 2009. "AMWG Fiduciary Responsibility Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment" (Geneva: UNEP FI).
7. Southwest Airlines. 2011. "Southwest Airlines One Report 2010," 115. Available at [http://www.southwestonereport.com/\\_pdfs/SouthwestOneReport2011.pdf](http://www.southwestonereport.com/_pdfs/SouthwestOneReport2011.pdf).
  8. Ernst & Young and GreenBiz. 2012. "Six Growing Trends in Corporate Sustainability." Available at [http://www.ey.com/Publication/vwLUAssets/Six\\_growing/\\$FILE/SixTrends.pdf](http://www.ey.com/Publication/vwLUAssets/Six_growing/$FILE/SixTrends.pdf).
  9. KPMG. 2010. "Corporate Sustainability: A Progress Report." Available at [www.kpmg.com](http://www.kpmg.com).
  10. Ernst & Young and GreenBiz. 2012. "Six Growing Trends in Corporate Sustainability." Available at [http://www.ey.com/Publication/vwLUAssets/Six\\_growing/\\$FILE/SixTrends.pdf](http://www.ey.com/Publication/vwLUAssets/Six_growing/$FILE/SixTrends.pdf).
  11. United Nations Environment Programme. 2012. Brazil, Denmark, France and South Africa Join in a Committee to Sustainability Reporting. (June 20, 2012). Available at [http://www.unepfi.org/fileadmin/events/2012/Rio20/Press\\_release\\_Rio\\_outcome\\_document.pdf](http://www.unepfi.org/fileadmin/events/2012/Rio20/Press_release_Rio_outcome_document.pdf).
  12. United Nations. 1992. "Framework Convention on Climate Change," Article 2.
  13. United Nation Global Compact and Accenture. 2010. "A New Era of Sustainability." Available at [http://www.unglobalcompact.org/docs/news\\_events/8.1/UNGC\\_Accenture\\_CEO\\_Study\\_2010.pdf](http://www.unglobalcompact.org/docs/news_events/8.1/UNGC_Accenture_CEO_Study_2010.pdf).
  14. Clark, W.H., and L. Vranka. 2011. The Need and Rationale for Benefit Corporation: Why it Is the Legal Form. Benefit corporation white paper. Available at [www.benefitcorp.org](http://www.benefitcorp.org).
  15. PricewaterhouseCoopers (PwC). 2010. "Insight or Fatigue?: FESE 350 Reporting." Available at <http://www.pwc.com/gx/en/corporate-reporting/integrated-reporting/publications/reporting-survey-2010.jhtml>.
  16. Chartered Institute of Management Accountants (CIMA), American Institute of Certified Public Accountants (AICPA), and Canadian Institute of Chartered Accountants (CICA). 2010. "Global Survey Findings on Accounting for Sustainability Practices," press release, December 16, 2010. Available at <http://www.aicpa.org/Press/PressReleases/2010/Pages/GlobalSurveyFindingsOnAcctforsustainability.aspx>.
  17. Canadian Institute of Chartered Accountants. 2010. "Environmental, Social and Governance (ESG) Issues in Institutional Investor Decision Making." Available at [www.cica.ca](http://www.cica.ca).
  18. de Morsella, Tracey. 2011. "CEOs See Sustainability as Engine for Growth but Industry Sectors Split on Priorities." *Fast Company*, May 25, 2011.
  19. Ibid.
  20. International Federation of Accountants (IFAC). 2009. "Sustainability Framework." Available at <http://www.ifac.org/publications-resources/ifac-sustainability-framework-20>.

21. The International Federation of Accountants (IFAC). 2011. "Sustainability Framework 2.0." Available at <http://web.dev.ifac.org/sustainability-framework/imp-sustainability-performance>.
22. PricewaterhouseCoopers (PwC). 2010. "Insight or Fatigue?: FESE 350 Reporting." Available at [www.corporatereporting.com](http://www.corporatereporting.com).
23. Murningham, Marcy. 2010. "The Three 'T's of Sustainability Reporting's Future" Global Reporting Initiative website, November 3, 2010. Available at <https://www.globalreporting.org/information/news-and-press-center/Pages/The-Three-Is-of-Sustainability-Reporting%E2%80%99s-Future.aspx>.
24. Tonello, M., and M. Augilar. 2012. "Shareholder Proposals: Trends from Recent Proxy Seasons (2007–2011)" (The Conference Board: February 2012). Available at <http://ssrn.com/abstract=1998378>.
25. Institutional Shareholder Services, Inc. (ISS) 2011. "2011-2012 Policy Survey Summary of Results." Available at [www.issgovernance.com](http://www.issgovernance.com).

<http://www.pbookshop.com>

<http://www.pbookshop.com>