Corporate Disclosures on Sustainability

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Executive Summary

The CCAB commissioned this report to summarise the current state of corporate sustainability reporting in the UK and provide a thought-piece to inform discussion and debate, in particular amongst the accountancy profession, policy-makers and business. It was prompted by a recognition that, at least in larger companies, corporate sustainability reporting is now well established as a voluntary practice but is often fragmented and confusing, for both those generating the information and those attempting to understand and use it.

Currently there is also pressure for at least some element of sustainability reporting to be made mandatory with a reasonable possibility that this will be implemented in legislation in the foreseeable future. At the same time, there is a demand from many companies aiming to maintain their reputations by reporting voluntarily, irrespective of whether any mandatory element is introduced, for clear guidance. This report aims to address these issues, through a combination of desk research and interviews with a number of leading experts and opinion-formers in business, government and the accountancy profession.

The topic is still fast developing, with several significant potential developments, either directly about sustainability reporting or with implications that would be likely to affect its development, either in consideration or under consultation at the time of writing. There is a high level of interest, although the visible expressions of this in business practice are still mainly limited to larger companies. In the absence of any legal mandatory requirement, corporate sustainability disclosures are mainly voluntary and fragmented, although with some limited degree of convergence around emerging generally recognised good practice. The key issue in the UK currently is generally agreed to be the possibility of a move towards some degree of mandatory standard disclosure. Although it is still too early to anticipate the outcome, the prospect raises issues for the accountancy profession and other interested parties concerning what specific requirements might be introduced with regard to the content of what is to be disclosed, the media via which such disclosures are to be made, and other related questions such as the appropriate level of assurance.

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We welcome comments and enquiries on this work. To contact us, please send an e-mail to admin@ccab.org.uk

Contents

1. Introduction

In recent years sustainability has become increasingly important both in public debate and as a factor in the business environment, although it is still a relatively new issue with no universal consensus on its precise definition or terminology. Several companies still prefer terms such as 'corporate responsibility' and 'corporate social responsibility' (CSR), though these are sometimes also used to include other issues such as corporate governance and business ethics generally. However, the usual consensus is that 'sustainability' is mainly about a business's responsibility for its environmental and social impacts. This need not be solely for altruistic motives as there may also be strong pressures from legislation and other public policy tools such as 'green' taxation, as well as pressure from key stakeholders. This is partly reflected in the several questionnaires that larger companies receive every year from those investment funds which include sustainability factors (and sometimes also various ethical considerations) in their investment criteria, requesting information about the company's activities. More positively, some businesses have seen in sustainability an opportunity to create new business opportunities and to improve their economic performance by taking a proactive approach.

The term 'Triple Bottom Line' (Elkington, 1997 and 2004) reflects the argument that businesses should be concerned with not only their financial performance as defined in the usual narrow accounting terms but also their environmental and social performance, and should aim to manage and report on all three aspects. It uses the metaphor of a three-legged stool – that unless all three legs are present, the stool is not functional. The term rather exaggerates its value as a practical business metric since, unlike the traditional financial 'bottom line' which summarises a diverse range of different revenues and costs in a single figure, there is no claim that environmental, social and economic aspects can all be summarised in a single overall indicator. However, it has been influential as a concept to express the view that businesses should be considered to have a responsibility for their environmental and social performance as well as their financial performance and should be held appropriately accountable for this.

This still leaves problems both of definition and of measurement, particularly for social performance. It can be difficult even to define generally accepted objectives here as these may be culture-driven and can vary between localities (for example, not all cultures regard gender equality as being desirable), and even within any single society social norms and values can change over time.

By contrast there is relative clarity for the environmental issue over both aims and (to a lesser extent) means, which makes this more conducive to systematic measurement. The classic definition of environmental responsibility was provided by the Brundtland Report as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (UN, 1987, p. 46). This expresses the concept of ‘intergenerational equity’ which is becoming increasingly topical in other current debates too, in particular over pensions. Accountants will also recognise an obvious implicit reference to the capital maintenance concept. This was expanded further in the ‘Five Capitals’ model developed by Forum for the Future (Porritt, 2007), which defined five distinct types of capital (natural, human, social, manufactured, and financial), and pointed out that only the last two categories are normally recognised by business and its accounting systems and are therefore routinely taken into account in decision-making and assessing performance. The consequence, it is argued, is that a sustainability crisis is imminent because stocks of natural, human and social capital are being consumed faster than they are being replenished.

Some countries mandatorily require at least some disclosure by companies on their sustainability performance, but at least as yet there are no such requirements enacted in UK law. However, the Companies Act has since 2006 required certain companies to publish as part of their annual reports a Business Review which may include sustainability-related information (see Section 4.1). There are also some elements of involuntary disclosure in certain situations, such as where a company has applied to the Environment Agency for a permit (to discharge effluents or to extract water, for example), and the Agency subsequently posts the monitoring information on its website. The CRC Energy Efficiency Scheme is another mandatory UK-wide scheme which will also shortly have this effect for certain companies in respect of their carbon emissions (see Section 4.2), and recent developments in the public sector suggest that a mandatory element may shortly be introduced there too (see Section 4.3).

Even in the absence of mandatory requirements, several companies (and other entities too) have voluntarily chosen to make disclosures not only in the UK but internationally. A survey in 2008 of practice across 22 countries (KPMG, 2008) found that nearly 80% of the Global Fortune 250 (the largest 250 companies worldwide) were issuing a stand-alone report (as well as usually providing information on a more flexible basis and often in more detail through their websites), and the proportion in the UK was actually slightly higher than the international average. Amongst the next level of companies down as defined by size, the proportion dropped significantly to only 45%, ranging widely from less than 20% in Mexico to more than 90% in Japan. In some countries (see Section 3) this is partly prompted by either a legal requirement or (as in Japan) strong encouragement by government, but in most countries, including the UK, it is still up to the initiative of each company.

The absence of any overall mandatory code has led to the development of a number of voluntary codes of practice, often developed by industry bodies or NGOs, which aim to offer standards for good reporting practice. Among these, the Sustainability Reporting Guidelines published by the Global Reporting Initiative (GRI), the Connected Reporting Framework developed by the Accounting for Sustainability (A4S) project and the Integrated Reporting Framework (see sections 4.4, 4.5 and 4.6) are all leading examples which have enjoyed a high profile.

From the above the researchers identified a number of issues that deserved further follow-up and leading players from a range of sectors, and interviewed at least one representative from a number of companies, audit firms and other parties which were identified as leading publishers of sustainability disclosures. The next section describes this research process in more detail.

2. Research Design

The research on which this report is based comprises both a desk and an empirical element.

The aim in the desk research was twofold. The first task was the factual one of bringing together the various elements of the current legislation, regulations and guidance which provide the context in which companies make disclosures. The second was to develop an appreciation and understanding of the main aspects of practice in sustainability-related disclosures by business at this time, and what currently represents leading practice.

This led into the empirical phase, consisting of interviews with representatives of 22 different organisations which had been identified as amongst the leaders in this area and likely to be able to contribute valuable information and opinions. These included companies (across a range of sectors), government, accountancy firms and NGOs. The interviews followed a semi-structured format using an agenda which was designed to cover a number of topics but also allowed space for interviewees to bring up other topics too and offer their own opinions. The interviews aimed to ascertain the practice of the organisation (not only what was visible in the public domain but also what internal information management systems underpinned this) and the reasons for this, any problems which interviewees had experienced, and their expert opinions on the critical issues involved, including the value (if any) of any mandatory requirement in the UK.

The findings presented in the following sections of this report reflect the results of both elements.

3. International Practice Elsewhere in Europe

This study has not attempted a comprehensive survey of international practice; that would require a more substantial project with a different focus, and is already well served by KPMG's periodic international survey (KPMG, 2008). However, it may be useful to look at some aspects of practice elsewhere in Europe as possible pointers to future developments in the UK, not least through their influence on EU policy. A recent study from the European Commission (Wensen et al. 2011) reports on how companies in EU member states deal with sustainability reporting in practice. The study interviewed experts and representatives of both reporting organisations and user groups and produced five country case studies on the role of public policy instruments in creating a supportive context for sustainability reporting.

The study found that:

- Companies report mainly because sustainability disclosures enhance their reputation, although it can increase their costs too. The challenge is to select what data to report on depending on its sensitivity, how to organise the content, and the level at which to pitch quality. Transparency, completeness and balance are key indicators of high quality for users.

- There is still room for improvement in both the content and quality of reporting to meet users' needs adequately by reflecting all issues of importance whilst still keeping the report accessible.

- The total number of sustainability reports is still very small compared to the large number of multinational enterprises in the EU, and their quality varies widely.

The study concludes that the role of governments is crucial in order to increase both the number and the quality of sustainability reports, and that users' needs are best met when reporting is regulated, CSR reporting is integrated with financial reporting, and stakeholders are more involved in the reporting process.

At present there is generally a high rate of reporting amongst larger companies in most European countries, although there are some variations in type, focus and those involved. As in the UK, practice is mainly voluntary, with some exceptions.

France was the first country to make reporting on sustainability issues mandatory when it passed legislation in 1977 requiring all organisations with more than 300 employees to prepare a social report (the 'bilan social'). This required organisations to report on a comprehensive list of indicators (employment, payment, health and safety, working conditions, training, labour relations and living conditions) and to discuss these with labour representatives before submitting their reports. In 2001 the New Economic Regulations Act (Nouvelles Régulations Economiques) was passed, obliging listed companies to report on such issues as employee contracts, staff mobility, working hours, pay, industrial relations, health and safety, training, and disability policies (CSR Europe, 2010). More detailed requirements were introduced later, which included professional equality between men and women and industrial risks (in 2002), and the volume of greenhouse gas emissions (in 2009). Recently, the Act has been extended to all companies of 500 employees and more.

In Germany sustainability reporting is also seen as voluntary and so far no specific legislation has been adopted. However, in Denmark legislation has provided an important trigger for increased sustainability reporting (Wensen et al., 2011), as it has in Sweden too where reporting on environmental, economic and social performance became mandatory in late 2007 for all 55 state-owned companies. In Finland, although sustainability is not legally mandatory, national accounting regulations require companies to disclose certain information such as significant environmental risks and personnel issues like sick days and occupational education.

4. Summary of Current Legislation, Guidance and Debate

Although there is no general mandatory requirement in the UK at present, there are certain elements of compulsory disclosure in some areas which seem likely to increase in response to recent developments summarised in the following sub-sections.

4.1 Narrative Reporting and 'De-cluttering'

The 2006 Companies Act (Section 417) requires all companies, except those classified as small, to publish a Business Review as part of their annual reports. This was part of the UK's response to the EU's Modernisation Directive, and requires that the directors should provide a 'fair review' of the business and its principal risks and uncertainties, including where appropriate information on environmental matters and employee matters. In 2007 the requirement was extended for quoted companies, which are explicitly required to report on environmental matters (including the impact of the company's business on the environment), employees, and social and community issues.

The Review is a modified version of the Operating and Financial Review (OFR) which the government had previously announced would be required as a statutory disclosure, but then withdrew at a late stage. By that time several companies had already made their own arrangements to ensure they would be able to generate an OFR, and the ASB had already introduced Reporting Standard RS1 to provide supporting guidance in 2005. Although the OFR was no longer to be mandatory, the ASB re-issued RS1 as a statement of best practice (persuasive) rather a Reporting Standard (which would have been mandatory), and argued that ‘this statement continues to provide applicable best practice guidance for UK companies’. Several companies chose voluntarily to meet the higher standards of disclosure of an OFR, either for motives of corporate responsibility or because they perceived a competitive advantage in doing so; as there is no formal guidance explicitly provided to support companies’ preparation of their Business Reviews, RS1 is still widely regarded as the best guidance available on good practice.

The intention behind the Business Review is to provide an opportunity:

- to explain the context in which the financial results were generated and what lies behind the figures;
- to explain how investors should assess the company’s future potential, including significant risks and uncertainties (including those which are social or environmental);
- to provide a forward-looking framework in which to explain the strategic context in which the business operates;
- to provide a balanced and comprehensive analysis of the business, including its social and environmental aspects, which would allow shareholders to assess how directors have performed their statutory duty to promote the company’s success.

However, the Business Review is still part of the Annual Review and is therefore intended for the benefit of investors specifically, rather than any wider range of stakeholders whose interests in a company’s performance might be broader than just what it means for its owners.

Directors are expected in preparing the Review to focus on the information needs relevant to their specific company and its shareholders, rather than to follow a rigid list of items to be disclosed. This is inherently judgemental so the selection of the information to be reported is inevitably up to the discretion of the directors of each company, and predictably practice varies widely. A survey by PricewaterhouseCoopers in 2007 of current practice by FTSE 350 companies (PwC, 2007) found, unsurprisingly, that reports published by larger companies (the FTSE 100) tended to be more forward-looking and forthcoming with information than those below this threshold. Across the FTSE 350 as a whole, although 83% of companies included a specific corporate responsibility (CR) section in their annual report, only 17% identified any CR aspects as being a strategic priority, and the KPIs which were reported were often limited and unimaginative, mainly just conventional financial indicators such as return on investment.

At the time of writing this report, the Department of Business, Innovation and Skills (BIS) is carrying out a review and consultation exercise on the future of corporate narrative reporting[1] focusing in particular on the provisions of the Business Review, in line with the coalition government's commitment to reinstate an Operating and Financial Review, to ensure that directors' social and environmental duties have to be covered in company reporting and investigate further ways of improving corporate accountability and transparency.

This might appear a valuable opportunity to extend the current range of corporate sustainability disclosures, except that it could also be perceived as being at variance with a parallel move by the Accounting Standards Board (ASB) and the Financial Reporting Council (FRC) to simplify or 'de-clutter' the annual report and accounts. The Foreword to their joint paper 'Cutting Clutter' claims that 'clutter undermines the usefulness of annual reports and accounts by obscuring important information and inhibiting a clear understanding of the business and the issues that it faces', resulting in extra complexity and cost of the reporting process for companies, and the risk for users that what is genuinely important could be obscured by excessive detail.

[1] See http://www.bis.gov.uk/Consultations/future-of-narrative-reporting-further-consultation.

The ASB/FRC paper postulates a number of possible causes for the clutter, including increased reporting requirements set by regulators, perhaps an assumption that the annual report offers a convenient data repository in which any new disclosures can be placed, and excessive caution or a 'tick-box' approach by some preparers and auditors who have found it easier to take a 'when in doubt, disclose' approach rather than applying the materiality principle rigorously. The paper reiterates the view that 'the annual report's primary purpose is to provide investors with information that is useful for making their resource allocation decisions and assessing management's stewardship … [B]y obscuring relevant information, clutter makes it more difficult for users to assess a company's progress [and] due to the time and effort involved in preparing such disclosures, clutter is also a big issue for preparers.' It defines the main elements of 'clutter' as (i) immaterial disclosures that inhibit the ability to identify and understand relevant information and (ii) explanatory information that remains unchanged from year to year; it specifically identifies CSR (together with governance) as an area which is prone to clutter.

This de-cluttering initiative is still under consultation and the ASB/FRC's diagnosis and proposed remedies are open to criticism. The ASB/FRC refer to interviews which have supported the perception that clutter exists and is a problem, but no concrete evidence is provided to establish that it has in fact proved a problem in practice for users, or to identify any situations where users' evaluations of companies and their managements have been distorted because analysts have been unable to sort the relevant wheat from the allegedly immaterial chaff. It could alternatively be argued that the length and complexity of modern annual reports instead reflects the growing scale and complexity of business and the demands for information by an increasingly diverse range of users, and preparers' attempts to meet these demands. There might also be advantages of cost, convenience and credibility in having a single report in which all disclosures material to a company's various stakeholders are integrated. The proposals on integrated reporting which the International Integrated Reporting Committee (IIRC) is developing (see Section 4.6) are likely to raise further debate here too.

4.2 Carbon Reduction Commitment Energy Efficiency Scheme

The CRC Energy Efficiency Scheme[2] (formerly known as the Carbon Reduction Commitment) was launched on 1 April 2010, though it is still in an early phase with no actual cash flows or disclosures having happened yet. It is a mandatory UK-wide scheme which targets emissions from large public and private sector organisations, and is designed to go beyond the scope of the EU's Emissions Trading Scheme which is restricted to only the largest energy producers in sectors such as electricity generation, metals, cement and ceramics. The CRC Energy Efficiency Scheme will extend this scope to the next tranche – any organisation which has at least one half-hourly electricity meter (HHM) settled on the half-hourly market and which consumes more than 6,000 MWh per annum of electricity. Currently nearly 3,000 different organisations have exceeded this threshold and have registered as participants with the Environment Agency (and its Scottish and Northern Irish equivalents). These include some manufacturing entities, but also several service businesses which would not usually be perceived as environmentally sensitive, such as banks, hotel chains, universities, accounting and other professional practices, and public sector entities.

The Scheme is intended to provide both financial incentives and penalties to encourage improved energy efficiency by those organisations participating in it, and also a reputational motive through 'performance league tables' which will be published annually. Participating organisations are required to report annually their energy usage to the government, which then converts this into its equivalent in CO_2 emissions using standard conversion factors. All participants must purchase allowances for every tonne of CO_2 they emit in a given year. Originally this revenue was to be recycled back to those organisations that performed best in the previous year in reducing their

[2] See http://www.environment-agency.gov.uk/business/topics/pollution/126698.aspx.

carbon emissions so that overall the Scheme would be revenue-neutral, but this element was cancelled when the coalition government came into power as part of its public sector spending deficit programme, so the CRC is now effectively a straight tax on energy consumption.

The original basis for distinguishing between those participants which would be net payers in any year and those which would be beneficiaries of the recycling was to have been provided by league tables comparing the performance of all participants in relation to their energy use and their success in reducing it.[3] Although the recycling aspect has now gone, the league tables will still be calculated and published, and the details published will include the absolute quantity of each participant's emissions covered by the Scheme so that this aspect of performance will become public knowledge.

4.3 Mandatory Reporting in the Public Sector

There has been a requirement in the public sector since 1 April 2010 for government departments and executive agencies to capture and collate data in preparation for the possible introduction of a mandatory requirement to disclose. The Treasury's Financial Reporting Manual (FReM) defines approved accounting practices in those entities which are subject to UK government control, and since that date it has included a reference to Treasury guidance on sustainability disclosures (HM Treasury, 2011) and recommended this to central government departments and executive agencies. The disclosures include performance data related to a broad range of aspects: carbon emissions, waste, use of natural resources, and bio-diversity. The intention was that collating this information in 2010/11 would be a 'dry run' for a subsequent requirement that, as from 2011/12, these entities would have to publish it as part of their annual reports.

[3] In the early years of the Scheme there will be additional criteria of 'early action metrics' reflecting actions taken by participants which are likely to facilitate energy efficiency, such as installing automatic metering, but these will be phased out after the third year, after which the only criteria will be related to actual carbon emissions.

Although for some of these aspects (e.g. bio-diversity) no more is required than a statement of policy, the guidance defines specific quantitative indicators for other aspects including carbon emissions, which also require an element of 'Scope 3' emissions to be included where these arise from business travel. Although the Treasury's proposals cover only environmental aspects of sustainability, the Scottish government is considering extending them to include some social aspects too for Scottish companies.

Although there was no requirement to publish anything in 2010/11, several entities nevertheless chose to report voluntarily, including 16 of a total of 50 central government departments, and several executive agencies, for example the Environment Agency and the Highways Agency. Predictably, some challenges and initial teething problems have been encountered, mainly in ensuring that adequate systems are in place to capture and collate the required data, but the evidence that is available suggests that no insoluble problems were encountered.

In December 2009 the Fédération des Experts Comptables Européens (FEE) called for the public sector to 'drive sustainability and lead by example'. These Treasury proposals for the public sector prompt the obvious question of whether they were intended as a precursor to a broader extension of the scope into the private sector too, which was given weight in May 2011 when DEFRA issued a consultation paper on 'Measuring and reporting of greenhouse gas emissions by UK companies: a consultation on options' (although this is clearly more limited in its range than the present public-sector system since it covers only a single aspect rather than a broad range).

The consultation document offered a number of alternatives, including four options for the possible scope of companies which could be covered. As well as simply encouraging enhanced voluntary reporting by whichever companies wished to do this, the mandatory options suggested were:

- all quoted companies (estimated to be around 1,100 companies);

- all large companies (between 17,000 and 31,000 companies);
- all companies whose UK energy consumption exceeds a certain threshold, which it proposed should be consistent with the threshold set by the CRC Energy Efficiency Scheme. At present this is 6,000 MWh of electricity per annum and covers nearly 3,000 companies.

At the time of writing the consultation period had closed; a further announcement is expected from the government in 2012.

4.4 Global Reporting Initiative

In the absence of any overall mandatory code, as noted above many companies, particularly those at the higher end of the size range, have chosen to make some public disclosures on their sustainability performance. This is usually in the form of an annual hard-copy report, increasingly supplemented (and sometimes replaced) by disclosure through the company's website.

Predictably, however, the disclosures made by different companies have varied widely in terms of both which aspects of sustainability are covered and how performance in managing these aspects is then measured, so there has been little comparability between different companies even within the same sector. This has been frustrating not only for users but also for companies, many of which have complained that they receive multiple and diverse requests for information from a range of interested parties, and expressed a desire for more clarity and the definition of a single body of generally accepted information that could be presumed to be sufficient for all users' needs, equivalent to the situation with financial annual reports.

This has led to the development of a number of voluntary codes of practice, often developed by industry bodies or NGOs, which aim to summarise good reporting practice and provide a standard around which different companies can base their reports. There have been several over the years, with the Sustainability Reporting Guidelines published by the Global Reporting Initiative (GRI) having emerged as clearly pre-eminent. The GRI was established in 1999 by a consortium of interested parties, including several representatives from the accounting profession, as (in its own words) 'an international network of thousands from business, civil society, labour, and professional institutions create the content of the Reporting Framework in a consensus-seeking process'. It aimed to develop recommended reporting guidelines 'through a multi-stakeholder process', which would 'reflect the three dimensions of sustainability: economic, environmental and social', and to 'elevate corporate sustainability reporting to the same level as financial reporting'.

The GRI's Guidelines make recommendations on both the process and the content of sustainability reporting, and suggest 79 different performance indicators from which companies can choose to publish those which they consider relevant for their particular business, each of which is supported by a detailed Technical Protocol (i.e. a data dictionary). Although still controversial, the GRI Guidelines have become widely recognised as reflecting current good practice and been widely adopted by companies as at least a guide: KPMG's 2008 survey reported that 'more than three-quarters of the Global Fortune 250 use the GRI Guidelines for their reporting', although the term 'use' should be interpreted with caution here as it may indicate only partial rather than full compliance.

4.5 Connected Reporting Framework

The Connected Reporting Framework (CRF) was developed by the Accounting for Sustainability (A4S) project set up by HRH the Prince of Wales. It aims to provide 'clearer, more consistent and comparable information to be used both within an organisation and externally' (Sustainability at

Work, 2011) by including within a single report an overview of all the main aspects of an organisation's performance, both financial and other, and the connections between them.

Figure 1 shows a template which A4S has provided to indicate how the CRF can be implemented in practice; it has five key elements:

1. an explanation of how sustainability is connected to the organisation's overall operational strategy, and the provision of sustainability targets;
2. reporting on five key environmental indicators: greenhouse gas emissions, energy usage, water use, waste, and significant use of other finite resources;
3. other key information, where the organisation has other significant sustainability impacts as well as these;
4. indirect impacts (upstream and downstream) of the organisation's products and services: the sustainability impacts of its suppliers, and the use of its products or services by customers and consumers;
5. when available, industry benchmarks for the key performance indicators.

A number of companies have adopted the CRF, including Aviva, BT, EDF Energy and HSBC. Aviva was among the first to test the CRF to confirm its potential use in practice and consider how the information should best be captured, presented and used in decision-making. They have been using this approach continuously in their annual reports since then and have subsequently extended their use of the Framework to include customer and community indicators (Aviva Annual Report, 2010) as well as indicators on greenhouse gas emissions, waste and resource usage. From their experience they consider that this approach offers the right balance between prescriptive and non-prescriptive content, and allows an appropriate degree of flexibility as practice develops.

4.6 Integrated Reporting Initiative (IIRC Foundation)

The International Integrated Reporting Committee (IIRC) has taken over the CRF from the A4S project with the aim of providing a way to disseminate and establish it more widely. It has brought together an international group of leaders from across business, finance, the accountancy profession, government and academia, with the goal of creating an internationally accepted integrated reporting framework that reflects the connections between the economic, social, environmental, governance and financial aspects of an organisation's activities, and their impact on its long term performance (IIRC, 2011). The IIRC's vision is that the Integrated Report will be the organisation's primary report, as the financial annual report is now, and that every element should provide insights into its current and future performance and demonstrate its ability to create value sustainably into the long term.

According to the IIRC, current reporting standards fail to consider fully a business's social, environmental and long-term economic performance; and even when companies do report on these factors, their reports do not always connect the risks and opportunities with the business strategy and model. Integrated Reporting is therefore needed to create a more profound and comprehensive picture of the risks and opportunities that each company faces, specifically in the context of the drive towards a more sustainable global economy (IIRC, 2011).

Following an exhaustive consultation process, in 2011 the IIRC published for public consultation two successive discussion papers on integrated reporting which have stimulated considerable interest and comment. At the time of writing the revised version is still under consultation (IIRC, 2011). This proposes five guiding principles:

- strategic focus;

- connectivity of information between the different components of an organisation's business model, the external factors that affect it, and the various resources and relationships on which it depends;
- future orientation;
- responsiveness and stakeholder inclusiveness;
- conciseness, reliability and materiality.

These five principles should be applied in determining the content of an Integrated Report, which should include as key elements:

- organisational overview and business model;
- operating context, including risks and opportunities;
- strategic objectives, and the strategies to achieve those objectives;
- governance and remuneration;
- performance of the organisation against its strategic objectives, with both qualitative and quantitative information;
- future outlook.

4.7 The Climate Disclosure Standards Board's Reporting Framework

The Climate Disclosure Standards Board (CDSB) was convened by the World Economic Forum in 2007. Its goal is to develop the generation and reporting to investors of decision-useful information on climate change by linking relevant data to an assessment of regulatory and physical risk, strategy and performance. It is supported by an Advisory Board which includes several major companies and institutions, and a Technical Working Group which includes representatives of leading accountancy firms and institutes and is responsible for overseeing the drafting and engagement processes around the Reporting Framework.

After due consultation the CDSB published in 2010 the first version of its Reporting Framework to guide the climate change-related disclosures to be used by companies in compiling their 'mainstream' reports (i.e. the conventional corporate financial reports), by so far as possible adopting and reflecting the principles which are already well established for financial reporting. It provides four templates which describe in detail what it suggests should be reported on, respectively:

- strategic analysis of climate change, including details of the company's planned actions;
- regulatory risks from climate change;
- physical risks (to the company and its supply chain and customers) from climate change;
- greenhouse gas emissions, based on the Greenhouse Gas Protocol (first developed in 2001 and subsequently revised) of the World Business Council for Sustainable Development and the World Resources Institute.

By focusing on just one specific aspect of sustainability performance, the CDSB's Reporting Framework represents an alternative approach to the IIRC's more comprehensive ambitions. Arguably, this greater focus has made it possible to make more progress whilst still maintaining consensus.

The CDSB is continuing to develop the Framework with a view to a further consultation followed by collaboration and joint publications with bodies such as the OECD, UNCTAD and GRI. Future plans include more guidance on reporting on Scope 3 emissions (those outside the company's own boundaries) and sector-specific guidance. The CDSB is also working with the OECD and GRI on a review of regulations globally on the disclosure of greenhouse gases in order to encourage their convergence.

4.8 Online Reporting on Corporate Responsibility and Sustainability

The well-established financial reporting process has provided an obvious model for sustainability reporting, which the Global Reporting Initiative, for example, openly adopted in designing their Sustainability Reporting Guidelines (see Section 4.4). However, the legal and regulatory context of financial reporting can also act as a brake on innovations which are not consistent with its requirements, which has not been relevant in the voluntary context of sustainability reporting. One implication is that, for sustainability disclosures, companies and other reporting organisations have been able to experiment with alternative modes of communicating, including online reporting via their websites.

This potentially offers several advantages over the traditional financial reporting model, though it also raises some additional issues over control and assurance. CSR Europe (2009) provided a recent overview of some current trends and best practices of online reporting on corporate responsibility and sustainability and reported its findings in five main areas:

- report formats;
- topicality of updates;
- use of multimedia features;
- interactive dialogue;
- personalisation.

Report formats: The study found that although a few companies which disclose corporate responsibility and sustainability information now do this only online, most continue to combine traditional hard-copy reporting with providing complementary information via their websites in PDF, HTML or interactive/dynamic formats.

Topical updates: The study shows that the format and frequency of disclosures affects external stakeholders' perceptions of a company's authenticity and accountability, with more frequent updates being seen as increasing transparency. Some companies have therefore moved from annual to quarterly online reporting on their sustainability performance, and others have gone beyond reporting on standard performance indicators to providing additional features as well, such as news, case studies, company views on topical issues, updates by e-mail, and opportunities to subscribe to RSS feeds.

Multimedia: Videos, podcasts, slide shows, animations and other innovative formats are increasingly used for presenting dynamic data, usually in graphical formats.

Interactive dialogue: The CSR's research showed that even if the Internet cannot replace traditional forms of stakeholder engagement, online tools such as interactive surveys, web chats, wikis, blogs and social networks, which offer stakeholders an opportunity to provide feedback and to instigate discussion as well as to engage in active dialogue, can enable companies to enhance their interactions with not only existing but also new stakeholder groups.

Personalisation: Finally, the flexibility of online tools such as navigation options and the capacity to customise standard content can help companies to personalise their disclosures to meet the differing needs of multiple audiences.

5. Empirical Findings

5.1 Drivers

Despite the absence of any significant mandatory disclosure requirements, as noted above a high proportion at least of larger companies choose to disclose voluntarily a substantial amount of information through a number of different media: additions to their annual financial reports, stand-alone supplementary sustainability or corporate responsibility reports (usually also on an annual basis), or – increasingly – through their websites. We therefore first asked what were the drivers of this, i.e. what were those companies' motives in voluntarily choosing to incur both the expense and the risks of additional disclosure?

A sustainability survey of 766 corporate chief executive officers, drawn by the UN from nearly 100 countries and 25 industry sectors across the world (see Figure 2), reported that, so far as they were concerned, the main drivers were impacts on reputation, brand values and ultimately on profits. The survey respondents were drawn from both publicly traded and privately owned companies and represented some of the largest companies in the world (UN Global Compact Report, 2010).

The responses mentioned either a perceived need to respond to pressure from stakeholders, current or anticipated, or generally a concern for the company's reputation. However, the emphasis and the relative importance of different stakeholders varied significantly between different companies. Financial investors were mentioned by several interviewees, although this group was mentioned less often than other stakeholder groups, such as customers, employees, key pressure groups and NGOs, and public opinion generally:

- *'A company's drivers to disclose are its shareholders, NGOs, its employees, its customers.' Company*

- *'The current key drivers are employees (most convincing part: prospective and current employees, recruitment is a key factor), international pressure, stakeholder pressure, competitive advantage (especially retailers).' Institution*

- *'Pressure from employees, from investors, nearness (water scarcity in Australia is very important, therefore companies have to deal with that), reputational risk (companies want to be perceived as in the vanguard), great desire to move on in this agenda, opportunity.' Institution*

However, there was also some scepticism about motives:

- *'Some companies report on sustainability just for the philanthropic purpose of showing that they care about community, labour, etc.' Auditor*

- *'It shouldn't be a marketing tool.' Company*

Benchmarking is also a common practice to establish what to disclose:

- *'We look at other companies' reports to see what other people are doing.' Company*

However, those for whom the reports were prepared did not always speak with a consistent voice so it was ultimately still the responsibility of the company to decide what information to disclose:

- *'Shareholders believe that we should have a sustainability report but they all have different views of what we should report, therefore we look at what general trends are of interest and then report on them.' Company*

5.2 Results

The interviews revealed a range of different views but some clear areas of broad consensus could be observed. Since those interviewed had deliberately been identified and approached as likely to be amongst the leaders in this area, their views cannot necessarily be taken as representing general practice. However, they provide a perspective of informed opinion on how sustainability reporting is likely to develop in future. For the same reason, the sample also inevitably reflects a predominance of large companies.

Without exception all interviewees were well aware of the current debate on whether or not a mandatory element should be introduced. The following sections summarise the responses on a number of aspects relating to the content of disclosures and the process by which this is generated in the current context, concluding with a summary of opinions on the mandatory issue.

5.2.1 Aspects of Sustainability

As noted in the Introduction, multiple and varying definitions of sustainability are possible. This might suggest that there would be a wide diversity of views on which aspects of performance should be reported. There was in fact a broad consensus on the main aspects, perhaps partly because these were the aspects considered most likely to be required by mandatory disclosure. However, this did not necessarily indicate an equivalent consensus on the most appropriate specific indicators which should be used to measure these aspects:

- *'The core environmental topics are: carbon and energy used, water and waste. Hopefully they will be the next mandatory disclosures.' Institution*

- *'The UK regulations on sustainability are probably going to change and become stronger as well in the next 2 years. After the carbon disclosure that might become mandatory, GHG emissions, water, employees' diversity, health and safety are possible mandatory disclosures.' Auditor*

- *'Topical issues at the moment which should become mandatory disclosure should be: carbon, water (arguably water is a bigger issue than carbon) and biodiversity (valuation of ecosystems). You can link all of these to financial implications of the business.' Auditor*

- *'I do believe that carbon emissions and energy consumption will become a more commonly reported metric.' Company*

- *'Water is the next major trend, lots of organisations are looking at water footprint. 90% of British CEOs see water as being the biggest sustainability challenge.' Company*

- *'Arguably water is a bigger issue than carbon.' Audit*

As well as the intrinsic importance of the aspect, some respondents also took a pragmatic view of how feasible it was to define meaningful indicators which could be measured reliably:

- *'One big issue is water. But there is a gap between the priorities and making something reportable.' Company*

- *'On the environmental side I can see waste to landfill becoming a more widely applied metric. Although important, water is problematic and will never be a commonly reported metric.' Company*

There were relatively few unprompted mentions of the social 'leg' of the Triple Bottom Line. When referred to, the main aspects mentioned were traditional employment responsibilities such as health and safety, and to a lesser extent more modern issues such as diversity where there can be both financial risks and potential negative reputational impacts for an employer:

- *'The next mandatory disclosures beside environmental ones might be employees' diversity and health and safety.' Auditor*

- *'The main topics on sustainability in our annual report are environment and health.' Company*

A less traditional area which was widely recognised as becoming increasingly important was the need to take into account impacts upstream and downstream along a company's supply chain, as well as those incurred within its own boundaries:

- *'The trend is at looking upstream/downstream.' Company*

- *'Organisations want to have the information for internal purposes in the value [supply] chain. There is also an interest in procurement.' Institution*

Companies in the retail sector considered that one particular aspect of this, product labelling, was particularly important if customers were to demand information on the full extent of a company's carbon 'footprint', as this would require an analysis of every link in their supply chain:

- *'Product labelling, for retailers, is the current issue of the moment but it has to be linked back to supply chain, raw materials etc.' Company (retailer)*

- *'Our suppliers are UK farmers, mostly cooperatives. Our clients are informed on the packaging about the origin of the products.' Company (retailer)*

The motivation here might also be potential cost savings as well as the retailer's concern for their brand and image:

- *'Supply chain is becoming very interesting because of the boundary-less vision it requires. Some companies, e.g. Wal-Mart, are reporting beyond their legally defined boundary, providing information from upstream and downstream along the supply chain. Wal-Mart has just announced they want to work with their main suppliers to reduce emissions from the supply chain by 20 million tonnes of CO_2. They are not doing this because they've suddenly become a green eco-warrior of a company, but by taking out a given amount of CO_2, the energy used will decrease, hence the goods they'll sell will be cheaper. It can see the business benefits around this issue. Historically sustainability reporting was about showing that you're a good citizen/company, nowadays some companies begin to recognise the financial implications, hence are thinking about reporting in an integrated way.' Auditor*

However, the practical difficulties of actually doing this were also recognised; for example, when measuring and reporting carbon emissions, Scopes 1 and 2 (within the company's own boundaries) were far more straightforward than Scope 3 (outside those boundaries, along the supply chain):

- *'Scopes 1 and 2 might become mandatory, scope 3 will remain voluntary.' Institution*

- *'If something will be mandatory, it has to be clear (more concrete) in terms of what and how to disclose. Scope 3 is too demanding to be mandatory, it would scare the companies.' Institution*

- *'Carbon disclosure is extremely complicated to measure and it creates enormous challenges in terms of boundaries. It needs to be clearly defined in terms of geography.' Company*

This is a particular example of a problem that was recognised in setting the organisational boundaries generally within which to report:

- *'The biggest issue with many companies is the indirect impact.' Company*

- *'There is a difficulty in setting organisational boundaries.' Institution*

- *'What if we have different boundaries?' Company*

5.2.2 Diversity and Confusion

The effect of the absence of any mandatory regulation or clear consensus on what sustainability represents, combined with the differing priorities of different stakeholder groups, has resulted in an understandable confusion amongst companies on how they should report and some scepticism about the value of the results. In particular, some irritation was shown by the inconsistent and overlapping demands for information that were made by the several questionnaires that many companies received every year.

- *'Each company is required to complete a lot of different questionnaires during the year (mostly in June): the Dow Jones Sustainability Index, the investment agencies, the business communities … there are lots of questions (around 100 pages to complete) and a lot of different wordings.' Auditor*

- *'There are too many overlapping forms and questionnaires from different frameworks e.g. GRI, UN. The companies would prefer to have one unique questionnaire to fulfil. This is a waste of time and costs.' Institution*

- *'The information required in the questionnaire is too detailed.' Auditor*

- *'The questionnaires have a limited use and we need a more specific level in our sector.' Company*

- *'Another issue is that the timing doesn't fit. Most of the questionnaires are required in June whereas the Annual Reports are prepared in January–March.' Auditor*

A further source of confusion is the excessive choice of indicators available to measure some aspects.

- *'How to calculate properly the GHG emissions, etc. – it is not clear.' Company*

- *'It is difficult or unclear how to quantify it and each company has to develop its own process, especially when it comes to converting it into economic terms and numbers.' Company*

- *'Sustainability creates tensions: senior managers are worried about sustainability KPIs as they are more complex than the traditional financial KPIs. There is a lack of easiness in using these KPIs.' Auditor*

The effect is to diminish the perceived value of the information that is eventually disclosed.

- *'The information on sustainability in the annual reports is hardly ever strategic and integrated with the rest of the report. It doesn't show how it drives the value for the business.' Company*

- *'There is a KPMG survey that shows that, in 2008, there were 80% of companies doing stand-alone reporting. But a lot of companies still put a lot of irrelevant information because they don't have the information that is required.' Institution*

5.2.3 Codes of Guidance

In the absence of any mandatory requirements, a number of voluntary codes of practice and lists of suggested indicators have been developed to provide guidance to companies wishing to make voluntary disclosures. Of these, the Sustainability Reporting Guidelines published by the GRI (see Section 4.4) are the best known and were almost universally referred to.

However, it was notable that most companies did not attempt to follow the Guidelines comprehensively or unquestioningly. Instead most companies referred to them, as well as to several other such codes, to inform how they developed their own reporting practice in a way that reflected what they considered to be the main issues relevant to their business and their own reporting priorities, and to confirm that what they had decided to do was in line with current generally recognised good practice:

- *'There is a little bit of confusion due to the plethora of guidance, but all in all the frameworks and guidance converge on the GRI. So we stick to the GRI which simplifies the work.' Company*

- *'We use our internal system to measure/collect data, which is informed by the GRI.' Company*

- *'We use an internal framework with KPIs that we built from the GRI (and the UN Global Compact) and our own business model since 2002. We have a standardised system with different levels of details that we adapt in each country.' Company*

- *'Our internal system to gather the data has evolved over time by taking into account the GRI and DEFRA guidelines and by taking into consideration the business's capacity and strategy too. As we gain confidence, we set our own KPIs and targets and use general frameworks for guidance.' Company*

However, in some quarters opinions on the GRI's Guidelines were at best lukewarm:

- *'The GRI is good guidance for big companies but might be too broad for SMEs.' Company*

- *'We have an internal process and we don't follow guidance such as GRI, DEFRA although we pay attention to make sure that our own process coincides with the international guidance.' Company*

There were also complaints that the wide range of different guidelines available in itself presented a problem:

- *'There are different guidelines. The companies might be confused.' Company*

- *'There are 80–90 different international guidelines with different definitions of methodology, KPIs, etc.' Institution*

- *'The guidelines are confusing and overlapping, that's why we use our own guidelines. It would be impossible for any company to follow any single general standardised guidance.' Company*

- *'There is too much guidance, although there is now more and more expertise which might explain why there are so many guidelines.' Company*

Some respondents had advice for those who publish codes and guidelines, and for potential legislators:

- *'The GRI requires companies to complete a questionnaire with, for instance, the number of hours of training: but they don't ask anything about the type of training, which is not relevant because depending on the type of training in the type of business, the impact is totally different. So the guidelines are not relevant as they are not specific enough.' Company*

- *'Recommendation: make the guidelines more relevant for businesses. They are too generic and not specific to the sectors. They have to make the measures relevant.' Company*

- *'There is a wish that there will be, in the short term, one unique governmental guidance for all UK industry and, in the long term, one unique international guidance backed by an accountancy body.' Institution*

5.2.4 Linking to Financial Impacts

There have been regular calls for the effects of companies' sustainability performance to be related to their financial performance, and a number of experiments designed to achieve this in different ways (Austin and Sauer, 2002; Austin et al., 2003; Baxter et al., 2004; Howes, 2004; Repetto and Austin, 2000). None of those with whom we spoke suggested that this was anything but highly desirable:

- *'There is a huge gap between how much is reported on sustainability and the disclosure of its impact on the financials.' Institution*

- *'The legislation should be much clearer so that companies understand the linkage between non-financial KPIs and financial indicators.' Institution*

However, opinions differed widely on how straightforward this might be to achieve or indeed whether it was possible at all.

- *'There is a problem of level of confidence in measuring the financial impacts as the figures might be not appropriate … that's why we usually don't measure any financial impact.' Company*

- *'There are a lot of ways to translate the environmental factors into financial terms, because it involves not only our activity but also the manufacturers and other businesses and external organisations.' Company*

- *'Provided that companies have good measurement and accounting systems, it's not difficult to link the non-financial data to financial indicators.' Company*

- *'Companies which have perceived the commercial links related to sustainability disclosure are happy to do detailed reporting because they know carbon efficiency equals operational efficiency. For companies where the link is less obvious, the value of integrated and consistent sustainability reporting is less obvious.' Institution*

5.2.5 Internal Data Collection Systems

Effective external reporting requires support from adequate systems within a company to capture and process data and convert it into value-adding information. However, some of our interviewees suggested that the systems followed by some companies at present to generate sustainability information may reflect the immaturity of this area and the confusion over purpose and content that was noted above:

- *'Measuring and collecting the data is very challenging; the bigger a company is, the more difficult it becomes to do this.' Company*

- *'We don't have computer software yet to collect and manage the data, but we might have this in the future.' Company*

- *'Obstacles for companies usually are: lack of education, systems not in place, confusion inside and outside the company, collecting information, how to set KPIs, consistency, methodology.' Auditor*

One indication of this is the limited software which has so far been developed to support sustainability-related performance measurement. A recent survey (AMR Research, 2010) found that, in contrast to most modern accounting systems, sustainability-related data collection is still done mostly manually, with a heavy dependence on unsophisticated tools such as Excel and other spreadsheets (see Figure 3).

Perhaps because of the absence or inadequacy of formal measurement systems, compromises have to be made on quality:

- *'Companies calculate an average at the beginning and at the end of the year. They estimate figures and don't collect the real information.' Company*

Some interviewees suggested that the first step was to establish an appropriate organisational structure with clearly defined responsibilities:

- *'The CSR Steering group is chaired by the CEO and manages the Cross Functional Directions which are chaired by 5 executive board members. These Cross Functional Directions manage the Sustainable Working Groups (Packaging, Climate Change, Waste Management, Recycling).' Company*

- *'In order to collect the information, we have an internal contact within each business unit (maybe two per business unit). Thus our data collection is well managed.' Company*

More collaboration within companies between their sustainability functions and their accounting functions was also prescribed:

- *'The sustainable team and the financial department have to learn to work together with their respective expertise. This is difficult.' Auditor*

5.2.6 Sector-Specific Variations

An issue which is implicit in any code of guidance and which would need to be resolved in introducing any mandatory requirement is the appropriate balance between, on the one hand, uniformity, with all companies meeting much the same standards of disclosure, and on the other hand allowing variations, either at the discretion of an individual company or to reflect differences between sectors.

Financial reporting is of course designed to achieve a high level of uniformity. Although different companies may follow very different strategies, there is a common requirement to report the same final results for all, to the same standard of a true and fair view subject to the test of materiality, which of course can differ between sectors and companies.

The results of a wide-ranging survey published by Spada Limited (2008) are summarised in Figure 4 and indicate that in sustainability reporting there are distinct differences between sectors. The consensus amongst most interviewees was that this is not only to be expected (which is unsurprising so long as reporting is entirely voluntary) but also desirable, and that any mandatory requirements should allow for this:

- *'It is impossible to have the same framework for everyone, the differences are too big.' Institution*

- '*We have 3 main areas of disclosure: access to medicine, R&D practices, ethical business practice.' Company (pharmaceutical)*

- *'The oil and gas industry has specific guidance as they use a lot of natural resources and because their activity has a big impact on the environment. They usually use the IPIECA guidance (the global oil and gas industry association for environmental and social issues) and the GRI.' Institution*

- *'For example BT started to collect data in the early nineties because of the high impact of their activity on the environment (despite being a service industry).' Institution*

- *'Companies have different emphases according to their interests and priorities. For instance, Shell and BP have clearly some quite similar raw material issues.' Institution*

- *'The trends also depend on the sectors. Services: soft sustainability; retail: supply chain; banks: risk reputation (even in private equity firms they take care of ethics and sustainability in their portfolios).' Institution*

- *'In food retailing, health/nutrition is a key issue reported on by many. Some also report on 'products and services' including issues such as affordability. I'd add health/nutrition for food; employees' training and diversity/equality; and also sustainability issues associated with key raw materials such as wood, fish, cotton, palm oil, etc.' Company*

- *'For a bank which is not a big polluter, carbon, water and waste are not material issues.' Company*

- *'For some companies in the services sector, reporting on carbon can lead to disclosing a very small figure which is immaterial for their business.' Company*

The dilemma was summarised by one institution:

- *'Sometimes, different companies from the same field might also have different issues. On the other hand, investors would like to see some comparable information in the different reports from the different companies.' Institution*

5.2.7 Mandatory Disclosure

All interviewees were well aware of the current debate on whether or not some mandatory requirement for disclosure of sustainability-related information by companies should be introduced into UK legislation, for at least some aspects such as carbon.

- *'In the UK, there is climate change legislation in Parliament that has to be re-approved in 2012 about the mandatory disclosure to report GHG … Parliament will probably decide to make it mandatory by 2012 (through the Climate Change Act).' Institution*

- *'Carbon reporting may become mandatory in April 2012; talks are currently taking place to decide whether it will become mandatory or whether it will stay voluntary.' Auditor*

- *'Environmental data is the most likely area to become subject to mandatory disclosure in the future. Australia and France have made GHG emissions reporting mandatory and the UK will have to align itself to the international situation too.' Institution*

However, there was frequently a degree of scepticism, and in some cases downright hostility, towards the idea of mandatory disclosure. One reason cited was that mandatory disclosures might constrain a company's ability to exercise its discretion in selecting for disclosure the information which it considered was most relevant for its particular situation, strategy and sector.

- *'Mandatory disclosure within the Annual Reports would only be a burden for the company and would add to what is already a thick report.' Company*

- *'Companies should disclose only what they want and what is important for their business strategies and the sector they operate in.' Company*

- *'Companies choose their areas and categories according to the importance of the impact on their business (positive or negative impact).' Company*

- *'According to the stakeholders' feedback, the board should take the time to define strategically what information it is relevant for the company to publish, and then use the GRI as a tool in order to calculate the KPIs and turn them into financial data.' Auditor*

- *'Companies should keep a degree of freedom when they report on sustainability, but mandatory disclosures would force everyone in the long run to disclose coherently.' Institution*

- *'I like the idea of having a few mandatory disclosures in order to make the reports more coherent and comparable for shareholders.' Company*

To support this argument, Ioannou and Serafeim (2011) argued that mandatory disclosures on sustainability not only increase the social responsibility of business leaders but also improve corporate governance, since they promote a culture of long-term corporate management and long-term value creation versus short-term profits, and also make public and transparent some information on excessive executive pay or bribery. They both collected data on laws and regulations from 58 countries that mandate a minimum level of disclosure on social corporate sustainability (environmental, social and governance matters), and analysed data on social management practices from the IMD World Competitiveness Report, comparing these practices with the above mandatory requirement of each country in order to understand how mandatory sustainability reporting may affect collective firm action and people's behaviour across countries. To isolate the effects of mandatory disclosures from other factors which may also impact on social management practices, they controlled for other variables such as the level of economic development, the quality of living standards, and the quality of governmental decisions in each country.

They found that a high mandatory requirement on sustainability impacts positively on management practices and in particular leads to:

- an increase in the social responsibility of business leaders;
- a prioritisation of employees' training;
- an increase in corporate board supervision of management quality.

However, the results do not show a strong direct impact on environmentally sustainable development.

There is also an impact on ethical practices and a reduction in corruption. Further analysis shows that managerial credibility increases after the introduction of mandatory sustainability reporting; according to Knack and Keefer (1997), an increase in managerial credibility is an important element in creating a relationship of trust between business and society, which in turn is an important determinant of the competitiveness and economic development of nations. Finally, this study highlights that mandatory disclosures not only force the company to increase transparency but may also change corporate behaviour.

6 Conclusions and Discussion

There is clearly considerable interest in sustainability, particularly amongst larger companies with a high public profile and facing demands for accountability, and how best a company or other entity should manage the implications of this, including whether and what to disclose publicly. However, it is still far from being a mature area and there is little consensus on either what the main relevant aspects are or how best to measure and report on them.

At the time of writing whether or not the IIRC will have a significant impact, particularly internationally where the Global Reporting Initiative continues to be the main point of reference, remains to be seen. However. it is already clear that it will have to develop a clear vision of what should be expected of a company and how this is to be achieved in practice if it is to overcome a widespread caution and sometimes scepticism over such a major expansion in corporate reporting, particularly given the simultaneous pressures to simplify and reduce the length of reports.

The diversity of practice seems unlikely to change soon; there are several new developments and consultations still in progress at the time of finalising this text. As is to be expected in a fast-moving area, this report will inevitably become rapidly outdated as the situation continues to change. However, several underlying themes are apparent which are unlikely to be quickly resolved.

One consequence of the current diversity is the frustration that it causes among both preparers and users. Users report that they find it difficult if not impossible to make proper comparisons between different companies, even from the same sector. At the same time, those in the companies responsible for generating the reports might welcome more clarity over what is expected from them and some assurance that the results of their efforts are likely to be valued by the recipients.

The opposing arguments in favour of tolerating and even encouraging this diversity are twofold. Firstly, since which issues are relevant will vary between companies depending on the nature of their businesses, it is unlikely that a 'one-size-fits-all' standard approach will provide what is needed. Secondly, imposing uniformity might risk prematurely stifling creativity and innovation in the development of new indicators and ways of accounting in a still embryonic area.

The question of how best to balance consistency and flexibility is not unique to sustainability disclosures. Some pointers may be available from the established financial reporting process, which sensibly is usually used as the main point of reference here. Although across business as a whole annual financial reports reflect a range of very different sectors and business models, their main structure and content are largely common to all companies. So too, increasingly, are the definitions and methods of computation behind that content, given the international financial reporting standards process. It is of course still at each company's individual discretion to choose how much, if any, additional information it wishes to add to the common core. In any case, no professional investor would consider restricting their analysis only to the information that the financial reports provide, but instead would aim to supplement this with as much further data as is available that might help to improve their analysis and provide a competitive advantage in the investment marketplace. However, this would always be in the knowledge that this represents a supplement to a core of information which has been assured and is comparable across companies.

Applying this logic to sustainability reporting might suggest that although it is still desirable to allow space for individual variations and initiatives, from a societal perspective certain issues are generally recognised as significant, irrespective of the sector and the way in which the impacts have been generated. Currently the most topical issue is the threat of climate change arising from emissions of carbon dioxide and other greenhouse gases; to this, however, can be added concerns over water, wastes, bio-diversity and the depletion of non-renewable natural resources, and all the multiple implications of dealing with the consequences of a world whose human population is continuing not only to increase in number but also to expect (and to achieve) higher living standards, with the consequent effects on natural resources and the quality of the environment. (It was notable from the research that although terms like 'triple bottom line' are still widely used, the main focus after the economic imperative is increasingly on environmental performance, with relatively little concern being expressed for social issues.)

This of course still leaves open the judgement of where to draw the line between what (if anything) is to be mandatorily disclosed and what is not, and at what point in time any such requirements should be introduced. Both industry and the accountancy profession are understandably concerned to avoid an unreasonable additional reporting load, particularly if it is not clear that the resulting information will be both relevant and reliable without undue cost. However, it is also clear that there is some pressure at least to commence this process, starting with carbon emissions and maybe moving on in due course to other significant greenhouse gases. As well as being generally recognised as important, these are also susceptible to more reliable measurement, much of the data already being on hand within companies' accounting systems, than some other less tangible and less easily measurable aspects of sustainability.

A distinction might also be made here between indicators of outputs (results) as opposed to inputs (contributors or determinants). The quantity of carbon emissions generated by a company which are impacting the environment is an aspect which is clearly relevant to all companies. However, the actions which any particular company decides to take to address this and improve its future performance are up to its own management, and may be very different from those taken by other companies (and perhaps should be expected to be, if superior environmental performance is to become a significant determinant of competitive advantage). This might suggest that if a mandatory requirement is to be introduced, it should perhaps be restricted (initially at least) to indicators of outputs which are generally recognised as significant in their impact and which can be measured reasonably reliably. The definition of these indicators may be left to sector bodies representing the leading companies in each sector, or to more independent regulators such as government or the accountancy profession.

If some element of mandatory sustainability disclosure is introduced, this then opens up the secondary question of the most appropriate medium through which this should be done, and in particular whether or not it should be included in the same annual report as the financial statements. Opinion is sharply divided here between, for example, those proposing changes to the Treasury's FReM, which suggests that the recommended sustainability disclosures should be included in the annual report, and those such as the ASB and FRC who take the line that the function of annual reports is exclusively to inform financial investors rather than any other stakeholders, to whom reporting should be through other documents and channels.

There may be a strong argument in any case for reporting outside the constraints of the traditional annual hard-copy model, in particular to take advantage of the additional functionality and flexibility of the Internet, although of course this argument would apply just as much to conventional financial reporting as to sustainability disclosures. However, if there is to be more than a single main medium for corporate reporting, then the further question arises of how best to co-ordinate (even if not integrate) these media so that a coherent picture is presented of the company's performance as a whole, and so that no one part of the whole predominates.

If the latter solution is adopted, and the financial report is still seen as exclusively for the benefit of traditional financial investors whilst others are served through other media, then the more fundamental and intractable question has to be addressed of exactly who should be considered a legitimate stakeholder to whom a company owes a duty of responsibility and accountability, before attempting to identify their information requirements and how best to meet them.

Acronyms and Abbreviations Used in the Text

ASB: Accounting Standards Board

A4S: Accounting for Sustainability

CDSB: Climate Disclosure Standards Board

CR: corporate responsibility

CRC: Carbon Reduction Commitment Energy Efficiency Scheme

CRF: Connected Reporting Framework

CSR: corporate social responsibility

DEFRA: Department for Environment, Food and Rural Affairs

FEE: Fédération des Experts Comptables Européens

FRC: Financial Reporting Council

FReM: Financial Reporting Manual

FTSE 100: the 100 most highly capitalised UK companies listed on the London Stock Exchange

GHG: greenhouse gas

GRI: Global Reporting Initiative

IIRC: International Integrated Reporting Committee

KPI: key performance indicator

NGO: non-governmental organisations

OFR: Operating and Financial Review

RS1: ASB statement of best practice on Business Reviews

SME: small and medium enterprises

UN: United Nations

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Figure 1 The Connected Reporting Framework

KEY INDICATORS	DIRECT COMPANY IMPACTS								INDIRECT IMPACT	Industry
	Financial performance			Non-financial indicators					Customer/Supplier indicato	
Climate Waste and resource indicators	2004 £m	2005 £m	2006 £m					Targets and narrative		Benchmark Information
Emissions										
▪ CO_2 equivalent emissions										
- Sustainability expenditure										
- Offset expenditure										
- Carbon equivalent liability										
▪ Other significant emissions										
- Sustainability expenditure										
Waste										
- Sustainability expenditure										
▪ Hazardous waste										
- Total disposal cost										
▪ Non hazardous waste										
- Total disposal cost										
Finite resource usage										
▪ Water										
- Operating expenditure										
- Sustainability expenditure										
▪ Energy consumption										
- Operating expenditure										
- Sustainability expenditure										
▪ Other finite materials										
- Sustainability expenditure										
Environmental incidents					2004	2005	2006			
- Fines				Number				Zero incidents		

Figure 2 United Nations Global Compact CEO Survey 2010

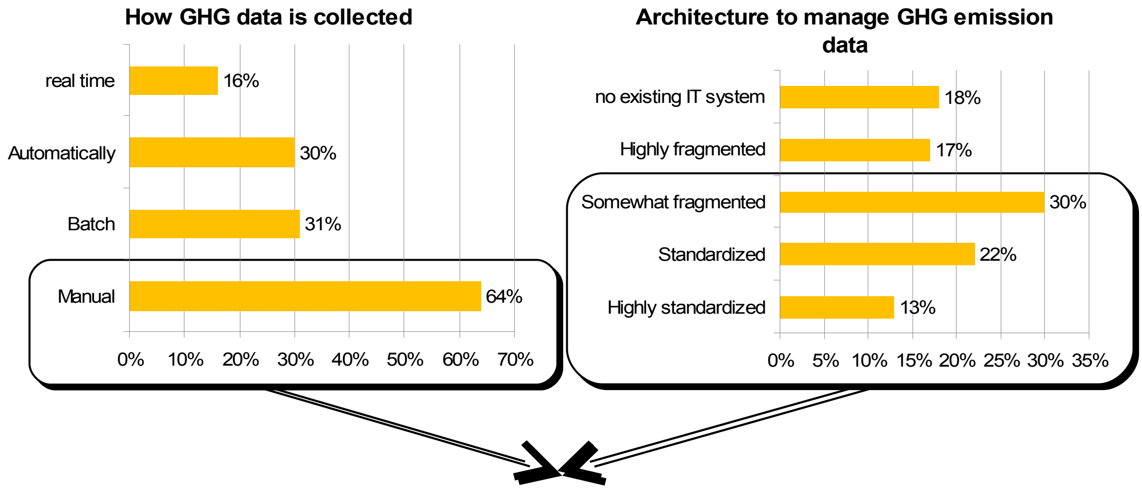
93% of the CEOs interviewed see sustainability as crucial to their future success

Of these, 72% said that strengthening their brand, trust and reputation with consumers was the primary driver and 44% said it was the potential revenue growth/cost reduction

86% said 'accurate valuation by investors of sustainability in long-term investments' is a necessary first step to reaching a tipping point in sustainability

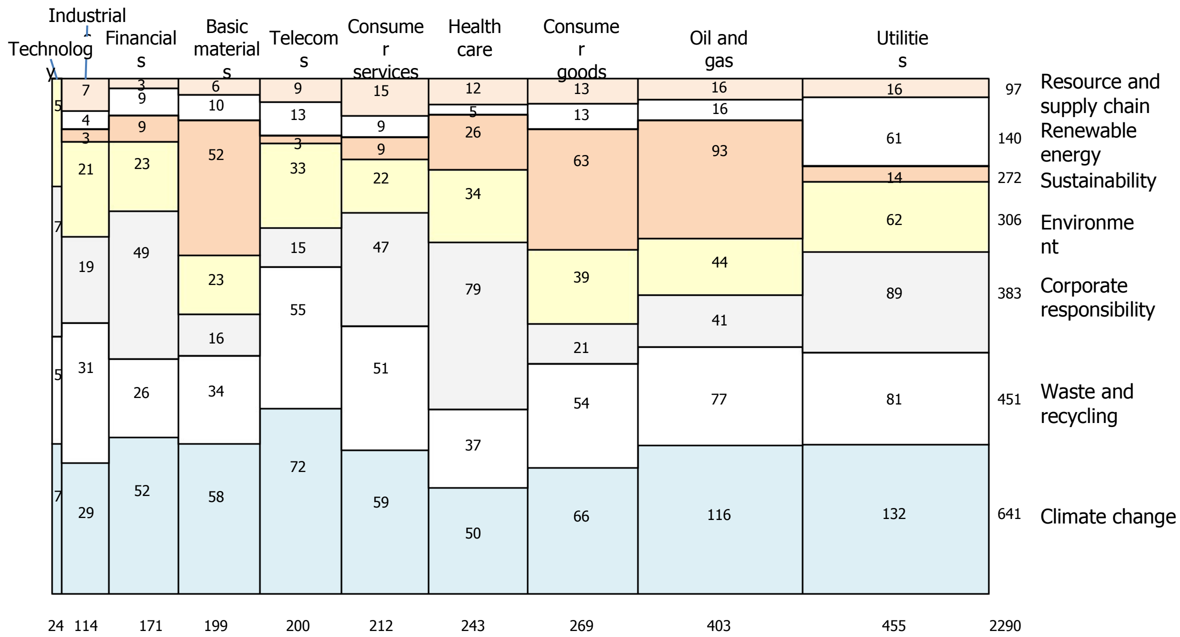
Source: United Nations Global Compact and Accenture (766 CEO interviewed) – Environmental Leader, June 2010

Figure 3 AMR Research on Sustainability Reporting and Greenhouse Gas Management



Source: AMR Research, 2010 – 189 total respondents

Figure 4 Number of Terms Used in Sustainability Reports (FTSE 100) Related to Sustainability Themes



Source: Environmental Reporting, Trend in FTSE 100 Sustainability reports, 2008. Spada Limited

Appendix 1 Extract of Aviva's CRF Presented in the Annual Report

Waste

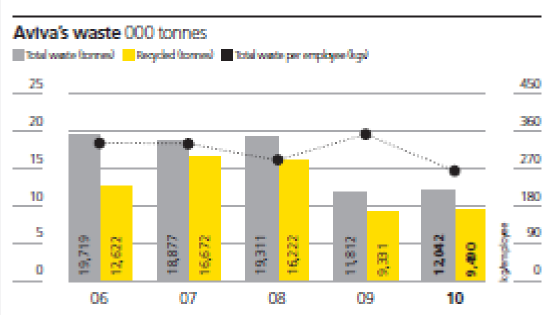
Direct company impacts

Hazardous and non-hazardous waste

Total disposal cost for hazardous and non-hazardous waste in the UK was £596,000 (*2009: £748,000*), which includes UK landfill tax.

Conservation investment

Total capital expenditure for storage and recycling in the UK was zero (*2009: £zero*).



Performance, strategy and targets

2010 saw a slight increase in our overall operational waste of 2%. Aviva US has implemented a state of the art recycling process along with a solar powered waste compactor for the general waste which they are currently unable to recycle. The UK business continues with its plans to reach its zero-to-landfill target by 2015 with an increase in its recycling rate to 88.9% as a proportion of total operational waste. We have worked with our IT supplier to remove the polystyrene packaging in which the equipment is delivered, increasing our IT waste recycling rate to 98%.

Aviva's Group head office was awarded the prestigious Chairman's Cup in the City of London's Clean City Awards in January 2011. This is the first time that any company has won the cup twice. It signifies our achievements in waste reduction over the past year and recognises our commitment and leadership in waste management.

Indirect impacts

Products/suppliers/investors

In an effort to reduce the amount of waste generated through our claims fulfilment processes, we have sought to apply the 'repair over replace' principle to domestic property claims following water damage. Previously this consisted of 'stripping out' render and plaster on walls and ceilings. We target minimisation of strip out of the property affected by water damage through the introduction of a Repair Order to Aid Drying (ROTAD) whereby the suppliers are required to complete a documented request on a property prior to drying. This monitoring process has significantly reduced the instance of strip outs.

Industry benchmark information

- 200kg of waste per employee per year; and
- recycling rate of 60–70% (BRE Office toolkit).

Targets

- annual 4% reduction in total waste;
- annual recycling rate greater than 80%; and
- long-term target – zero to landfill for UK operations by 2015 and worldwide by 2020.

Aviva see CRF as a significant aid to change the perception of sustainability within their organisation, and as leading to a better understanding of both financial and non-financial costs as the framework helped to identify areas where financial cost reduction could be achieved as well as providing year on year comparability of costs going forward (Accounting for Sustainability, 2009).

Appendix 2 List of Organisations Interviewed

Companies	Position
Consumer services	CSR Manager
	Corporate Responsibility Manager
	CSR Director
	Director Corporate Responsibility France
	Manager Sustainability
	Group Corporate Responsibility Manager
	Corporate Affairs Director
Financials	Deputy Head of Group Corporate Sustainability and Adviser on the Environment
Health care	VP Corporate Responsibility
Housing property	Sustainability Director
Consumer packaging	Director Corporate Responsibility
PR consulting	CR Manager
Art business	CFO
Educational IT	Director of Corporate Affairs
Chemical industry	Responsible of Sustainability

Organisations	Position
Audits	Partner Sustainability and Climate Change
	Senior Manager
Institutions	Project Director Project Manager
	Accountancy Profession at FEE and Associate Professor
	Secretary to the Climate Disclosure Standards Board
	Director Governance
	Environmental Finance Manager

Consultative Committee of Accountancy Bodies

ICAEW | ACCA | CIPFA | ICAS |
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