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The Sustainability Reporter:

A deep dive into the challenges and benefits of new corporate reporting processes

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The Sustainability Reporter:

Part 1: **Setting the reporting agenda**

Part 2: **Reporting challenges and tools for information flow**

Part 3: **Benefits of business sustainability reporting**

Part 1 Setting the reporting agenda

Corporate reporting is modernizing globally.

Investors and other stakeholders are demanding new categories of information that address how a company operates in a resource-constrained world. The process of producing and disclosing these new categories is referred to as "sustainability reporting" or by other terminology, such as "ESG reporting" (for environmental, social and governance) or "non-financial reporting," which distinguishes the information based on its placement outside of the traditional financial statements prepared under U.S. GAAP or IFRS. Sustainability reporting typically includes qualitative information and metrics (including indicators) on items such as water use, energy use, carbon emissions, waste, talent and diversity, health and safety incidents and supply chain performance. In recent years, there has also been an attempt to find ways to converge sustainability reporting and traditional financial reporting, a combined approach commonly referred to as "integrated reporting." At the same time, all types of corporate disclosure are moving from the delivery of a document to the delivery of data.

The burdens of producing these new types of corporate disclosure are falling on business professionals outside of the traditional CFO unit. These professionals may be described as "sustainability reporting professionals" (SRPs), and their responsibilities are growing. More investors and stakeholders, including customers and non-governmental organizations (NGOs), are demanding information about a variety of indicators. At the same time, general reporting guidelines are moving toward standardization and regulation.

Thomson Reuters and BSD Consulting reached out to a select group of SRPs from leading companies worldwide. These interviewees have hands-on management of their respective organization's sustainability reporting activities. We wanted to hear their stories and get a better understanding of how they are going about meeting emerging and evolving demands for information. In this respect, this investigation differs from many published pieces on sustainability reporting, which emphasize the interests and demands of external stakeholders. We specifically aimed to investigate the internal dynamics, including the challenges and value that these SRPs are realizing today from the reporting process. Our goal is to shed light and understanding on the practicalities of sustainability reporting and how, in the view of these SRPs, the process can improve so that organizations can realize the value of these new information flows.

KPMG Global Survey of Corporate Responsibility Reporting approximates

produce sustainability or corporate responsibility reports.

Who is taking the lead in sustainability reporting?

Today most large organizations prepare and issue, at minimum, a sustainability report on an annual basis. The KPMG Global Survey of Corporate Responsibility Reporting (2015)[1] approximated that three quarters (73 percent) of the top 100 companies in major economies worldwide and 92 percent of the world's 250 largest companies (G250) produce sustainability or corporate responsibility reports. Sustainability reporting has progressively gone mainstream among large companies since the 2000s.

We found that among companies, SRPs with the primary responsibility for gathering information and issuing a sustainability report sit in a diverse range of departments, including corporate responsibility, innovation and strategy, public affairs, marketing and communications. None of the SRPs with whom we spoke sit in a traditional financial reporting unit.

Members of sustainability reporting teams also have diverse educational backgrounds. Although backgrounds in sustainability, corporate responsibility and environmental studies appear to predominate, the largest portion of the SRPs with whom we spoke generally reported their background as "other," representing a diverse list that includes business studies, public health, economics and law.

1 https://assets.kpmg.com/content/dam/kpmg/pdf/2016/02/kpmg-international-survey-of-corporate-responsibility-reporting-2015.pdf

In addition, among the companies we interviewed, there is currently a broad range in the size of the internal teams (from 2 to 50+) that lead the reporting process. Companies with more extensive informational processes reported that they have direct support from senior management. Among our group of interviewees, several sustainability team leaders report directly to senior executives, including functions such as the Director for Group Strategy, Vice President or CEO.

Generally, after initial implementation, internal sustainability information processes evolve and reporting teams seek input from a wide range of departments. Driven largely by the reporting agenda, an SRP may reach internally to multiple specialized units: corporate affairs; human resources (HR); procurement; energy; environment, health and safety; research and development; risk management; legal and compliance; investor relations; tax and internal audit. As one interviewee said, "We seek to push responsibility for data to the departments actually doing the work … for example, employee and labor issues should be led by the HR department." To collect data for specific issues, such as the measurement of an entity's carbon footprint, SRP teams may work with a number of outside consultants, including Big 4 accounting firms and specialty firms.

In the final stages of the reporting process, an internal or external communications team creates narratives. Paralleling the financial reporting process, the CFO unit, legal department and c-suite management become active towards the end of the reporting process to sign-off before issuance. Signaling an interest in integration and the mainstreaming of business sustainability, some SRPs are connecting to a greater degree with their respective organization's traditional financial accounting and risk management teams. Active engagement with these traditional financial departments throughout the year, however, is still less common even among the most mature reporters.

Almost all SRPs with whom we spoke emphasized a strong desire to use the data that they uncover during the sustainability reporting process to inform management and influence organizational strategic initiatives. For most of our interviewees, however, working on the annual report can consume one-third to over 90 percent of their time, which leaves inadequate opportunity to follow up properly with senior decision-makers.

What drives the reporting agenda?

Preparing an annual sustainability report begins by identifying the most critical matters for which to provide information. That is, the SRP engages in a process of determining materiality: the content that is most relevant both from an internal and external perspective. Typically, this prioritization process kicks off with a broad list of issues that may potentially be material, and the SRP must weigh their relative importance by confirming the initial understanding with multiple internal and external constituents. This raises the key question: what drives the reporting agenda?

We asked SRPs to identify the most influential factors that they weigh to develop the initial list of topics for which they consider delivering information. Our interviews with these SRPs highlight a mix of proactive and reactive factors that influence reporting content.

An important external driver in setting a company's annual reporting agenda is the expected demand for information by sustainability ratings questionnaires.

First, many leading reporters are proactively addressing the specific issues that are important to their particular organization based on its history, values, industry and operations. Interviewees referred specifically to a commitment to citizenship, social progress, science and volunteering. They also told us that they observe a distinct competitive advantage from a reputation for transparency and responsiveness to stakeholder concerns. The company's long-term, strategic goals and how it wants to express this vision to its workforce and the marketplace are particularly influential to driving the agenda. For example, BT Group reports that it pursues a long-term set of ambitions called Real Force 2020, which includes a number of sustainability goals to be achieved by 2020.

SRPs are also responding reactively to outside influences in setting the reporting agenda. They are prioritizing sustainability matters based on the expressed demands of various stakeholder groups and in response to actions by industry peers. In certain industries, the agenda aims to satisfy customer and NGO demands for information about supply chain sourcing. In other industries, the reporting company must also consider how its product is used or disposed of by its customers.

> Ratings agencies are good for spotting trends.
> — *Neil Smith, Aegon*

An important external driver in setting a company's annual reporting agenda is the expected demand for information by sustainability ratings questionnaires. Anticipating the data that raters such as the DJSI and FTSE4Good will be seeking can help the SRP identify the necessary metrics to include in an annual report. Neil Smith, Senior Associate in Sustainability with Aegon confirmed, "Ratings agencies are good for spotting trends — for example, the responsible tax issues raised in the annual DJSI questionnaire." The resulting driver for annual report content, therefore, is to minimize the anticipated pain of responding to ad hoc, individualized requests. Nevertheless, reporters describe significant "survey fatigue" from receiving an overwhelming volume of questionnaires from different rating entities and NGOs that demand individualized metrics.

Multiple SRPs that we interviewed have noted a rise in interest the last two years from traditional financial investors. More participants in the conventional financial services community have begun to ask questions related to long-term business sustainability issues. Their inquiries are revealing a slow but steadily growing perception that business sustainability metrics can reflect on the quality of corporate governance. SRPs are also observing a shift from traditional negative screening to a greater focus on positive screening.[2] Direct engagement with institutional investors on emerging sustainability themes is highly valuable for setting the reporting agenda. The interaction with institutional investors, moreover, often brings new insights to a company's investor relations department because it reveals trends as the mainstream investment community begins to shift.

Generally, most of the SRPs with whom we spoke have not seen regulation as a significant driver in influencing the content of the sustainability report. Multiple SRPs explained that regulations tend to mandate only the most basic information and their organizations voluntarily disclose more. Describing regulation as "two steps behind," Michel Washer, Deputy Chief Sustainability Officer at Solvay, observed that companies want to demonstrate their leadership by reporting on new topics before regulations require any specific disclosure because these disclosures are requested by other stakeholders. There is, in fact, evidence of the reverse: leading companies and stakeholder groups are driving the regulatory agenda. That is, a reporting company that develops significant experience in the measurement and disclosure of certain business sustainability metrics can influence regulators' decision-making. Overall, SRPs look to new regulation, such as the Directive 2014/95/EU and securities exchange mandates, as indicative of the global trends toward the implementation of reporting processes that produce more reliable information.

Reporting companies consistently describe the importance of benchmarking against peers as part of the process of defining the top issues. A number of these reporters hire consultants to analyze and compare sustainability performance against comparable entities. Others compare performance to external benchmarks published by financial institutions or NGOs. In addition, some industries, such as hospitality and cement construction, have established collective initiatives with voluntary targets, which are driving the reporting agenda. The standards motivate peers within an industry group to address an agreed-upon list of priority themes.

> Regulation tends to be two steps behind.
> — *Michel Washer, Solvay*

Many SRPs referred to reporting standards as a key tool for shaping reporting content. They describe these frameworks and standards, such as the G4 guidelines of the Global Reporting Initiative (GRI),[3] as a primary means of directing the reporting agenda. These guidelines are described as particularly helpful for setting the agenda when an entity initiates sustainability reporting. Companies with a more established history of reporting use these standards to refine their work on previously established issues. SRPs generally noted that they find the relatively new framework of the Sustainability Accounting Standards Board (SASB) for material issues as a useful guidepost on the most important indicators for reporting, even if they are not reporting on publicly-held entities in the U.S.[4] Describing the International Integrated Reporting Council (IIRC) as a driver, some cited the goal of issuing an integrated report and moving their sustainability reporting closer to financial reporting.

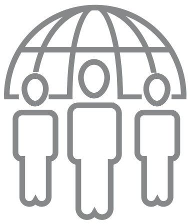
At a more detailed level, scope and boundaries are an important part of setting the reporting agenda, because they determine the extent to which the reporter will need to gather detailed data from outside sources. The scope and boundaries for sustainability reporting often differ from financial reporting. In sustainability reporting, the issuing entity must consider whether to include both suppliers and customers or an even extended value chain to measure the effects of its operations, products and services. For some organizations, such as those in processing and manufacturing, having this data available to pass along to customers affects their ability to compete in the global markets and therefore drives the reporting agenda.

2. Negative screening refers to an investor's decision to exclude an investment from consideration based on observed actions that do not align with the investor's values. For example, the investor may avoid companies that produce tobacco products or weaponry. Positive screening means that the investor seeks investments in companies that undertake socially-responsible activities and initiatives, such as renewable energy and zero-waste.

3. In 2016, GRI spun-off its standard-setting function into a new independent entity, the Global Sustainability Standards Board.

4. The SASB reporting framework addresses the disclosure of qualitative information and metrics in Securities & Exchange Commission (SEC) annual reports on Forms 10-K or 20-F. Technically, therefore, SASB guidelines only apply to publicly-held entities that file with the U.S. SEC.

For consistency, some companies establish precisely the same reporting entity (sometimes referred to as "organizational boundary") for their financial reports and sustainability reports.[5] Sustainability reporting frameworks, however, often point toward using a larger boundary than under the traditional legal concepts of ownership, control and influence. For example, the GRI guidelines require an entity to report on its material impacts wherever they occur in the value chain. Unlike financial accounting, moreover, a single reporting entity may use different boundaries for different sustainability metrics. As a result, reporters must capture business sustainability data regarding not only the direct impact of their operations and products but also the indirect impacts.



A decision to report on a specific matter or indicator often means accessing information from the far reaches of the globe. Therefore, the number of players in the value chain, largely dependent on the industry, is an important driver in setting the scope. One respondent noted, "Legal ownership realities don't necessarily match public perceptions." Customers and other stakeholders may perceive an organization's influence and reputation far more broadly than indicated by traditional financial reporting and legal boundaries. Other considerations in setting the scope include cultural and political factors, such as confidentiality or privacy requirements related to employee or consumer information.

Some SRPs cited their organization's participation in UN Global Compact (UNGC) as an important driver in determining their reporting content. Participating organizations in the UNGC seek to advance the Sustainable Development Goals (SDGs) and the UNGC encourages the participant to report on its contribution toward these goals by issuing an annual Communication on Progress (COP). Many SRPs anticipate that reporting related to this agenda will increasingly influence their organization's disclosure in the near future.[6]

In summary, drivers for sustainability reporting result partly from outside demands and partly from internal objectives. Outside influences, such as reputation, competition and long-term investor engagement result in the regular revisiting of disclosure content and processes. At the same time, the company's own initiatives, such as risk management, resource efficiency and innovation are driving the demand for better business sustainability data.

Sustainability Reporting Agenda — Drivers

- Corporate history, values, commitment to citizenship
- Transparency and responsiveness to stakeholder concerns
- Corporate strategy and expression of strategic goals to employees, market
- Questionnaires from rating agencies and product certification organizations
- Investors, particularly institutional investors with a long-term horizon
- Regulation, including securities market mandates
- Competition and benchmarking against peers
- Industry and business initiatives
- Reporting standards and frameworks, such as GRI, IIRC and SASB

5. Internationally accepted standards for the measurement of total greenhouse gas (GHG) emissions recognize financial reporting boundaries, but they also consider operational boundaries so that a reporting entity may include emissions that originate not only from its own operations (direct emissions) but also from its external suppliers of electricity and other goods (indirect emissions). In this case, the company's organizational boundary encompasses their entire supply chain and not just their direct operations.
6. Currently, over 12,000 entities are participants in the UNGC, commonly referred to as the world's largest corporate social responsibility initiative.

Part 2

Reporting challenges and tools for information flow

What challenges are SRPs experiencing in their reporting responsibilities?

Once a company sets its reporting agenda, it must gather the relevant data to measure key indicators and tell its story. In just about all of our interviews, SRPs reported that gathering data is, by far, their most challenging day-to-day burden. Despite the evolving and growing demand for sophisticated and reliable metrics and narratives, they lack sophisticated informational tools to get the job done with great efficiency.

> We all need to be able to get rid of the spreadsheets.
> *— Sofia Perazzo, Tropicalia — Cisneros Real Estate*

A large majority of the SRPs with whom we spoke are relying on ad hoc, spreadsheet-based data collection and analysis. They lack the comprehensive data collection systems, such as the enterprise resource planning systems (ERP), which their counterparts in financial accounting have built over decades. As one SRP summarized, "We need a better, integrated system and more intelligent data-compiling technology that does the work for us ... we still have too much manual work." Even at the most sophisticated companies with lauded sustainability programs, SRPs rely on repetitive email communications to request and gather sophisticated data from operation centers around the world. As Sofia Perazzo with Tropicalia of Cisneros Real Estate summarized, "We all need to be able to get rid of the spreadsheets." This is not just an information technology challenge but also an organizational cultural challenge as it relates to enhancing innovation and systems thinking.

"Every year, we ask ourselves how we can streamline the process," another respondent summarized. Over time, the persistent efforts of committed SRPs are bringing about progress — incrementally. Lacking sophisticated systems, many are innovating ad hoc ways to meet the evolving demands. These corporate professionals are trying, concurrently, to maintain control over data quality, accuracy and reliability. One SRP with more than 10 years of reporting experience described the maturity of the company's process. Over time, the organization has gradually implemented a three-level process of review and control that now provides "a clear track record and assurance of data accuracy."

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Even within the same enterprise, some business units have more mature data collection systems than others. One SRP noted that his company has traditionally functioned in highly decentralized, discrete silos. As a result, local units control not only the necessary data to measure sustainability indicators but also the expertise to provide meaningful insight. Several SRPs noted that local managers often lack an appreciation of the organization's overall business sustainability objectives, and they are reluctant to respond without senior management influence. In some developing markets, poor infrastructure, time differences and language barriers intensify delays and reliability. If information is requested with a lack of adequate lead-time, such as for unanticipated requests for proposals (RFPs) and questionnaires, this friction is compounded.

The nature of an ESG metric also affects the SRP's ability to gather dependable data for measurement. Many companies are well established in measuring and disclosing certain environmental, health and safety metrics, such as pollutants, because mandatory reporting has been established for years or even decades. Collecting data around human and social indicators remains a challenge, however, because measurement techniques are still evolving.

Calculation of the organization's carbon footprint, particularly Scope 3 greenhouse gas emissions (GHG), remains a complex task, even for the many organizations that have measured and reported carbon data for several years. A particular challenge noted by several SRPs is completing the annual CDP[7] questionnaire, because CDP often changes its survey and scoring factors year-to-year. Several interviewees noted that they work with external consultants to comply with the annual CDP survey, set targets and identify and gather the right carbon footprint data. Multiple organizations expressed the benefits of getting external help as the CDP expands its surveys into other areas such as water, deforestation and supply chains.

7. CDP was formerly known as the "Carbon Disclosure Project." The official name change corresponded with the organization's expansion from carbon footprint data to additional areas: water, deforestation and supply chain.

The established scope and boundaries for the report directly affect the amount of data the SRP needs to collect, analyze and summarize from external sources. For example, Brazilian pulp and paper producer Fibria has over 8,000 suppliers. An even larger scope that includes, for example, second or even third-tier suppliers multiplies data-gathering challenges. Although a narrow scope allows for greater control and data reliability, a wide scope gives the organization the opportunity to understand stakeholders' competing goals comprehensively. Due to contracting incentives, it is generally easier to obtain business sustainability data from suppliers than from customers. It is also easier, typically, to source data from large, well-established operations in developed markets.

Some companies have expressed a particular commitment to transparency by taking the full measure of the life cycle effects of their products — from source material through end-user disposal — which intensifies measurement complexities. Producers near the beginning of the supply chain need customer information. For example, a consumer health products company may seek information about how its customers dispose of packaging or use soap and shampoos in the shower, because it affects how it measures the impact of these products on community waste systems and water usage. To meet the data-gathering challenge, some innovative SRPs have developed internal software applications that track materials and production alternatives so that the information is readily available at the product design stage.

Despite the significant additional efforts, SRPs generally note that the information uncovered by a detailed value chain analysis can drive innovation regarding sourcing, production and efficiency. The analysis can be particularly beneficial in industries and sectors with fragmented supply chains. In some cases, an understanding of life cycle information has resulted in better coordination among suppliers, producers and customers. One SRP emphasized the value of collaborating with certification bodies and NGOs. Information-sharing with these organizations can help a company designate where to support capacity building with distant suppliers and facilitate controls over the information. This can be especially useful in value chains such as construction and tourism that are very fragmented or value chains such as agri food that involve many small-scale farmers in developing economies.

Even if the reporting company applies conventional legal and financial reporting boundaries, challenges may arise. Differences may exist between national and international technical and legal definitions. These complications are especially evident after a merger or acquisition transaction (M&A). LafargeHolcim, now the world's largest producer of cement and other building materials, has experienced this since 2015, when an M&A required the joining of two enterprises with legacy accounts that used different reporting platforms and had some differences in consolidation procedures.

Part 3 Benefits of business sustainability reporting

How is the business community supporting sustainability reporting?

To aggregate the information gathered and prepare an external report, SRPs must understand, interpret and prioritize diverse stakeholder views. This part of the process differs from financial reporting, which provides external disclosure primarily for debt and equity investors. Sustainability reporting must be concise and, at the same time, satisfy diverse internal and external stakeholder interests.

Corporate responsibility teams tell us that one of their highest priorities is communicating complex, data-driven business sustainability information in a meaningful way to decision-makers. Moreover, they view the education of their internal leadership with equal importance or even greater importance than delivering information to external stakeholders. Almost unanimously, the SRPs stated that the burden of data collection constrains available resources, which they would prefer to devote to a meaningful demonstration of the strategic value of their analyses. As the SRP of a consumer products company succinctly noted, "What gets measured gets managed indeed, but there is a risk of spending too much time measuring and not enough time responding to how the information can be used to grow the business."

The use of audit and assurance providers is also becoming increasingly prominent for externally reported sustainability information.

Corporate SRPs carefully monitor industry peers. Competitors' reports can help identify material issues and relevant industry, regulatory and economic trends. In particular, SRPs make it a priority to measure and disclose a particular indicator if a competitor receives top ratings, rankings or awards. Peers' sustainability reports can also help an SRP identify sources of external information, such as relevant scientific, government and academic research. In this regard, our interviewees generally cited the benefits from the growing the role of international standards, audit and assurance providers and benchmarking research.

International standards help SRPs direct their use of resources more efficiently because they allow them to direct reporting efforts toward the most relevant issues and indicators. Applying these reporting standards helps target resources and avoid "information carpet bombing." Further, as more reporting companies follow a set of standards, comparability and benchmarking between peers is enhanced. This is particularly helpful as multinational organizations respond to different disclosure regulations in different jurisdictions. Using these guidelines can help a company ensure that its external reports address priority items.

The use of audit and assurance providers is also becoming increasingly prominent for externally reported sustainability information. The assistance of these providers, often from a Big 4 accounting firms, helps the SRP meet the expectations of various stakeholders regarding the reliability of disclosed information. One SRP noted, "Our assurer has really challenged us on whether certain information is balanced and accurate."

As a company's reporting process normalizes, it develops a data set that it can use as a base for responding to RFPs, rating agency questionnaires and NGOs. SRPs are hopeful that rating groups will move toward some agreement and standardization of questionnaires. "We annually have to deal with over 50 rating, association and customer questionnaires in different formats." The Global Initiative for Sustainability Ratings (GISR), which seeks to establish a common set of quality principles and system for all sustainability raters, could be a promising step toward alleviating the burden of multiple questionnaires.

> We are working on methodologies to better monetize the non-financial.
>
> — *Cristiano Oliveira, Fibria*

Step by step, reporters are individually and collectively moving toward the use of "big data" for business sustainability. SRPs tell us that peer data is a valuable tool for setting targets, analyzing performance and monetizing progress. Many reporters envision a way of reducing report volume by using online disclosure. SRPs also note shortcomings they see in the ability of sustainability reporting to reach the same level of rigidity and standardization found in financial reporting. Although SRPs must deliver and interpret quantitative data, they also provide more strategic, forward-looking information. They noted an appreciation for the ability to explain the most relevant data to stakeholders through strategic storytelling and to describe how the organization's progress coincides with its sustainability strategy and objectives.

Overall, many SRPs foresee a longer-term movement toward integration that shows the connection between sustainability metrics and financial performance. One interviewee summarized, "Our challenge is to connect ESG and financial performance … to define interdependencies and have robust data that illustrates this connectivity." Cristiano Oliveira of Fibria's sustainability department highlighted: "Making it tangible — the financial consequences — is difficult. We are working on methodologies to better monetize the non-financial, but it includes many assumptions … such as those behind valuing the ecosystem services we use." Integrated reporting requires an understanding of the links between sustainability information and other measurement objectives, such as enterprise risk and balanced scorecards.

Many of our interviewees foresee this connection becoming stronger as more data demonstrates, with greater precision, the connection between the business case and sustainability factors. Multiple SRPs noted that conventional investors would benefit from greater education on the substance and relevance of the ESG agenda.

What benefits are SRPs observing from the reporting process?

Worldwide, corporate entities and their stakeholders are assessing the costs and benefits of sustainability reporting. SRPs tell us that, at times, the identity of the intended audience and therefore the benefits, are somewhat unclear. Yet, all reporters expressed multiple benefits from undertaking the information process that leads to the external reporting. In some cases, these benefits were unforeseen when the organization first implemented a reporting program.

Some reporters also highlighted significant value from the process of identifying material issues, which requires the involvement and perspective of many groups of internal and external stakeholders. The process of identifying material issues helps the business prioritize and sharpen its focus toward the most relevant items. It enables the organization to act more strategically.

Multiple SRPs noted direct tangible rewards, such as the ability to boost operational performance. Highlighting the value of the process, one stated: "The output is the report, but the real work goes into measuring and using the numbers to improve how we manage the business." Another highlighted, "Key benefits have included a strong focus around measurements and reliable metrics, driven by reporting requirements. This has helped us to generate much better internal business intelligence … Knowing that you have to report on things drives people to perform better, to ensure they have good information to report."

> Much of the benefit is internal ... We have seen that awareness from ground floor level to top executive level.
> — *Stiaan Wandrag, Sasol*

Several respondents noted that the process of producing an external report enhances employee engagement. "The reaction we get to the report from employees is fantastic. They are, at times, exposed to negative public comment on issues like CO2 emissions, and it is reassuring for them to read how we as an organization are managing this." The messaging of the company's contributions to the global community boosts employee pride and commitment.

"Much of the benefit is internal — it lies in improving the quality of data, the governance of data and awareness of what sustainability and integration means internally. We have seen that awareness from ground floor level to top executive level. It implies that a local data administrator understands the meaning of an indicator in the bigger system," said Stiaan Wandrag, Head of Sustainability at Sasol. A corporate responsibility manager in the financial services sector similarly noted that the process is bringing about new internal collaboration. "Internally it has helped breaking down silos, bringing together parts of the business." Importantly, organizations that move toward the development of integrated reports begin to see the sharing of ESG measurements with the CFO unit as they aim to quantify the risks and opportunities that the process uncovers. "This gave push for moving out of silos," responded another senior manager for sustainability strategy.

Interviewees also noted that implementing a more robust reporting process improved their ability to respond to stakeholder inquiries. More investors are expressing interest in how businesses are planning to respond to an environment replete not only with changing risks but also with groundbreaking opportunities. Some organizations have very long-term committed investors with equity shares held by engaged individuals or families and passed down over decades and generations. These engaged shareholders demonstrate a willingness to weather short-term adaptation for more valuable long-term capital preservation.

SRPs note that proactive transparency brings credibility and reputational and branding benefits, and obtaining third-party assurance on sustainability reporting can enhance this perception in the market. One SRP noted that a quality sustainability report leads to public recognition and reflects on management quality and engagement. In turn, praising business units for high rating scores helps senior management communicate the importance of setting and meeting long-term targets.

An important reward that many interviewees highlighted is the ability to present a holistic story that ties together a company's enterprise-wide activities toward greater sustainability and performance. The report allows the corporate responsibility team to deliver a data-driven, strategic message to senior management. This evidence-based enterprise-wide storytelling enables senior executives, in turn, to communicate key business-case metrics to external players.

As a priority, sustainability and responsibility managers seek more direct involvement from senior management. Recognition by the executive suite enables the SRP team to gather and analyze business sustainability data, which, in turn, can support strategic initiatives, risk management and innovation toward new opportunities.

Rewards From Business Sustainability Reporting Process

- Identifying material issues
- Boosting operational performance
- Employee engagement
- Shareholder engagement
- Internal collaboration and breaking down silos
- Enhancing credibility, brand and reputation
- Holistic enterprise storytelling

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PARTICIPATING REPORTERS:

We wish to thank the companies whose reporting managers made themselves available for interviews. These companies include:

Aegon (Insurance and Financial Services, Netherlands)

BASF (Chemicals, Germany)

BT Group (Telecommunications, UK)

EY (Accounting and Management Services, UK)

Fibria (Pulp and Paper, Brazil)

Iberdrola (Energy, Spain)

ISG plc (Construction Services, UK)

Johnson & Johnson (Healthcare, USA)

LafargeHolcim (Building Materials, Switzerland)

National Australia Bank (Financial Services, Australia)

Nestlé (Nutrition and Health, Switzerland)

Novartis (Healthcare, Switzerland)

SAP (Information Technology, Germany)

Sasol (Energy and Chemicals, South Africa)

Solvay (Chemicals, Belgium)

Tropicalia — Cisneros Real Estate (Tourism, Real Estate, USA)

Woolworths Holdings Limited (Retail, South Africa)

GLOSSARY:

CDP: Formerly known as the Carbon Disclosure Project (CDP is a global disclosure system for environmental impacts that provides access to data for investors or customers, including ratings, for use in financial decisions.)

COP — Communication on Progress: Annual report by an organization participating in the UN Global Compact on its implementation and progress towards meeting the 10 principles of the initiative and its related goals

ESG: Environmental, Social and Governance, often used as a synonym for the sustainability agenda

G4: Fourth revised edition of the sustainability reporting guidelines issued by the Global Reporting Initiative (GRI) in 2013 [In late 2016, the Global Sustainability Standards Board (GSSB) assumed responsibility for the standard-setting activities of the GRI.]

GHG: Greenhouse gas emissions as defined under the UN Framework Convention on Climate Change (UNFCCC) and its agreements

GISR — Global Initiative for Sustainability Ratings: Launched in 2011, a global initiative with the mission of designing and improving generally-accepted ratings standards for assessing the sustainability performance of companies

GRI — Global Reporting Initiative: Established in 1997, an international reporting standards organization to help businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption

IFRS — International Financial Reporting Standards: The primary standards for financial reporting internationally outside the U.S.

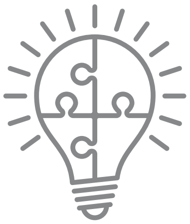
IIRC — International Integrated Reporting Council: Established in 2010, the IIRC has published an Integrated Reporting or <IR> Framework for reporting on value creation in addition to traditional financial accounting information

SASB — Sustainability Accounting Standards Board: Established in 2011, the SASB has issued a set of sustainability disclosure standards to enhance information on sustainability issues in Forms 10-K and 20-F filed with the U.S. Securities and Exchange Commission

SDGs — Sustainable Development Goals: Seventeen global goals for sustainable development agreed in 2015 under auspices of the United Nations to end poverty, protect the planet and ensure prosperity for all

UNGC — United Nations Global Compact: A United Nations initiative launched in 2000 by the UN Secretary-General that encourages businesses to adopt sustainable and socially responsible policies and practices and internalize 10 principles covering the areas of human rights, labor, environment and anti-corruption in their operations

U.S. GAAP — Generally accepted accounting principles: The primary standards for financial reporting in the U.S.



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T-600985_March 2017 mh