MULTIPLE MESSAGES

Sustainability reporting in transparent times

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The Project Partners

acona

Acona is a specialised consultancy providing advice and support on sustainable development to large companies and some NGOs. Our expertise includes business strategy, governance and reporting and we have a particular interest in ensuring that companies' practices are rooted in a sound understanding of both commercial and social realities. Acona works with around a fifth of the FTSE100 and a similar number of FTSE250 firms in all sectors. We have been directly involved in Sustainable Development reporting with twenty companies, including producing highly-rated and award winning reports.

SABMiller plc is one of the world's leading brewers with brewing interests and distribution agreements across six continents. The group's wide portfolio of brands includes global beers such as Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft and Grolsch as well as leading local brands such as Águila, Castle, Miller Lite, Snow and Tyskie. We are also one of the world's largest bottlers of Coca-Cola products. In 2011 our group revenue was US$28,311 million with earnings before interest, tax and amortisation of US$5,044 million and lager production of 218 million hectolitres. We have recently released our 2011 Sustainable Development Report and Sustainability Assessment Matrix (SAM) results which can be found here: www.sabmiller.com/sd.

JohnstonWorks is a firm of designers which specialises in corporate branding and corporate communications for a wide range of international clients. Through effective design we help clients reach a wider audience, increase brand awareness and communicate to their all important stakeholders. Recent accolades include the European Design Award 2011 and the International Business Award for corporate publications and journals.

Executive summary

This report contains the results of an Acona research project, sponsored and supported by SABMiller to try and answer the question:

What might tomorrow's Corporate Responsibility (CR) or Sustainable Development (SD) report look like?

The recent emergence and rapid growth of the practice and the lack of consensus over standards and purpose – combine to make SD reporting a very dynamic field. It is not clear how, or even whether, the best companies will report their non-financial performance in the future. Our aim is to provoke a wider discussion on the purpose and future of companies' SD reporting and to encourage those who wish to innovate.

The insights are generated from desk research and interviews with opinion formers, business partners, academics and commentators (see Appendix 1). We would like to thank them for their time and for the comments they provided.

The purpose and nature of SD reporting

There are two overlapping but distinct purposes given for SD reporting:

1 SD reports are requested by those who wish to hold companies to account for their non-financial performance.

2 At the same time they are seen as a vehicle for a company to communicate its commitment and progress, in support of its reputation and ultimately its licence to operate.

Those companies who have produced SD reports for several years have also noted a number of internal benefits, from the process of compiling the document, providing a chance to take stock and identify areas requiring further attention. These three different perspectives must be borne in mind when considering both the history and likely future of SD reporting; the same document might be thought by different readers to have different purposes and these differences can and do create tensions.

The tension of transparency

Much of the debate around compulsory non-financial reporting centres on a lack of trust in companies and supports the purpose of 'holding companies to account'. In disclosure of this type – mandatory and standardised – it becomes much harder for the company to select only those stories which show it in the best light.

However, if a company can convincingly disclose good progress across a range of indicators not of its own choosing, it supports the company's reputation for listening to its stakeholders and a commitment to responsible practice. This might ultimately be thought of as the 'tension of transparency'.

Making companies (and other organisations) transparent may expose flaws in the short term, but strengthens them in the long term. The disclosure of short term challenges can lead to long term improvements in reputation.

One report but many users

We note widely varying practice covered under the term 'SD reporting'. Some companies produce content only in a standalone document called a 'CR report' or 'SD report'. Others produce summaries which may or may not be included in the Annual Report and Accounts (ARA). Still others communicate by means of a website containing the same type of contents but updated regularly. Such differences make it all but impossible to define what part of a company's communication is its SD report and which is not.

In this document we use the terms 'SD report' and 'SD reporting' to refer to the totality of a company's communication on the topic, whether standalone, included in the Annual Report or by any other channels.

We also note a long list of potential users served by current SD reports – investors, employees, customers, opinion formers, campaigners and NGOs among others.

The consequence of the multi-purpose, multi-user approach is that current non-financial reports tend to be 'all things to all men', averaging 60 pages in length and aiming to provide detailed data for experts and analysts alongside design standards and narrative intended to appeal to a more general reader; long documents full of information in search of an audience.

Drivers of future change

This report explores in some detail the current drivers of future reporting including:

> Immediate and foreseeable changes in the legislative framework in Europe, the UK, the USA and South Africa (including the far-reaching changes brought in by the King III Code) and the likely requirements of powerful emerging markets

> Moves towards integrated reporting, including the formation and work of the new International Integrated Reporting Committee

> Shareholder activity and the requirements of active investors

> The quest for standard contents, including developments in the Global Reporting Initiative (GRI) framework and the growing number of single-issue disclosure schemes (e.g. Carbon Disclosure Project, WWF-GFTN, Ethical Trading Initiative etc.)

> Current and future practice in internal and external assurance, including standards such as AA1000AS and ISAE 3000

> Profound changes in the media landscape driven by the rapid growth in the internet, users' requirements for information on demand, the rise of social media and the corresponding market in 'unofficial' information.

Five possible futures

We use the drivers to create five possible futures for SD reports:

1 **Boilerplate:** The set-piece SD report becomes a formal legal requirement in most major markets with a formalised and standardised structure. In this future, the idea of the SD report as a document of record wins out over its function as an active communications tool.

2 **Technology:** Changes in information technology become the dominant drivers in SD reporting. Increasingly sophisticated applications allow users to pull the data they want from central repositories and the narrative element occurs in real time with users receiving live data feeds via syndication tools, social media and mobile applications.

3 **Investment:** Each company has distilled the idea of SD into a handful of strategic or financially material issues. The SD report and the Annual Report become one and the same: that is, a clear statement of the nature of the financially material issues, the likely impact and the company's response.

4 **Partnerships:** Society's low levels of trust in business render direct communication on SD matters increasingly ineffective. Instead the principal means of SD communication is via partners and other third party schemes, and a company's engagement with such initiatives is seen as the measure of its commitment.

5 **Global:** The principal emphasis for SD reporting becomes the local context. The big question stops being 'what is material for the Group?' and becomes 'what matters to our local business in a market?' and companies produce multiple individual reports tailored to the local context.

Plural, bespoke and continuous

The conclusion from this research is that there is no single model towards which all the drivers point; we set out five credible possible futures and there may be more. The active debates over the form of future SD reports (integrated into the ARA or tailored to the audience, standard contents or content focused on the material issues) are occurring against a backdrop of some powerful social factors which seem very unlikely to reverse.

In the end we conclude that the pressures of pluralism, the importance of continuous and frequent communication and the need for information on demand will be very significant forces in the future of SD communication.

Our view is that SD reporting will become a plural, bespoke and continuous activity: 'plural' in that content will be spread through multiple documents and channels; 'bespoke' in that different audiences will require different content; and 'continuous' in that companies will be expected to communicate regularly and the narrative – the development of the story – will become as important as the facts themselves.

It seems likely to us that standards and mandatory frameworks, if they are successfully developed, will only apply to part of the SD reporting task. We expect them to focus directly or indirectly on the financially material (or strategic) issues to be included in the ARA. In the end therefore, compulsory integrated reporting will centre on those issues which affect the shareholders; other stakeholders will be considered principally in the light of their effect on the business' financial performance. This will leave an unfilled demand for wider SD information. Integrated reporting is an important piece of the jigsaw, but it is not in our opinion 'the answer'.

This leaves plenty of space for voluntary disclosures, and the chance for leading companies to innovate in pursuit of reputational and other advantages. We expect companies to respond to this using different channels: digital communications and social media, customer messaging and advertising, employee communications and SD disclosures via dedicated single-issue schemes. All will increasingly be seen as part of the SD report so that writing the annual document will less and less constitute the company's main communication on the topic. In fact, the production of an SD report as a single document may well cease.

What will replace it? Readers expect information on demand and we already see companies supplementing their SD reports with permanent micro sites, indexed and cross referenced to let the user move straight to the content they need. As this trend intensifies, the narrative element of these sites will become less important since readers rarely start at the beginning and read to the end. We expect them to evolve steadily from mini-reports into something much more like a reference document or data repository, presenting the key policies, performance data and case studies that stakeholders request. This, we believe, is a necessary first step. Only when such data is freely available can companies move away from the formal set-piece disclosure without appearing that they are backsliding from transparency.

We expect that companies will wish to go beyond this rather passive presentation of their data and so we anticipate growth in much more bespoke communications. For example, companies may well produce SD stories specifically tailored toward their employees reflecting company culture and terminology in a way that would be inappropriate for an external reader. NGOs may be actively offered information on topics of interest to them (including via the growing number of membership-based disclosure schemes) with a level of technical detail that would make no sense to employees. For multinational companies, local markets will constitute another important audience requiring tailored messaging reflecting the appropriate standards, issues and culture. Global companies may well replace one SD report with many, perhaps making their global website into a portal for local reporting.

We believe that this part of the communication process will be much more continuous with information updated regularly and companies actively controlling the development of a story, the narrative, which we argue is becoming as significant as the content itself.

Technology is an important enabler in this respect. Users can subscribe to information feeds via social media or syndication software. Email communications are faster and cheaper than printed copies. And new mobile applications promise the chance for consumers to receive data on request when they stand in a store, or hold a bar-coded product in their hand.

Assurance in a plural, continuous future

The role of assurance will become more nuanced and must – we believe – support this move towards a more plural and continuous future.

Any disclosures which are financially material will need to be subject to careful audit, achieved through a combination of internal assurance and external sign-off, exactly as current financial assurance practice. Assuring these material disclosures is the natural territory of the Big Four firms, whose credibility with the financial markets and existing rigorous processes make them ideally suited to the task, and who we envisage assuring the material disclosures in the Annual Report and Accounts.

For the other communications, we suggest that companies will be able to mix and match. They will need fact-checking and assurance processes to give themselves confidence before they speak in public. However, if there is no externally-driven requirement for this to be done by an independent third party, it may be done in-house. We suggest that companies might explore a more integrated assurance model, considering carefully which elements of their disclosures require professional third-party sign-off, which elements might be best checked by their own internal audit function and which elements require the comparatively lesser control of structured management sign-off and approval.

We also suggest that credibility may be better provided through the direct comment and input of stakeholders and intermediaries than paid professionals. Once again, this need not be comprehensive: stakeholders might be invited to review and comment on single-issue disclosures or particular case studies as appropriate.

In the end, we suggest that companies might explicitly map out their disclosures to stakeholders, showing for each the different control and audit mechanism which is applied to it. Stakeholders will then be able to judge for themselves the appropriateness and adequacy of these processes.

Taking the opportunity

This report does not aim to be the final word, but rather to contribute to a debate. There are very good reasons for innovation: different users seem to ascribe such different purposes to SD reports that it appears almost impossible to meet them in a single document. Whole new areas of communications are opening up: new technologies, new markets, and new concepts such as product labelling. Services like Google and Wikipedia have conditioned users to expect instant – and instantly updated – information. In short, we see a real opportunity to make SD reporting much more dynamic, useful and interesting than it is today. Large corporations are at the forefront of many social and environmental problems and many of them are vigorously finding innovative and exciting responses. And yet their communications on the topic can be stodgy and the focus seems to be on making the SD report more like the Annual Report – a very formal and specialised mode of communication. The plural, bespoke and continuous approach may take more effort but the final prize is that it will return benefits from increased readership, engagement and, ultimately, corporate reputation.

Contents

1. Introduction

1.1 The landscape: reporting today

Large public companies commonly supplement their financial reports with details of the social, environmental and ethical aspects of their business practice. Corporate responsibility (CR) or sustainable development (SD) reporting is now the norm, whether contained in a standalone document, via a website, or in a dedicated section of the Annual Report and Accounts (ARA).

No universally accepted SD reporting standards

In 2008, over 3,000 such reports had been published[1] compared with 1992 when there were fewer than 30 SD reporters anywhere in the world.[2] The explosive growth has spawned a parallel industry producing guidelines and standards for non-financial reporting but, while there are contenders, there is currently no equivalent to the accepted accounting standards or clear national frameworks that govern financial reporting.

Information in search of an audience

Current non-financial reports tend to be 'all things to all men', possibly because the users and readers of these reports are still formulating their own information requirements, while companies are still working out who the precise users or user groups are. Report lengths have grown – from an average of 30 pages in 1994 to roughly 60 pages today.[3] The typical SD report of 2011 is a multi-purpose document aiming to provide detailed data for experts and analysts alongside design standards and narrative intended to appeal to a more general reader; long documents full of information in search of an audience.

These factors – the rapid growth and the lack of consensus over standards and purpose – combine to make SD reporting a very dynamic field. It is not clear how the best companies will report their non-financial performance in the future.

1.2 The project: the future of SD reporting

What might tomorrow's SD report look like?

This report contains the results of an Acona research project, sponsored and supported by SABMiller to try and answer the question: what might tomorrow's corporate responsibility (CR) or sustainable development (SD) report look like? We have looked into current SD reporting practice and those factors that will influence its development in order to extrapolate some possible futures. By doing so, we hope to provoke a wider discussion on the purpose and future of companies' SD reporting and to encourage those who wish to innovate.

1 Source: Corporate Register, an online service collecting and analysing company SD reports. See www.corporateregister.com.
2 Statistics from CR Reporting Awards 2010.
3 Ibid. Data given is for European reports. Reports from African and South American companies average over 80 pages in length.

Many commentators already produce analyses of the good and bad in current reporting practice through comprehensive surveys of SD reports. Our intention is to focus on the factors that drive change in SD reporting: regulation, social trends, new ideas and technology.

After exploring the **purpose and nature of SD reporting** and the different **audiences** non-financial reports serve, the report presents an overview of legislation, guidelines and trends; each of which is driving SD reporting in a certain direction (the **current drivers**). The insights are generated from desk research and interviews with opinion formers, business partners, academics and commentators.

The next section draws these drivers together into a smaller number of **key themes** influencing SD reporting practice, grouping them where they reinforce each other. These themes and their interaction are used to create some **possible futures**, for example; what might happen if technology dominates? Or what if legal standards are the main influence on the future?

Up to this point, the report aims to be as objective as possible, but to draw any conclusions we must inevitably include some subjectivity. The remaining sections explore the **future of SD reporting** for large corporations. Readers may well have a different view, and might favour futures that we discount. Our aim is to provide a common vocabulary for this debate to happen, based on a sound and shared understanding of the background facts.

Thank you to 18 SD reporting experts

In the course of our research for this project we conducted structured interviews with 18 individuals closely involved in all aspects of SD reporting and/or with a deep interest in SD issues more generally. Those we spoke to included Sustainable and Resposible Investment analysts, auditors of SD reports, academics, and representatives of NGOs, standard setters and rating agencies (see Appendix 1). We would like to thank them for their time and for the comments they provided.

The project partners

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SABMiller places a high value on reporting and communicating in an open and honest way with all stakeholders. The recently released 2011 Sustainable Development Report provides an update on progress and performance across SABMiller's ten sustainable development priorities as well as case studies and stakeholder commentary. This year, SABMiller also used information from its Sustainable Development Assessment Matrix (SAM) to enhance its online tool which allows users to explore the sustainable development performance of individual businesses around the world.

2. The purpose and nature of SD reporting

Two questions provide an essential context for any discussion of the future of SD reporting:

> Why do companies produce an SD report? What purpose does it serve?

> What precisely do we mean by SD reporting? Is our definition limited to stand-alone documents produced under that title or something wider?

While both types of questions seem simple there are no universally-agreed answers to either, something which we believe is a major stumbling block to discussions on the topic.

Turning first to the purpose of SD reports, we note that this may vary depending on the perspective of who is asked. Essentially there seem to be two distinctly different answers:

> SD reports are requested by those who wish to hold companies to account for their non-financial performance.

> At the same time they are seen as a vehicle for a company to communicate its commitment and progress, in support of its reputation and ultimately its licence to operate.

There may be other subsidiary purposes – keeping up with peers, comparing companies with others in their sector etc. – but these can all be seen as secondary as shown in Table 1.

Table 1: The many purposes of SD reporting

Main purpose:	Holding companies to account	Supporting reputation
Subsidiary purposes	> Facilitating peer-to-peer comparisons such as benchmarks and indices – often in support of specialised investment decisions > Transparent target-setting and public reporting on progress > Providing a gauge of the company's awareness of and commitment on key issues > Encouraging companies to show how they integrate the issues into core strategy	> Ensuring legal compliance via a document of record > Maintaining a licence to operate amongst key stakeholders > Being a 'hygiene' factor – part of being a responsible company > Something for senior teams to share with peers
Mainly serves the purpose of:	External stakeholders	The corporation

Those companies who have produced SD reports for several years have noted a number of internal benefits, benefits so strong that they have almost become a third type of purpose to add to the table above. Many find that the process of compiling the document is useful internally for taking stock of progress and identifying areas requiring further attention. The report can give a framework for internal discussions with colleagues and external assurance – if used – provides the chance to take soundings from a 'critical friend'.

Same document different purposes

The different perspectives in Table 1 must be borne in mind when considering both the history and likely future of SD reporting. It is also essential to acknowledge that the same document might be thought by different readers to have different purposes and that these differences can and do create tensions.

The tension of transparency

Exposing short term flaws leads to long term improvements

Much of the debate around compulsory non-financial reporting centres on a lack of trust in companies and supports the purpose of 'holding companies to account'.[4] In disclosure of this type – mandatory and standardised – it becomes much harder for the company to select only those stories which show it in the best light. However, if a company can convincingly disclose good progress across a range of indicators not of its own choosing, it supports the company's reputation for listening to its stakeholders and a commitment to responsible practice. This might ultimately be thought of as the 'tension of transparency'. Making companies (and other organisations) transparent may expose flaws in the short term, but strengthens them in the long term. The disclosure of short term challenges can lead to long term improvements in reputation.

The second question is 'what do we mean by SD reporting?' Companies' differing practice means that – again – there is no simple answer to this question. Some produce content only in a standalone document called a 'CR Report' or 'SD Report'. Others produce summaries which may or may not be included in the Annual Report and Accounts. Still others communicate by means of a website containing the same type of content but updated regularly. Such differences make it all but impossible to define which part of a company's communication is its SD report and which is not.

In this document we use the terms 'SD report' and 'SD reporting' to refer to the totality of a company's communication on the topic, whether standalone, included in the Annual Report or by any other channels.

4 For example see the effective campaigns on corporate reporting policy from the CORE coalition (www.corporate-responsibility.org).

3. The audience – who uses these reports?

There is a long list of potential users of SD reports:

> **Campaigners and NGOs** use them to gather data on companies for campaigning purposes and to hold companies to account. While social (e.g. human and labour rights) and environmental (e.g. greenhouse gas emissions and water consumption) impacts have been primary areas of focus, there is growing interest in the economic dimension of the 'triple bottom line', as evidenced by recent requests for economic development and tax disclosures. Examples include Greenpeace, Friends of the Earth, Global Exchange, the Human Rights Campaign, Christian Aid and the International Labour Rights Forum.

> **Investors.** Some specialist investors aim to take only the most sustainable companies into their portfolios and use the reports to help make those decisions. Other mainstream investors seek information on the most significant non-financial risks facing the company and its response. Examples of investors considering these issues include the Californian pension fund CALPERS, the Norwegian Petroleum Fund, Calvert, SocGen, BNP and Henderson Global Investors.

> **Analysts and rating agencies** aim to produce sustainability data in a standard comparable format allowing other users (principally investors) to use it more effectively for decision-making. Examples include the Dow Jones Global Sustainability Index, Oekom, FTSE4Good, Risk Metrics (part of MSCI) and Vigeo.

> **Opinion formers** such as journalists, politicians and commentators, are often cited by companies as a key audience and might dip into a report for background data on a company prior to an article or meeting.

> **Academics and students.** Many business schools have research and teaching programmes on sustainable development. Students and researchers use reports to collect data on companies. Some researchers are actively interested in the process of SD reporting itself.

> **A company's own employees** are often cited as a target audience and companies regularly place links to their SD report on intranet pages or include them in all staff communications.

> **Customers – business-to-business.** With many companies demanding that their suppliers meet basic ethical standards, the business-to-business customer is another target reader for the SD report. SD reports are often included with bids or proposals as proof of responsibility credentials.

> **Customers – consumers.** SD reports accessible online can be promoted to consumers and this is sometimes done, for example via inserts sent by utility companies to their customers accompanying bills, or via dedicated sections of retail catalogues.

> **Other business partners including suppliers.** Companies with more complex supply chains (for example, those involving franchisees, distributors or licensees) sometimes supply the SD report to and through these business partners.

4. Current Drivers

4.1 Legislative framework

Different jurisdictions have very different approaches to what social, environmental and other non-financial information must be disclosed with the financial account.

European Union

In the EU, the Accounts Modernisation Directive[5] (AMD) requires that all listed and non-listed large and medium-sized companies in EU member states must report on environmental and community issues, where they are material to the company's financial performance:

'To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters.'

The regulations also require the use of financial and non-financial key performance indicators.[6]

United Kingdom

The Companies Act 2006 was enacted by the UK government as the vehicle for implementing the AMD and applies to all UK listed companies. The duty on directors is to promote the success of the company in the collective best interests of members (shareholders),[7] but the Act introduces the concept of 'enlightened shareholder value'. Directors are encouraged to consider non-financial matters which might affect the company's success and in support of this are obliged to prepare a business review that:[8]

Concept of enlightened shareholder value

> is a fair review of the business and contains a description of the principal risks and uncertainties it faces;

> requires a balanced and comprehensive analysis of the development and performance in the year and the position at the end of that year;

> must include 'to the extent necessary' for an understanding of the business:

  > trends and factors affecting the future;

  > information about environmental matters, the company's employees and social and community issues including policies on these matters; and

  > KPIs including non-financial KPIs.

Principal duty is to shareholders

Note that the principal duty of directors remains to their shareholders, with non financial matters being considered only in so far as they affect this primary role.

Recent research has tested compliance with the Act.[9] By looking at the extent to which the business reviews of FTSE100 companies contained information covered by the Global Reporting Initiative (GRI) G3 reporting guidelines,[10] the research stated that 93% of the reports reviewed identified non-financial issues that shareholders might consider material in some way and it gave average scores for the reporting of economic, social and environmental impacts as 97%, 82% and 72% respectively. However, it also pointed to shortcomings in the quality of reporting, for example highlighting that only a third of the reports reviewed described how the Business Review was prepared (the assumption being that by so doing, readers would be better placed to understand how directors have discharged their duty to promote the success of the company). The research also noted that 75% of its sample identified issues that might be significant to other stakeholders, even if they were not directly material to shareholders – something not explicitly required under the Act.

Following the General Election in 2010, the UK coalition government committed to placing an enhanced requirement on company directors to explain, within a revived Operating and Financial Review, how they were complying with their social and environmental duties:

'We will 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.'[11]

On 2 August 2010, the Department for Business, Innovation and Skills launched a public consultation on this idea.[12] The consultation questions cover a broad range of issues – not solely on improving the quality and quantity of information relating to social and environmental issues – but it does ask whether current requirements (as described above) should be strengthened, whether more guidance is needed, and whether such disclosures should be subject to a shareholder vote.

5 EU Accounts Modernisation Directive (2003/51/EC).
6 Mandatory reporting standards and corporate responsibility – www.icaew.com.
7 Ibid.
8 Section 417 of the UK Companies Act 2006.

9 Henriques A. 2010. The Reporting of Non-Financial Information in Annual Reports by the FTSE100. Middlesex University/CORE Coalition.
10 Ibid. Page 5. This report stated that the G3 guidelines were used as a criterion to judge the quality of non-financial information because they were developed by a multi-stakeholder process (thereby giving the guidelines a high degree of legitimacy); are specifically designed for reporting sustainability information; and set out the most highly regarded and widely used set of environmental and social indicators.
11 The Coalition: our programme for government – see http://programmeforgovernment.hmg.gov.uk/.
12 http://www.bis.gov.uk/Consultations/the-future-of-narrative-reporting-a-consultation?cat=open.

United States

In the United States, there is currently little or no direct requirement on US listed companies to disclose anything other than financial information and there is little, if any, official guidance on reporting non-financial information.

Sarbanes Oxley,[13] which applies to companies listed on the New York Stock Exchange, is focused on financial reporting, although some have argued that the requirement to include provision for potential risks that could influence investor confidence should include corporate responsibility risks.[14]

The Security and Exchange Commission recently suggested that companies should warn investors of any potential effects from climate change in the same way they report on plant closures, asset sales and other material issues, although this has been positioned as guidance rather than any change to the law.[15] In a speech discussing this guidance, the SEC Commissioner stated that each company:

'Should ensure that it has sufficient information regarding [its] greenhouse gas emissions and other operational matters to evaluate the likelihood of a material effect arising from the subject legislation or regulation.'[16]

Dodd-Frank Bill

The recent Dodd-Frank Bill (2010), primarily concerned with the reform of financial institutions and consumer protection, also includes disclosure requirements specifically for companies using or trading 'conflict materials' from the Democratic Republic of Congo.[17]

South Africa

King III introduces duties to non-shareholders

Some of the most extensive requirements in this area can be found in South Africa and so we include them here. South Africa now explicitly extends directors' duties beyond the core purpose of serving shareholder interests, a very major change indeed. The third King Report on Corporate Governance in South Africa ('King III') was released on 1st September 2009. Although the recommendations of the report have not been directly enshrined in legislation, the Johannesburg Stock Exchange has incorporated the stipulations into its listing requirements effective for financial periods commencing on or after 1st March 2010. The underlying philosophy (ethical and moral behaviour, ubuntu,[18] sustainability and corporate citizenship) is likely to exercise a powerful influence over the government's approach in this area. The main provisions can be summarised as follows:

13 Public Law 107 - 204 - Sarbanes-Oxley Act of 2002.
14 See, for example, Freshfields Bruckhaus Deringer. (2010). US SEC guidance on disclosure related to climate change http://www.freshfields.com/publications/pdfs/2010/mar10/27768.pdf
15 Commission Guidance Regarding Disclosure Related to Climate Change [Release Nos. 33-9106; 34-61469; FR-82].
16 Speech by SEC Commissioner Luis A. Aguilar: Responding to Investors' Requests for SEC Guidance on Disclosures of Risks Related to Climate Change, dated January 27, 2010, available at: http://www.sec.gov/news/speech/2010/spch012710laa-climate.htm.
17 Public Law No: 111-203 Dodd-Frank Wall Street Reform and Consumer Protection Act.

> Ethical and environmental considerations are an explicit part of directors' duties (a requirement that goes much further than that contained within the UK Companies Act). There is a duty on directors to 'protect, enhance and invest in' society and the environment to 'ensure measurable corporate citizenship programmes'. Directors also have an explicit duty to manage stakeholder perceptions and corporate reputation.

> Annual integrated reporting (i.e. incorporating both financial and non-financial information) is mandatory.

> Reporting should contain 'adequate information' and concentrate on 'substance over form' and 'positive and negative impacts'.

> A company's audit committee should oversee integrated reporting and should recommend the engagement of an external SD assurer, while its internal audit function's remit should extend to SD issues.

> One important difference between King III and its predecessor is that the former has adopted an 'apply and explain' approach as opposed to 'comply and explain'. The reason for this is partly semantics – as the code is principle rather than rule-based it is more appropriate to apply rather than comply; more importantly, the change denotes a desire to move away from a box-ticking mindset to one where the company is required to apply certain principles and explain what has been done to give substance to them.

Worldwide

Other global standards in Appendix 2

Many other countries have considered or are currently giving thought to mandatory non-financial reporting. A partial list of the current legislative standards for non-financial reporting around the world can be found in Appendix 2, although a complete analysis is beyond the scope of this report. It is worth noting, though, that there are active developments in India, where the government is considering mandatory SD reporting, and the rapid growth in SD reporting in Brazil, driven in part by the requirement that all companies with more than 100 employees produce a 'social balance sheet'.

18 Ubuntu is an idea originating in Southern Africa that calls attention to humanity's interconnectedness and interdependence through the notion that 'a person is a person through other persons'.

4.2 Moves towards integrated reporting

Integrated reporting: will it lead to SD becoming more integrated strategically?

To a great extent, the differences in approach described above are mirrored in the debate that surrounds the value of integrating SD reporting into the Annual Report and Accounts. For a number of years, advocates of SD have argued for integration.[19] In this way, according to the proponents of this view, SD would become more closely aligned to or integrated within the business strategy and allow stakeholders (and not just shareholders) to make a balanced assessment of a company's social, environmental and economic performance. Yet, despite the growth in CR and SD reporting over the last ten years, very few companies have ventured down this path (one notable exception is Novo Nordisk, the Danish pharmaceutical company).[20] Indeed, there have been strong voices elsewhere arguing for much less SD information in annual reports.[21]

On 2 August 2010, the Prince of Wales' Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) announced the formation of the International Integrated Reporting Committee (IIRC).[22] The IIRC describes its aim as:

'To create a globally accepted framework for accounting for sustainability: a framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The intention is to help develop more comprehensive and comprehensible information about an organisation's total performance, prospective as well as retrospective, to meet the needs of the emerging, more sustainable, global economic model.'

It is interesting that, alongside A4S (which has already undertaken considerable work in this area)[23] and GRI, the members comprise leading figures from the accountancy profession (professional bodies, the 'Big Four' and other large firms), the investment community (stock exchanges and institutional investors), CFOs of global companies (Tata, EDF, HSBC and Nestlé) and representatives of various UN organisation and NGOs. The chairman is Sir Michael Peat and deputy chairman is Professor Mervyn King (chairman of the King Committee on Corporate Governance – see 4.1 above – and of the GRI). Given such an impressive and wide-ranging membership, it would be a surprise if something tangible and, more importantly, credible did not eventually arise from this body's deliberations.

19 The Prince of Wales Accounting for Sustainability project was established in 2004 with the aim of ensuring that 'sustainability is not just talked and worried about, but becomes embedded in organisations' 'DNA' – see www.accountingforsustainability.org.
20 In addition to producing an integrated report detailing its financial, social and environmental performance, the company amended its Articles of Association to include an explicit commitment to conduct its activities in a financially, environmentally, and socially responsible way – see http://www.novonordisk.com/sustainability/Sustainability-approach/The-triple-bottom-line.asp.
21 The UK Financial Reporting Council Louder than Words report described much CR information as 'immaterial clutter' while the ASB's review of narrative reporting in 50 UK listed companies was similarly scathing.
22 See http://www.integratedreporting.org/
23 See, for example, A4S. (2009) Connected Reporting: a practical guide with worked examples and Connected Reporting in Practice (2010).

Materiality

Which non-financial issues are material?
Much of the debate around compulsory non-financial reporting hinges on materiality, with companies arguing that disclosures should be limited to material issues alone, yet there is little guidance regarding the term's definition.

In accounting circles the rule of thumb is that an issue is material if it affects profits by more than, say, 5%. Very few topics of the type usually covered in SD reports have the potential to do this in the short term (i.e. within 1-3 years).[24] SD issues are much more likely to warrant inclusion on the basis that they have an effect on the company's strategy as resources, markets or legislation change: 'financially material', but in a slightly different sense.

Material to whom?
A further complication is the idea of 'material to whom?' In the minds of companies (and much of the legislation described in section 4.1 above) this is broadly settled: the definition above applies to shareholders. Yet in the eyes of many campaigners for mandatory stakeholder reporting, the question is whether the matter is material to the stakeholder i.e. not just the shareholder but also the employee, community, supplier or environment concerned. This is a much broader definition which, if adopted, would lead to very comprehensive reporting indeed.

4.3 Shareholder activity

In May 2010, the UK Financial Reporting Council (FRC – the independent regulator of corporate reporting) issued a new edition of the Corporate Governance (formerly Combined) Code which will apply to financial years beginning on or after 29 June 2010. The Code references the Walker Review,[25] with a strong emphasis that companies should think more about the spirit of the Code than simply complying with the letter of it, and is principles, rather than rules-based (cf. King III, page 24 above). The code requires a 'balanced and understandable' report, which includes an explanation of the business model (how the company generates value) and the strategy for delivering objectives. As a complementary initiative, the FRC has recently published a Stewardship Code[26] that sets out best practice principles for engagement to which responsible investees should aspire. Many larger investors have dedicated teams researching and analysing companies from an SD perspective to both support their specialised Socially Responsible funds, but also to inform mainstream investment decisions.

Prior to the promulgation of the revised Corporate Governance Code, the FRC provided an opportunity for interested parties to put forward their views about how it could be improved. One respondent, Aviva, has historically played a leading role in pushing for higher governance standards on SD, and made some characteristically challenging suggestions:

> The board has a critically important role in setting and leading the culture and ethics of the company; and board remuneration should be based on the board's demonstration of company values.

24 Sustainability leader BT attracted much comment for explicitly stating in 2007 that none of the SD issues it was managing posed a 'material risk to the business'.
25 http://www.frc.org.uk/corporate/walker.cfm.
26 http://www.frc.org.uk/corporate/investorgovernance.cfm.

> A summary of the CR (SD) report should be put to the AGM with the explicit aim of ‘encouraging the right boardroom conversations’.

Aviva also allowed shareholders to vote on its own CR Report in 2010. Speaking at a conference in 2009, the CEO of its Investment division said:

‘We have generally lacked the support of Listing Authorities who play a crucial role in setting out what companies report to the market. Direct opportunities to vote at company AGMs on corporate responsibility reports are almost unheard of.[27] *I am strongly of the view that amending specific market listing codes in this way has the potential to make capital markets substantially more sustainable. We will continue to work with other like-minded institutions towards this end.’*

In 2010, Aviva voted at the AGMs of 2,278 of its investees. In 93 cases, they voted against or abstained on approving a company’s Report and Accounts due to environmental, social or governance criteria.[28]

4.4 The quest for standard contents

There have been many attempts to define the standard content of an SD report (i.e. those topics that any company should report to its stakeholders). Standardised content will, it is claimed, allow comparisons between different companies. At the forefront of these initiatives has been the GRI and its suite of indicators.

According to corporateregister.com, of the 5,000 reports published by the end of 2010, around a third used the GRI G3 guidelines and indicators (GRI) as a basis for constructing their reports and measuring performance.[29] However, use of the GRI is not evenly spread: of the reports published in 2010, forty five per cent emanated from companies and organisations based in Europe (with Spain, Sweden, the Netherlands, Germany and the UK being particularly prominent). Conversely, North America accounted for only fourteen per cent, the same as Latin America but lagging behind Asia (20%).

GRI leads the quest for standard contents

Increasingly, there is a view amongst those who comment on SD reports that use of the GRI (as with AA1000AS – see page 31) is a hallmark of credibility.[30] There is an assumption that those who are serious about SD reporting use GRI and embrace the underlying philosophy it propounds: namely, that there is a triple-bottom line of social, environmental and economic impacts and that an organisation should report performance indicators for each of these dimensions as determined by stakeholders.

27 We have discovered only a very small number of cases during this research including Aviva itself and WPP.
28 See GRI website – http://www.avivainvestors.com/about_us/our_corporate_governance/voting_schedules/index.htm
29 GRI Sustainability Reporting Statistics Publication Year 2010 http://www.globalreporting.org/NR/rdonlyres/954C01F1-9439-468F-B8C2-B85F67560FA1/0/GRIReportingStats.pdf
30 ACCA UK Awards for Sustainability Reporting: Reports of the Judges 2004-2008.

In its ‘Amsterdam Declaration’ (March 2009), the GRI called for governments to introduce mandatory corporate reporting on environmental, social and governance factors. More recently (May 2010), the GRI has entered into a partnership with the UN Global Compact whereby the latter’s ten principles will be incorporated into the next iteration of the GRI Reporting Guidelines and the Global Compact will adopt the GRI Guidelines as the recommended reporting framework for companies to communicate on the progress made against the ten principles.
In terms of the development of the GRI indicators, there are two current themes:

> A continued interest in the development of **supplements** that address the specific social, environmental and economic impacts of **particular sectors**.[31] As their name implies, these are supplementary sets of indicators and are not intended to replace the main G3 indicators.

> The development of **national annexes** that place greater emphasis on those sustainability issues that are of the greatest importance in the particular country and also take account of local policies, rules and regulations, and cultural differences. The first of these annexes will cover Brazil.

NGOs asking for specialist disclosures

GRI is not the only organisation attempting to facilitate peer comparisons. There is a rising tide of NGOs and intermediaries asking for their own specialist disclosures on single issues of interest to them.[32] Some of these disclosures are public, and represent a parallel communication channel to the SD report. Examples include:

> **The Carbon Disclosure Project** which collects data on companies’ carbon footprints and approaches to climate change for onward communication to the investment community.

> Other investor-focused schemes such as the **Dow Jones Global Sustainability Index** and similar proprietary schemes, which request disclosures tailored to their requirements.

> The **WWF Global Forest and Trade Network** to which companies involved in trading in wood, timber or paper must report their forest sources.

31 At the moment five supplements are in use (Electric Utilities, Mining and Metals, Food Processing, Financial Services, and NGO), with another five under development (Airports, Construction and Real Estate, Event Organizers, Media, and Oil & Gas) and a further five in pilot form (Apparel and Footwear, Automotive, Logistics and Transportation, Public Agency, and Telecommunications). A recent report from the Hauser Center at Harvard University - Lydenberg S., Rogers J. and Wood D. (2010). From Transparency to Performance. Harvard University. Harvard, USA – outlined a six step process for identifying key performance indicators (KPIs) on the sustainability of US corporations in specific industries. It also argued that mandatory reporting is essential, principally on the grounds that good quality ESG information will assist investment decisions and ensure that financial markets reward the creation of long-term and sustainable wealth.
32 Further examples include the CDP Water that measures water risks and opportunities; PREPS – the forest sources of paper; and Upstream – the environmental performance of house builders etc.

> The **Council for Responsible Jewellery** which collects information on members' sources of minerals and precious stones.

> The **Ethical Trading Initiative** which has comprehensive reporting requirements of its member companies engaged in improving labour conditions in their supply chains.

> The **London Benchmarking Group** which is a voluntary membership initiative to which companies disclose their community and charitable investment.

The message seems to be that companies value the stamp of credibility that comes with membership of these initiatives and, in return, will comply with the additional disclosure requirements that they bring.

Readers want a coherent narrative

Yet, at the same time, reader surveys (including those conducted among professional readers of SD reports) rarely ask for more indicators. Instead, they want a better story – a coherent narrative that places SD within the context of the business strategy and provides a balanced description of how the organisation is addressing its most significant social, ethical and environmental risks and opportunities.[33] For example, the ACCA judging panel made the following recommendations:

> Despite considerable improvements in the quality of reporting very few companies attempt to outline possible future scenarios that would result from a resource constrained world and how the business would respond.

> Even the best reports contain limited coverage of how the specific aspects of SD strategy align with the company's business model.

> While many reports talk about material SD issues, explanations of how they have been identified, how their impact has been quantified and what has been done to mitigate/capitalise on them are conspicuous by their absence.

> Reports often focus on a relatively small part of a company's value chain and there is a pressing need to broaden the coverage to include joint ventures, subsidiaries, contractors and suppliers, especially when the company in question has the financial power to exert significant influence over the behaviour of third parties.

> Companies remain reluctant to divulge the nature and extent of their lobbying activities.

33 Op. cit. ACCA UK Reports of the Judges; op. cit. FRC Louder than Words; Volans and GRI. (2010) The Transparent Economy.

All such attempts to standardise content occur against a backdrop of constant development in SD measurement and accounting systems. There have been steady and continual refinements to (for example) greenhouse gas reporting protocols, and methods to account for charitable expenditure. One consequence of these changes is to bring in reach the measurement of previously nebulous and un-reportable impacts. Recent examples include developments in carbon and water footprinting methodologies,[34] allowing companies to measure and assign impacts from their upstream and downstream operations. Leading companies have also begun to measure their wider impacts[35] and contributions to social and economic development.

I'm still a great supporter of GRI and all it stands for: accountability and transparency in respect of the full circle of stakeholders. But the financial sector is the key player in the allocation of financial resources and the exploitation of natural resources. If we want the financial sector to play a leading role in moving us away from unsustainability then we must present it with a new model - and new (and convincingly new) measures - of corporate performance. GRI has to find a better way of showing how the various aspects of triple bottom line performance engage to create what people tend to call 'sustainable value'. Perhaps the convergence of sustainability reporting and financial reporting as promoted by the newly established International Integrated Reporting Committee (IRRC) is the solution?

Roger Adams Director, ACCA

GRI remains the only game in town at least until the move towards integrated reporting gets a lot further; for all its weaknesses, it commands the respect of serious players but the GRI is likely to be modified in light of the importance of concentrating on material issues.

Mark Goyder Founder Director Tomorrow's Company

Companies are increasingly likely to reference GRI. However, the central question is which, if any, of the GRI indicators are really relevant to investor's investment decisions.

Rory Sullivan Strategic Adviser, Ethix SRI Advisers

34 Water Footprinting. Identifying and addressing water risks in the value chain. SABMiller and WWF. 2010.
35 Measuring Unilever's Economic Footprint: The Case of South Africa (2008), Exploring the Links between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia (2005), Kapstein E.B., Kim R and Ruster W, 2009, The Socio-economic impact of Nile Breweries in Uganda and Cervecería Hondureña in Honduras.

** The views here do not necessarily represent those of the individual's employers.*

I think it unlikely that there'll be standardised all-encompassing indicator sets, similar to GRI. In any case, the latter is overly formulaic. However, sectoral indicators should be developed as they would add value.*

Emma Howard-Boyd Jupiter Asset Management

I'm a great supporter of the idea that GRI should provide a generic framework for SD reporting but the real value of GRI's work is the development of sector specific indicators, that are accepted by a range of stakeholders as the material issues for companies to report on. This will support meaningful performance comparison between companies.

Geoff Lane Partner, Sustainability & Climate Change PwC

The upshot is that the emphasis will be on sectoral indicators that allow comparisons to be made within a particular economic sphere. Even then, I wouldn't underestimate the difficulty of ensuring that what Company A reports against one indicator is directly comparable with Company's B performance.

Lynton Richmond Partner, KPMG

4.5 Internal and external assurance

A common view expressed by reporting practitioners is that only robust assurance, undertaken by a credible third party can convince sceptical stakeholders that the report is accurate and provides a balanced, 'warts and all' portrait of the organisation.[36] Whilst there is a degree of consensus about the need for assurance, there is far less about what form it should take and what it should cover. To put it simply: the debate revolves around whether the role of assurance is a process that seeks to verify facts and figures or an attempt to assure the reader that the reporting entity is committed to values and behaviours that align with the expectations of its stakeholders.

Role of assurance

Current approaches to SD assurance are heavily based on the assumption that the models and processes developed for financial auditing can, with some modification, be applied to the area of non-financial reporting. The two main standards currently used are:

> **ISAE 3000:** developed by the International Auditing and Assurance Standards Board (IAASB), is a generic standard that outlines basic procedures for an accountant to follow when undertaking non-financial assurance engagements. It contains procedures for evidence gathering processes, assurer independence issues and other areas. The opinion may, for a 'limited' level of assurance, be stated in negative language.[37]

36 Op. cit. ACCA UK Reports of the Judges
37 Assurance: Sustainability Briefing Paper 3 (2009). ACCA. London.

> **AA1000AS (2008):** is a principles-based standard that provides an approach specifically aimed at full sustainability assurance. It addresses the underlying management and reporting systems and processes as well as the reported information, and it provides a methodology for assurance providers to evaluate and provide conclusions on adherence to the AA1000 Principles[38] and the quality of the information publicly disclosed on sustainability performance. In contrast to ISAE 3000, statements are phrased more positively and, in some cases, include detailed critiques of the report and of underlying performance.[39]

AccountAbility[40] is the organisation behind AA1000AS. AccountAbility's close and mutually supportive relationship with GRI has created, in the minds of some, a view that any SD report that aspires to leadership should follow the G3 guidelines, make extensive use of the G3 indicators and have its contents assured against AA1000AS (2008).

AA1000AS used less frequently than GRI

However, an analysis of the most recent data[41] suggests that AA1000AS is used less frequently than the GRI G3 indicators. Only around 150 organisations globally are currently credited with its use. Of these, a quarter is based in the UK including large reporters such as BAT, BP, BT, Co-operative Group, Centrica, Vodafone, and SABMiller. However, many other reporters – such as Anglo American, GSK, Rio Tinto, Shell, Unilever – are not using AA1000AS; and its adoption in the US has been confined to only a couple of companies. After the UK, the largest numbers of users are found in Australia followed by Spain, where it is particularly widespread amongst banks/financial services.

Forty one of the companies using AA1000AS retain the services of one or other of the Big Four for this assurance assignment – the remainder uses a mixture of consultancies, most specialists in risk management and CR/sustainability. Of the 35 companies that are also included in the Fortune Global 500, half retain the services of one of the Big Four. This preference for the Big Four chimes with the views of senior figures within the SRI community who stated that, where SD data was included in the ARA and its accuracy was of primary importance, assurance by one of these internationally-recognised financial firms provided a degree of credibility that others lacked. Others pointed out the obvious efficiency of having all data to be included in the ARA assured by the same provider.

38 Inclusivity - the extent to which stakeholders participate in developing and achieving an accountable and strategic response to sustainability; Materiality – how an organisation determines the relevance and significance of sustainability issues; and Responsiveness – the way that an organisation responds to stakeholder issues that affect its sustainability performance.
39 An example of this approach can be found in the Co-operative Group's most recent sustainability report (2008-09) – pages 130-131.
40 www.accountability.org
41 www.corporateregister.com – List of reports complying with AA1000AS (2008) as of 31 May 2011.

There are some published examples of companies involving their internal audit function in the compilation and testing of SD data. A 2005 report[42] included a case study showing how GUS plc's Corporate Responsibility Committee sponsored two audits per year by the group internal audit function to provide confidence over the internal processes used to collate SD data, a practice continued to some extent in its demerged successor companies. Several others (including Centrica and WPP) disclose that they explicitly use internal audit to test key controls on CR issues.

Companies need to be clear about why they want assurance. Essentially, this means they have to identify the audience for the report. If they are targeting investors then this group would generally have a preference for a Big Four sign-off on data.

Rory Sullivan Strategic Adviser, Ethix SRI Advisers

** The views here do not necessarily represent those of the individual's employers.*

Where data is regarded as material – and it's included in the ARA – then it will be increasingly important to have it verified by one of the major accountancy firms as they have the credibility and brand recognition that institutional investors recognise.*

Seb Beloe Head of Sustainable & Responsible Investment Research, Henderson Global Investors

As more information on SD goes into the ARA then the role of the ARA auditor will come to the fore (i.e. the Big Four will be expected to assure accuracy of the information). The hope would be that accountants – or at least their assurance processes – would bring more rigour to the collation and presentation of this data. This is particularly true of carbon data (especially where it is material to the business) – which should attract the same level of robust scrutiny as financial numbers.*

Emma Howard-Boyd Jupiter Asset Management

If we go down the integrated reporting route then I don't believe that companies will run several parallel strands of assurance at the same time. Just as reporting becomes more joined up then so will assurance.

I don't think it would be wrong to say that institutional investors would prefer, for the largest companies, to see material SD issues covered by one of the Big Four. That's because the latter have the reach, expertise, quality control mechanisms and robust process of independent regulation that ensures the work will be carried out to a certain standard.

In the future, I can see a greater role for stakeholder panels (including both internal – such as executive management and Non Executive Directors – and external stakeholders) that combine knowledge of the organisation and an understanding of SD issues.

Lynton Richmond Partner, KPMG

42 MacKenzie, C and Hodgson S (2005) Rewarding Virtue: Effective Board action on Corporate Responsibility, Business in the Community, Insight Investment and FTSE.

For these material sustainability indicators – and the data that is used to support them – there should be the same degree of internal and external controls and scrutiny as financial data, accepting that for some data there may be inherent limitations on the level of reliability and assurance that is possible. It seems logical that internal audit and control functions should play a role here and that external assurance, which might previously only have covered financial information, should extend to these key social and environmental indicators. Just as the reporting becomes more integrated, so should the controls and assurance processes that underpin it.

Do the Big Four have the requisite skills and knowledge to audit non-financial information? Answer: yes as the firms are increasingly able to deliver the combination of subject matter experts with industry and local knowledge and assurance skills, often across a large number of countries, to support meaningful assurance work.

Would their opinion be seen as credible by different stakeholders? The challenge for all assurance providers is to make sure that their work adds value to the key stakeholders for the organisation concerned through robust and independent analysis and challenge. Stakeholders, such as the independent directors of the company, investors, business customers and partners, employees and governments and regulators are likely to place more value on the work done by the established audit firms. Others such as individual consumers and NGOs – might be more equivocal or, even, negative at the moment. The challenge for the Big Four is to be recognised by these stakeholder groups as credible on sustainable development issues.

Geoff Lane Partner, Sustainability & Climate Change, PwC

Internal drivers of assurance

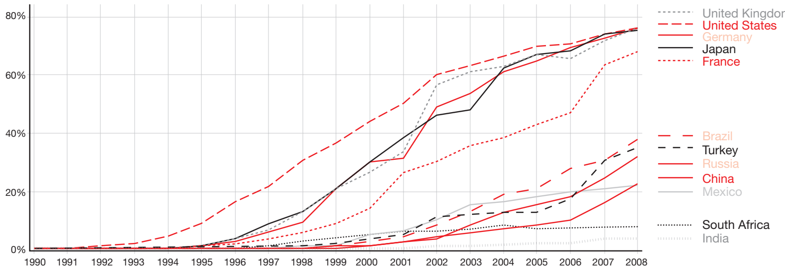
A thought-provoking piece of research was undertaken in 2009 for ACCA by the ICCSR at Nottingham University.[43] The study set out to examine why companies commissioned SD assurance, to what extent they involved stakeholders in the assurance process and what value assurance added in the eyes of stakeholders. The main conclusion was that while there is some evidence of stakeholder interest, notably on the part of NGOs, the real driving force is internal. For corporate respondents, the overriding concern was that assurance must provide value for money. Key benefits arising from the exercise were generally considered to be improvements in information and reporting systems, together with increased confidence in the integrity and reliability of corporate data released into the public domain. Corporate respondents generally expressed an awareness of stakeholder detachment from the assurance process, acknowledging, for example, that stakeholders do not read assurance statements, and expressed a desire to bring about their more active involvement.

43 Owen, D.L., Chapple, W. and Urzola A.P. (2009). Key Issues in Sustainability Assurance. ACCA. London.

4.6 The media landscape

Over the last ten years there has been an enormous expansion in the volume of web-traffic[44] and access to the internet,[45] while the growth of social media has dramatically changed how many people receive and communicate information.[46] While the degree of access (see graph below)[47] and degree to which social media has been embraced varies significantly from country to country, the overall trend remains upwards with quite significant increases over recent years in emerging countries with large populations – and consumer markets – such as Brazil, Russia and China.

Internet users as percentage of population
People with access to the internet per 100 inhabitants



Data source: World Bank, World Development Indicators - Last updated July 26, 2010

This expansion of the internet – both in terms of usage and functionality – has major implications for the ways in which businesses communicate with their stakeholders both in general and about SD. It is unsurprising that surveys of SD report users reveal a consistent preference for more online reporting, albeit supported by other media.[48]

SD reporting now online

The SD report has – in common with other corporate documents such as the ARA – moved onto the internet. Virtually every report is now placed online in some format, either as a .pdf file or increasingly as an interactive website. A minority of companies (roughly a fifth in 2008 and rising)[49] no longer produce any hard copy at all.

44 According to The Economist (25 February 2010), mankind created 150 exabytes (billion gigabytes) of data in 2005. In 2010, it will create 1,200 exabytes.
45 According to one estimate (www.internetworldstats.com) just under 2 billion – about 29% of the world's population – have access to the internet.
46 Universal McCann estimated that 625 million people worldwide, in the 16-54 age group, use the internet on a regular basis and it is this group who are the primary drivers behind the growth of social media (Power to the people: social media tracker wave 4. 2009. page 12) with two thirds being members of social network sites, 71% reading blogs and 83% watching videos (Ibid. pages 14-15).
47 For example, 160 million in China were regular internet users in 2009 compared to just over 12 million in India – ibid page 12.
48 Op. cit. The Transparent Economy.
49 Statistics from the CR Reporting Awards.

Amongst leading reporters, the SD website acts as a reporting portal through which stakeholders access a diverse range of information including narrative, hard data (perhaps segmented to the level of particular operational units/locations), presentations and sound and video clips. Looking to the future, technology is already beginning to allow users to pull the content they want rather than have to swallow the whole:[50]

Syndication technology

Examples of these developments include the financial coding language XBRL, used to automate online accounts; website syndication (RSS); and mobile apps. It seems likely that all of these will find a place in specialised SD communications.

> The standalone report will make far greater use of the web and other digital media.
>
> **Prof Dave Owen** ICCSR, Nottingham University

> The reality is that more and more SD information will be placed on the web – with printed summaries where appropriate.
>
> **Mark Goyder** Founder Director, Tomorrow's Company

> If we are talking purely about non-financial/SD reporting then I think that flexible web-based tools will come to dominate this field of reporting. There are so many different potential stakeholder groups that any other sort of mechanism seems rather pointless.
>
> **Roger Adams** Director, ACCA

> While there will be much greater use of the web and associated technologies, there will also be an expectation that companies should engage with stakeholders directly – through conferences, seminars, meetings etc – to explain what they are doing and how they are performing.
>
> **Rupert Younger** Director, Oxford University Centre for Corporate Reputation (and co-founder of Finsbury)

50 Op. cit. The Transparent Economy. For a fuller discussion of the move towards 'pull' and away from 'push' – where content providers direct their output to specific audiences – see Siegel D. (2009) Pull: The Power of the Semantic Web to Transform Your Business.

Many Fortune Global 100 companies have already begun to utilise social media: Twitter (65%), Facebook (54%), YouTube (50%) and corporate blogging (33%).[51] Others are hosting webinars or interactive chat sessions with members of their management and SD teams. These digital communication tools are being used extensively not only by corporate headquarters but also by local market offices and subsidiaries, divisions of the company, for particular products (one of the largest followings is for Sony's Playstation) and for one-time corporate events.[52] There appear to be some regional differences in the preference for different media: for example, Asian companies appear to be more inclined to communicate via a corporate blog than by using Twitter or Facebook.[53] The vast majority that use Twitter update this medium on a regular basis with over 80% tweeting at least once a week. These Twitter accounts are followed by thousands of people while some corporate Facebook pages have tens of thousands of fans.[54]

Social media: a market in second-hand information

Digital communications provide both opportunities and challenges for companies. In terms of the former, it allows much easier avenues for meaningful dialogue with stakeholders. As regards the latter, in addition to having to invest significant resources to manage the various channels effectively and provide ongoing, speedy and relevant responses, social media in particular offer ready-made platforms for critics and opponents of companies to disseminate their views.[55] Distrust in large corporations is a regular feature of consumer surveys in most developed markets, and an increasing number of campaigners and commentators are turning for information to social media over official company pronouncements.[56] In a recent report, 25% of adults using social media said they would "lash out" at brands online.[57] Companies will continue to have to wrestle with accusations that their reporting – in whatever forms it takes – fails to provide balance, giving equal weight to both the positive and negative aspects of performance, and these new media seem to stand ready to fill the gap.

Digital communications may be instant, but most companies still produce SD reports annually, timed to appear alongside or shortly after the ARA. Some are championing a move away from the big set-piece annual disclosure: Timberland reports online quarterly (with a full SD report every two years) and the Guardian now reports continually via an interactive blog.[58] Others are supplementing an annual SD micro-site with periodic news releases. This raises questions over assurance – the Guardian is piloting a continual assurance process.

51 Burston Marsteller (2010). The Global Social Media Check-up. Pages 2-3.
52 Ibid., page 2.
53 Ibid., page 3.
54 Ibid.
55 For example, search for BP on Twitter and the top ranked tweeter is BPGlobalPR (which conveys a very critical view of the company's actions) with over 189,000 followers compared to BPAmerica (the official site) with a tenth as many.
56 Lundquist (2010), CSR Online Awards 2010, private communication.
57 Havas Worldwide (2010). Who cares wins: the rise of the caring company. According to research by SustainAbility and Columbia University's Haas Business School (Enhancing Stakeholder Engagement Through Web 2.0. 2009), 40% of bloggers post frequently about brands they love...or hate.
58 http://www.guardian.co.uk/sustainability/blog.

Continuous vs. annual reporting

Some stakeholders seem to like the rigour and discipline of an annual snapshot, leading as it does to a cycle of public target-setting/review of performance against targets. Also, the nature of many SD issues is such that performance can only properly be viewed over the medium or longer term. This raises the interesting possibility that, while companies may be expected to provide more frequent updates, the emphasis will be less on data (e.g. that greenhouse gas emissions or water consumption/unit of production have risen or fallen) and more on descriptions of particular initiatives (such as the launch of a new product or service and what contribution that will make to SD).

> What I'd like to see is real time web-based stakeholder-inclusive updates about relevant issues as they occur, along with annual or quarterly CR reporting. Where relevant, CR issue messages should be integrated within mainstream marketing, internal and corporate communications.

Toby Webb Editor, Ethical Corporation Magazine

> Getting the balance right between responding to the ever increasing demand for detailed SD information on a growing range of issues, and yet providing a clarity of which SD issues are most material to the business, and why, is critical. An important part of our reporting is to provide a window into the business so stakeholders understand how we integrate SD into our strategies and day to day management. Our website enables users to see the detailed SD performance for each of our operating companies around the world, including those with outstanding performance and those who still face challenges to improve in certain areas.

Andy Wales Group Head of SD, SABMiller

> There's something natural about the annual reporting cycle – it's a way of focusing company progress over time. In any case, most SD reporting is about trends rather than absolutes and these can't readily be understood over the short term.

Mark Goyder Founder Director Tomorrow's Company

> To make reports more relevant for the general (as opposed to SR/ethical) investors they will need to be tied into the cycle of communications (interims/quarterly updates).
> Analyst presentations could include summaries of how different parts of the business are addressing SD issues either at the strategic or operational level – risks/opportunities; how they are addressing supply chain issues/climate change/water etc. The analogy is with how companies currently explain what particular divisions are doing. These snapshots don't have to be data heavy: in fact, they might eschew hard numbers completely.*

Emma Howard-Boyd Jupiter Asset Management

** The views here do not necessarily represent those of the individual's employers.*

> There doesn't seem to be any benefit in continually updating the report to take account of developments – e.g. BP didn't update their SDR after the Gulf of Mexico disaster but did have a dedicated section of their website providing regular updates. It's important to understand that the report is only one component in a broader programme of communication.
>
> **Rupert Younger** Director Oxford University Centre for Corporate Reputation (and co-founder of Finsbury)

> I don't see any real pressure on companies – from non-financial or financial stakeholders to move to more frequent reporting. However, it would be sensible to provide more regular news items rather than hard data.
>
> **Professor Dave Owen** ICCSR Nottingham University

On-product SD reporting

Companies are beginning to realise that the product itself is another communications medium for SD messages and there are the first signs of convergence between the two. The most developed messaging relates directly to the provenance of the product itself: established badges like Fairtrade and organic, supermarkets' ability to trace eggs back to one farm, FSC logos for timber sourcing, carbon labels from the Carbon Trust and so on; all of these tell some part of the company's SD story to the consumer, at the point they interact with the product.

This field is attracting intermediaries who are attempting to provide consumers with independent information on the sustainability credentials of the products they buy. Magazines such as 'Ethical Consumer' and websites such as the 'GoodGuide' are attempting to produce product 'sustainability scores' for consumer use.[59] In the latter case, the scheme has recently launched an iPhone application allowing consumers to scan the barcode of a consumer product and receive instant information on the ethical credentials of the item.

59 See www.goodguide.com

5. Synthesis of the current drivers: key themes

The preceding section has summarised our research on the current drivers influencing future SD reporting practice. To enable us to create different futures we have grouped together the influences we have identified into a number of wider trends or themes:

> **Focus on the material:** The growing sense that companies' SD programmes and reports should concentrate on the issues which matter to them strategically and financially, as set out in the UK Companies Act 2006, the EU Accounts Modernisation Directive and feedback from existing readers of reports.

> **Information on demand:** Current and future technologies which enable users to tailor their information requests and receive answers on demand. Examples include internet search engines, micro-sites, syndication tools and equivalents.

> **Integrated reporting:** Factors leading companies to integrate their SD reporting with financial reporting, including changes to governance legislation, pressure from external stakeholders and awareness among investors of certain material non-financial risks.

> **Localism:** The growing significance of new economies (including but not limited to the B(razil), R(ussia), I(ndia), C(hina), S(outh Africa) countries or BRICS), the nascent work to define their own reporting standards (for example King III) and the different emphasis these countries place on different communication media such as internet, radio and mobile telephony.

> **Social media:** Technology and social changes increasing the volumes and significance of informal peer communication channels and the consequent re-interpretation of official content (Facebook, Twitter, internet blogs, YouTube etc).

> **Product story:** The tendency to disclose the provenance and impact of particular consumer products via schemes like FSC, MSC, Fairtrade, organic and the new ideas of carbon and water footprinting.

> **Professional assurance/credibility:** Expectations that companies' SD disclosures should be subject to internal and external checking if they are to be credible and the development of standards such as AA1000AS.

> **Standardisation:** Attempts to develop standard content for SD reports including sets of indicators and formalised guidance on how to select and present content (e.g. GRI).

> **Tailored disclosures:** Trends towards individual stakeholders requesting their own disclosures tailored to their purposes, including analysts, index compilers, information brokers, voluntary industry initiatives and campaigning NGOs.

5. Synthesis of the current drivers: key themes *continued*

Appendix 3 (page 58) provides supporting references from section 4 grouped together to support these themes.

Some drivers reinforce, others oppose

Each of the themes outlined above will affect the future of SD reporting to a greater or lesser extent; each might be conceptualised as pushing the discipline in a certain direction. It is immediately apparent, though, that whilst some of these themes support each other, others seem almost to oppose. For example:

- The focus on selecting only financially material topics and the diverging requirements of regions (localism) tend to work against efforts to standardise the contents of SD reports.
- The growth in access to information on demand and on-product tend to run counter to the integration of SD reporting into a once-yearly Report and Accounts.
- The move towards tailored disclosures and peer-to-peer media both present a challenge to the conventional model of report assurance.

The direct model of opposition is to some extent an oversimplification. For example, guidelines on standard contents might incorporate a process for deciding on the material issues. However, this construction highlights an important dynamic – that there seem to be competing models for the future of SD reporting and that not all can win. Further, we believe there is a clear tension between what one might call the 'monolithic' model of a single, set-piece disclosure (standard contents, integrated with annual financial reporting, professionally assured) and the pluralistic, peer-to-peer and continuously streamed communication that seems to be driven by powerful social trends.

6. Possible futures

How can we extrapolate these themes over the next five or ten years? To make sense of these themes and to permit some degree of future-gazing we have used them to create some possible futures for discussion. In each case we have hypothesised a future where one pair of the themes we identified is at the fore.

Future 1: Boilerplate (emphasis on: standards, assurance)

SD report becomes a formal legal requirement

In Future 1, the tension between standardisation and plurality is resolved in favour of the former with the set-piece SD report becoming a formal legal requirement. If we hypothesise this, we can imagine a future with the following key features:

- Non-financial reporting for companies becomes mandatory in most major markets.
- The principal vehicle for communication is an SD report much like now, but with a more formalised and standardised structure.
- The requirement is annual, like existing company reporting, and so the SD report is a once-per-year exercise accompanying the production of other company reports.
- Standard frameworks for report content are implemented on a 'comply or explain' basis; there is a standard set of key indicators and required contents which companies should report upon, or be able to provide a convincing public reason why they have not done so.
- In a similar way, a global standard for assurance is successfully developed and becomes widely adopted.

Management: In this future, SD reporting has a strong regulatory driver and is part of a company's legal compliance. The company secretary or compliance team would therefore be important contributors and the obvious process owners. The company must develop compliant governance frameworks to select, prepare, review and sign off the content (quantitative and qualitative) in line with standards and guidelines. Similarly, the contents must be subject to mandatory external assurance and that this, in turn, must be performed in accordance with some pre-agreed standard.

Audiences: Preparing a report in this way will be resource-intensive (although automated systems for data collection, much like existing accounting or enterprise management systems, may help) and so the set-piece SD report is the company's principal vehicle for communication on the topic. Its primary audience is the regulator, since it must meet those requirements. We might imagine that there is a particular requirement for material relevant to investors to be included in a standard way, but that other users – employees, customers and campaigners – will have to extract the information they require from within the document, which may or may not be well designed for that purpose.

On balance: In this future, the idea of the SD report as a document of record wins out over its function as an active communications tool. Such a future would ensure that SD reporting is universal and allow some degree of peer-to-peer comparison. It also requires that the contents are reviewed and considered at a high level within the company. On the other hand, it does not guarantee active engagement or management of the topic. In fact, it might be suggested that the mandatory use of a 'one size fits all' model reduces the emphasis on the key material or strategic issues. The history of other mandatory disclosures shows the potential for grudging compliance through 'boilerplate' text.

Document of record rather than communication

Future 2: Technology (emphasis on: information on demand, product story)

Changes in information technology change practice

Future 2 concentrates on the effects of technology. The changes in information technology with consequent impact on the way we receive information become the dominant drivers in SD reporting. We can imagine a future with the following key features:

> Increasingly sophisticated applications at the users' end allow users to pull the data they want in a much more sophisticated way from central repositories. The emphasis on pushed or published data is very much reduced as a consequence.

> SD information is published through a combination of an online data repository (perhaps an evolution from the current online SD report) and continuous releases of news to a self-selected group of users.

> The emphasis of the online data repository is on structure, searchability and signposting information rather than attempting to create a narrative. Users dip in and out to meet their demands rather than reading straight through.

> The narrative element occurs in real time: users define what they want to see, and receive live feeds which update regularly. In this way they create a picture of the company's progress through the year.

> Technology also enables a strong consumer product message, with product information including impact data and provenance available to the consumer on demand. This might be via directories or third-party rating systems, or, for example, may even be held in RFIDs (remotely-readable computer chips) or barcodes that can be read by hand-held gadgets allowing consumers to count calories, grams of carbon, and litres of embedded water as they walk around the supermarket.

Management: This future arises out of companies' desire to be better communicators, rather than through a regulatory push. The principal influencers are the communications and marketing teams, who help define contents, and the technology function, which enables the new media. But there is a huge behind the scenes demand for information in the form of credible accurate data and newsworthy stories. This, in turn, leads to more sophisticated platforms for data-gathering within the company and requires networks of individuals to collate and prepare the stories.

Audiences: The multiple audiences for SD information are clearly catered for, with information on demand for those who wish to know. Investors may request one type of story; community campaigners another. It is easy to imagine a secondary industry developing with analysts combing through published online data to distil it further and make cross comparisons between companies. The company's information is not externally assured per se, but specific individual disclosures (for example product carbon footprints or investment-sensitive releases) may be prepared and checked to particular standards before publication.

Technology allows tailored messaging

On balance: This approach to communication clearly places the reader at its heart and technology allows tailored messaging. It also allows companies to pick and choose topics that suit their own agenda, which must of course be defined alongside that of their stakeholders. It is again resource intensive (like Future 1) but companies are better able to see the return for their efforts in the relationships with their stakeholders. However, it still leaves SD reporting as a voluntary enterprise, allowing companies to avoid it if they choose, and not all data will be comparable between companies. Finally, it contributes yet more noise to a crowded information marketplace.

Future 3: Investment (emphasis on: focus on the material, integration)

Emphasis is on a few material topics

What if the emphasis is placed on simplicity and focus? Future 3 imagines a world where each company has distilled the idea of SD into a handful of strategic or financially material issues. The key features of such a future are:

> Legislative and other expectations are clarified, making it plain that a company's obligations to stakeholders are viewed in light of the company's continued commercial health rather than as an end in themselves.

> This allows them to focus their SD efforts considerably, defining a limited number of social or environmental topics that present either material risks or opportunities or have the potential to affect the company's long-term strategy in some way.

> The SD report and the Annual Report become one and the same: that is, a clear statement of the nature of these issues, the likely impact and the company's response.

> Its format is narrative-led (issue – action – result), with data being used in support of the story.

Management: Reporting SD in this way – integrated with existing financial reporting – has clear implications for investors. A company's finance and investor relations teams are therefore key to the process, with support from risk and audit functions, as required. The report contents are relatively concise and can be released via a number of media channels. The information demands are relatively low, but it is obviously important that the data is accurate and that the controls being reported on are robust. Both data and the underlying systems are subject to internal and possible external audit as an extension of the existing financial auditing work rather than as an additional specialist exercise.

Audiences: The principal audience is the investor, but the report contains enough narrative to appeal to other readers. However, there is no obligation (legislative or otherwise) on the company to report matters of wider interest to other stakeholders so individual readers may find that the company produces no disclosures in their specific area of interest.

Integration may produce a narrower scope

On balance: In this future, the campaigners get their wish and sustainability reporting and management become truly integrated with the company's core business processes. It has board-level ownership and sign-off and its processes and systems are as important as any other in the company. The price is paid in terms of the scope, as companies concentrate inevitably on the relatively few topics which can affect their commercial performance. The company reports for the benefit of its shareholders (albeit acknowledging that it operates in a world of stakeholders), rather than any kind of stakeholder-led alternative model.

Future 4: Partnerships (emphasis on: tailored communications, focus on the material)

Direct SD communication becomes ineffective

Future 4 hypothesises an environment where society's low levels of trust in business render direct communication on SD matters increasingly ineffective. Instead, companies find new ways to communicate their commitment. The key features of such a future might be:

> The principal means of SD communication is via partners and other third party schemes, and a company's engagement with such initiatives is seen as the measure of its commitment.

> Companies release a range of information through these independent mechanisms. For example, disclosure of carbon performance is (as now) via a dedicated third-party disclosure scheme, as is water footprint information, use of sustainable timber, conflict diamonds and so on.

> Complementing these disclosure schemes is the company's active involvement with campaigning, academic or other partners. These individual arrangements are written up and disclosed by the independent partner, describing the company's engagement better than the company itself can.

> Companies no longer get as much value from SD reports so they wither away, recognised as a construct of the time and just a stage in the journey towards sustainability.

Management: The driving force behind SD communications is now the network of external relationships which the company has. These are co-ordinated (and in some cases managed) by an external affairs or corporate affairs team, but involve an extended network of contacts within the company itself. SD data is collected and used in support of these relationships, and also when the company finds it useful for other purposes of management control, but it is no longer collated for inclusion into a formal SD report. No central audit is required since each individual stakeholder has its own assurance requirements.

Audiences: This future satisfies, firstly, the information needs of campaigners, opinion formers and other professional SD partners and then – through them – other audiences like investors or consumers. So investors, wishing to compare carbon or water footprints, turn first to a dedicated third-party assurance scheme. Interested consumers do something similar when investigating product origins, or the company's stance on some social issue. There remains a need to supplement these mechanisms with some targeted communication, perhaps to employees or a wider consumer base, and these more general messages are woven seamlessly into employee communications or general consumer advertising.

Reputation in the hands of third parties

On balance: The ideas of partnership and openness to the stakeholders' agenda are built in to this future, something which has long been requested of companies. It also satisfies those who distrust companies' own pronouncements and largely removes the need for artificial assurance mechanisms such as third-party audit. It allows, at least to some extent, the tailoring of messages to specific audiences. On the other hand, the company will only ever engage in a limited number of such assurance schemes and so will inevitably bring considerations of materiality into its thinking. Some stakeholders may be ignored, and companies may well feel uncomfortable with passing control of their reputations in this way to third parties, which paradoxically is precisely their value.

Future 5: Global (emphasis on: localism, peer to peer media)

Local concerns dominate

In the final Future, the principal emphasis for SD reporting becomes the local context. The big question stops being 'what is material for the Group?' and becomes 'what matters to our local business in a market?' The key features are:

- Businesses produce multiple SD communications, each local business compiling its own with corporate guidance.
- These individual reports are tailored to the local context, taking account of national disclosure guidelines where they exist and the issues most resonant for that local market.
- Materiality is defined bottom-up, not top-down. As a consequence, many issues are included in local reports which would not pass a notional group threshold.
- There is a surge of interest by the developing world in social media. People in these markets are active readers of companies' communications, shifting the balance away from the more saturated western market.
- The media selected varies to suit the local context – radio, mobile telephony, text, community partners. Information is re-used freely.

Management: This future represents a shift in the way SD is managed, from being a centralised function in most companies to a regional one. The corporate team's role becomes that of a facilitator, a co-ordinator and the owner of perhaps two or three group-wide topics – for example, those needed for inclusion in an investor report. The emphasis on group-wide data collection recedes, and the corporate reporting requirements are limited to data on these few global, material issues, which may be audited as part of an annual reporting exercise (see Future 3).

Audiences: The local audience is well served in this future. Employees in Group companies are citizens of that region and share the concerns of the market; the local report makes sense to them. Opinion formers and campaigners see their own issues being addressed. The 'losers' may be those stakeholders focusing on the company as a whole, whether for comparison or campaigning purposes.

On balance: Whilst there is much talk of localism, companies are often seen by campaigners as a single entity and it is this which drives much group-level SD reporting. The growing importance of national stories will present a challenge to campaigners as they start to engage more strongly at a local level. On the positive side, this future can be seen as truly embedding SD management and reporting into the whole company. On the other hand, the convenience of having a single focus may prove too great for campaigners, opinion formers and company management alike.

Single vs. multiple report

7. Conclusions: the future of SD reporting

7.1 Which future wins?

So what is the future for SD reporting?

Key conclusion

The conclusion from this research is that there is no single model towards which all the drivers point.

The factors and trends are a complex mix with a strong interplay between them. Some drivers are in tension and some are mutually supportive. Few are, in the final analysis, mutually exclusive.

There are a number of active debates:

- Balancing mandatory integrated reporting and the needs of different audiences for different messages.
- The ongoing efforts to define a suite of standard indicators against the pressures of investors (and business logic) which suggest that companies focus principally on the two or three things that matter to them.
- The role, value and mechanisms of assurance in non-financial reporting.

In each of these debates one can make a credible case for either side or both. The future of SD reporting might be mandatory or it might be voluntary, it might be standardised or it might be bespoke and it might require assurance, or it may not.

But these debates are occurring against a backdrop of some powerful social factors which seem very unlikely to reverse:

- Users expect to access content on demand and technology is developing rapidly to make this happen.
- The rapid growth in social media and user-generated content combines with user scepticism (at least in parts of the developed world) to make a ready market in 'second-hand' unofficial information.
- The SD reporting requirements of the emerging markets (including South Africa, Brazil and India) will become more developed and significant.

We conclude that the pressures of pluralism, the importance of continuous and frequent communication and the need for information on demand will be very significant forces in the future of SD communication. Any answers to the debatable points above must work in the face of this powerful and rising tide.

In the end we see elements from most, if not all of the futures we sketch out above coming into play. These multiple futures will be accommodated via multiple communication channels. Companies will no longer rely on a single, annual document to communicate their SD story; it will be overwhelmed by the requirements of multiple audiences and their need for information on demand.

Plural, bespoke and continuous

Our view is that SD reporting will become a plural, bespoke and continuous activity: 'plural' in that content will be spread through multiple documents and channels; 'bespoke' in that different audiences will require different content; and 'continuous' in that companies will be expected to communicate regularly and the narrative – the development of the story – will become as important as the facts themselves.

7.2 Plural, bespoke ...

It seems likely to us that standards and mandatory frameworks, if they are successfully developed, will only apply to part of the SD reporting task. We expect them to focus directly or indirectly on the financially material (or strategic) issues to be included in the ARA. The shift implied by the King III code in South Africa – that directors' primary duties include the service of other stakeholders besides shareholders – is a major one and we can at this point see no significant precursors of such a fundamental change in the European or US contexts. In the end therefore, compulsory integrated reporting will centre on those issues which affect the shareholders; other stakeholders will be considered principally in the light of their effect on the business' financial performance.

Integrated reporting not 'the answer'

Listed companies in many markets are already required to discuss non-financial matters with investors, and we expect this to increase, probably in response to strengthened standards and codes. SD issues will commonly be discussed in the Annual Report and Accounts but equally we suspect these mandatory disclosures will be much more limited in scope than many stakeholders hope for. They will leave an unfilled demand for wider SD information. Integrated reporting is an important piece of the jigsaw, but it is not in our opinion 'the answer'.

End of the SD report?

This leaves plenty of space for voluntary disclosures, and the chance for leading companies to innovate in pursuit of reputational and other advantages. We expect companies to respond to this using different channels; digital communications and social media, customer messaging and advertising, employee communications and SD disclosures via dedicated single-issue schemes. All will increasingly be seen as part of the SD report so that writing the annual document will less and less constitute the company's main communication on the topic. It may still be useful internally to annually gather the key stories, or take stock of progress. There may be a well-oiled, backroom process that produces a set of year-end data, and the timetable of annual disclosures – at least to investors – will continue. But the biggest part of the communication task – satisfying the diverse needs of the company's web of stakeholders – starts at the point this process is completed. In fact, the production of an SD report as a single document may well cease.

Data disclosure remains necessary

What will replace it? Readers will increasingly come to expect information on demand, one element of which is that they know where to go for data when they want it. We already see companies supplementing their SD reports with permanent micro sites, indexed and cross referenced to let the user move straight to the content they need. As this trend intensifies, the narrative element of these sites will become less important since readers rarely start at the beginning and read to the end. We expect them to evolve steadily from mini-reports into something much more like a reference document or data repository, presenting the key policies, performance data and case studies that stakeholders request. This, we believe, is a necessary first step. Only when such data is freely available can companies move away from the formal set-piece disclosure without appearing that they are backsliding from transparency.

That said, we expect that companies will wish to go beyond this rather passive presentation of their data, at least to key stakeholders and so we anticipate growth in much more bespoke communications. For example, companies may well produce SD stories specifically tailored toward their employees reflecting company culture and terminology in a way that would be inappropriate for an external reader. NGOs may be actively offered information on topics of interest to them (including via the growing number of membership-based disclosure schemes) with a level of technical detail that would make no sense to employees. For multinational companies, local markets will constitute another important audience requiring tailored messaging reflecting the appropriate standards, issues and culture. Global companies may well replace one SD report with many, perhaps making their global website into a portal for local reporting.

7.3 ... and continuous

We believe that this part of the communication process will be much more continuous, for two reasons. Firstly, users expect information to be updated regularly in this era of instant and continuous communications but secondly – and perhaps more importantly – the development of a story, the narrative, is becoming as significant as the content. By moving to a more continuous basis for SD reporting, companies can exert greater control on this important sub-text.

Many companies already use an annual communication and media plan for key stakeholders, allowing them to choose what they say and when. We expect this approach to be more commonly adopted with SD reporting. Updates and stories can be linked to external hooks (events, seasons, the business calendar etc.) helping bring them to life and generate increased interest.

Technology is an important enabler in this respect. Users can subscribe to information feeds via social media or syndication software. Email communications are faster and cheaper than printed copies. And new mobile applications promise the chance for consumers to receive data on request when they stand in a store, or hold a bar-coded product in their hand.

7.4 Assurance in a plural, continuous future

The role of assurance will become more nuanced and must – we believe – support this move towards a more plural and continuous future.

Integrated assurance: different assurers for different information

Any disclosures which are financially material will need to be subject to careful audit, achieved through a combination of internal assurance and external sign-off, exactly as current financial assurance practice. Assuring these material disclosures is the natural territory of the Big Four firms, whose credibility with the financial markets and existing rigorous processes make them ideally suited to the task, and who we envisage assuring the material disclosures in the Annual Report and Accounts.

For the other communications, we suggest that companies will be able to mix and match. They will need fact-checking and assurance processes to give themselves confidence before they speak in public. However, if there is no externally-driven requirement for this to be done by an independent third party, economic logic dictates that companies do this in-house. In fact, we suggest that companies might explore a more integrated assurance model, considering carefully which elements of their disclosures require professional third-party sign-off, which elements might be best checked by their own internal audit function and which elements require the comparatively lesser control of structured management sign-off and approval.

Companies may still wish for the credibility that comes with third-party approval, but we suggest that this is better provided through the direct comment and input of stakeholders and intermediaries rather than paid professionals. Once again, this need not be comprehensive: stakeholders might be invited to review and comment on single-issue disclosures or particular case studies as appropriate.

In the end, we suggest that companies might explicitly map out their disclosures to stakeholders, showing for each the different control and audit mechanism which is applied to it. Stakeholders will then be able to judge for themselves the appropriateness and adequacy of these processes.

7.5 Taking the opportunity

Our contribution to the debate

This report does not aim to be the final word, but rather to contribute to a debate. We would like to encourage companies to consider again the ‘why’ of SD reporting alongside the ‘how’. It seems to us that SD reports are not currently written with the audience in mind (unless one considers a very specialised audience of analysts and experts) and the current multi-purpose document is a hard read for all but the most dedicated. There may be good reasons for this position, but it seems untenable against a background of ever better, ever increasing, and ever more sophisticated communications in most other aspects of business life.

We observe that the emerging standards around SD reporting are still very new and even the biggest aren’t yet standards in the sense of having been universally adopted. There will no doubt be future evolution and improvement in these standards but following them can make reports hard to read and unfocused. They may support the holding to account of companies, but they play little role in better communications. Finally, standardisation can hamper innovation, and it doesn’t seem to us that SD reporting is yet effective enough to stop innovating.

Increase readership and improve reputation

And there are very good reasons for innovation. Different users seem to ascribe such different purposes to SD reports that it appears almost impossible to meet them in a single document. Whole new areas of communications are opening up – new technologies, new markets, and new concepts such as product labelling. Services like Google and Wikipedia have conditioned users to expect instant – and instantly updated - information. In short, we see a real opportunity to make SD reporting much more dynamic, useful and interesting than it is today. Large corporations are at the forefront of many social and environmental problems and many of them are vigorously finding innovative and exciting responses. And yet their communications on the topic can be stodgy and the focus seems to be on making the SD report more like the Annual Report – a very formal and specialised mode of communication. The plural, bespoke and continuous approach may take more effort but the final prize is that it will return benefits from increased readership, engagement and, ultimately, corporate reputation.

Appendices

Appendix 1 – Interviewees

Interviewees (Roles and affiliations correct as of 31st January 2011)

Investors and rating agencies

> Dr Rory Sullivan, Strategic Adviser, Ethix SRI Advisers and former Head of Responsible Investment, Insight Investment

> Seb Beloe, Head of Sustainable and Responsible Investment Research at Henderson Global Investors

> Emma Howard-Boyd, Head of SRI at Jupiter Asset Management

> Paul Dickinson, Executive Chairman, Carbon Disclosure Project

> Cary Krosinsky, US author on sustainable investing/lecturer

NGOs, campaigners and media

> Mark Goyder, Founder Director, Tomorrow's Company

> Philippa Foster Back OBE, Director, Institute of Business Ethics

> Tom Crompton, Change Strategist, WWF

> Toby Webb, Editor of Ethical Corporation magazine

Academics and standard setters

> Roger Adams, Director ACCA

> Professor Dave Owen, Nottingham University International Centre for CSR

> Rupert Younger, Director, Oxford University Centre for Corporate Reputation at the Saïd Business School and co-founder of Finsbury

Assurance providers and business

> Geoff Lane, Partner, Sustainability and Climate Change, PwC

> Lynton Richmond, Partner, KPMG

> Douglas Brodman, Chairman & CEO, Plzeňský Prazdroj

> Nigel Cribb, Group Head of Reporting and Financial Control, SABMiller

> André Fourie, Head of Sustainable Development, South African Breweries Limited

> Stephen Shapiro, Deputy General Counsel and Deputy Company Secretary, SABMiller

> Andy Wales, Group Head of Sustainable Development, SABMiller

Appendix 2 – Summary of mandatory reporting standards[59]

Region/country	Legislation/regulation	Application	Requirement
EU	EU modernisation directive, 2003: Directive 2003/51	European companies	Include non-financial information in annual and consolidated reports if necessary for an understanding of the company's development, performance or position. Such reporting should include environmental and employee matters and key performance indicators, where appropriate (consistent with Commission Recommendation 2001/43/EC). Member States may choose to exempt small and medium-sized companies from those non-financial reporting obligations in their annual reports. By November 2009, all Member States have transposed the Modernisation Directive and most of the Member States have transposed Directive 2006/46 into their national laws.
Australia	Corporations Act, 2001	Companies that prepare a directors' report	Provide details of the entity's performance in relation to environmental regulations. In July 2004, the Corporate Law Economic Reform Program (Audit Reform & Corporate Disclosure) Bill 2003 (CLERP 9) extended this to the operations and financial position of the entity and its business strategies and prospects (Section 99A [1]).
	Energy Efficiency Opportunities Act, 2006 (with an amendment in 2007)	Large energy-using businesses	Undertake an assessment of energy efficiency opportunities and report publicly on the outcomes of that assessment.
Belgium	The Social Balance Sheet, 2003	Companies that employ staff, (large and very large) non-profit institutions (NPIs) and foundations. Also, some companies that are not required to produce annual accounts, such as hospitals and companies with more than 20 employees; and foreign companies with a branch in Belgium or foreign NPI's that operate in Belgium	Report on the nature and the evolution of employment (e.g. training). The Social Balance Sheet should contain specific information about the nature and evolution of the workforce such as the number of people employed, personnel movements, training.
Brazil	Law nº11638/2007	Companies listed on Brazilian stock exchanges	Include data about the creation and distribution of economic value in order to explain how the organisation has created wealth for stakeholders. The information should be reported in the Economic Value Generated and Distributed (EVG&D) table that must be included in the periodic Financial Statements.
	Project Law – PL 32/99	Companies with 100 or more workers	Produce an annual social balance sheet.
Canada	Security commissions	Public companies	Report the current and future financial or operational effects of environmental protection requirements in an Annual Information Form.
China	Environmental Information Disclosure Act, 2007	Corporations	Disclose environmental information according to regulatory requirements and voluntary disclosures about: environmental protection guidelines; annual targets and results; annual resource utilisation; environmental investment and description of environmental technologies; pollution levels, density, types and disposal method; environmental protection construction and operating status; waste generation; voluntary environmental agreements with government agencies; and implementation status of CSR.
Denmark	Danish financial statements Act, 2001	State owned companies and companies with total assets of more than EUR 19 million, revenues of more than EUR 38 million and more than 250 employees must report on their responsibility to society (CSR)	Requires reporting on intellectual capital resources and environmental aspects in the management report if it is material to providing a true and fair view of the company's financial position. The requirement for reporting on environment and intellectual capital in the management's review was included in the Financial Statements Act in 2001. In 2009 these requirements were expanded to also include CSR in general. The explanatory notes to the latter refer to and encourage the use of the GRI G3 Guidelines.
Finland	Finnish Accounting Act, 1997	Companies producing a directors 'report	Include material non-financial issues in the directors' report of the annual/financial report. The report shall include ratios and other information on personnel and environmental factors and other potentially significant matters that impact on the operations of the reporting entity.

59 The information in the table was obtained from Carrots and Sticks – Promoting Transparency and Sustainability. 2010. UNEP, GRI, KPMG, and the Unit for Corporate Governance in Africa, University of Stellenbosch.

Appendix 2 – Summary of mandatory reporting standards *continued* [59]

Region/country	Legislation/regulation	Application	Requirement
France	Law No. 2001-420 related to New Economic Regulations (NRE operative since 2003) – Art. 116	Listed companies	Environmental and social reporting is mandatory. The requirement for CSR reporting was introduced through an amendment in the New Economic Regulation Act. The amended NRE indicates that listed companies will be required to report on social and environmental performance in the management report. More detailed requirements followed in the enforcement order, issued a year later. The requirements are based on a list of forty indicators, many of them inspired by the GRI performance indicators. Some indicators were also taken from the 'French social report', a list of social data required from all companies to show compliance with labour regulation.
	Law of 7 July 1977 on the social review	All companies with more than 300 employees	Publish a social review containing more than 100 indicators.
India	Companies Act, 1956 §217 (as amended by Act 31 1988)	All companies	The Board of Directors' Report shall contain information on conservation of energy. The latter is expected to include: energy conservation measures taken; additional investments and proposals, if any, being implemented for reduction of the consumption of energy; impact of the measures taken above for reduction of energy consumption and consequent impact on the cost of production of goods; and total energy consumption and energy consumption per unit of production in respect of specified industries.
	Environment (Protection) Act of 1986	Companies engaged in certain sectors/activities	Submit an annual 'environmental audit report' (in a prescribed format) to the relevant State Pollution Control Board (SPCB). Reporting in the environmental statement includes parameters such as water and raw material consumption, pollution generated (along with variations from prescribed standards), quantities and characteristics of hazardous and solid wastes, impact of pollution control measures on the conservation of natural resources and the cost of production, and additional investment proposals for environmental protection.
Indonesia	Law No. 40/2007 Concerning Limited Liability Company Law. Article 66	Companies required to publish annual report	Include details of the implementation of environmental and social programmes in annual report.
	Capital Markets Regulation No. X.K.6	Publicly listed companies	Disclose information on CSR programmes in annual report.
Japan	Law Concerning the Promotion of Business Activities with Environmental Consideration, 2005	Specified corporations	Publish annual environmental report.
Norway	Norwegian Accounting Act, 1998	All Norwegian-registered companies	The inclusion of information on the working environment, gender equality and environment-related issues in the Directors' report.
Portugal	Social Balance, 1985	All companies with more than 100 employees	Obligation to issue a Social Balance, which includes information relative to employment, labour management relations, occupational health and safety, training and salaries.
Spain	Resolution of 25 March 2002 (of the Institute of Auditing and Accounting)	All organisations	Obligation to include environmental assets, provisions, investments and expenses in financial statements.
	Draft Sustainable Economy Law, 2009	Public enterprises	Submit annual reports on corporate governance and sustainability reports in accordance with commonly accepted standards.
Sweden	Annual Accounts Act, 1999 (Amendment)	Certain companies	Obligation to include a brief disclosure of environmental and social information in the Board of Directors' Report section of the annual report.
	Annual Accounts Act, 1999 (Amendment)	Certain companies	Obligation to include a brief disclosure of environmental and social information in the Board of Directors' Report section of the annual report.
UK	Climate Change Act 2008	Listed companies	Obligation to include a brief disclosure of environmental and social information in the Board of Directors' Report section of the annual report.
USA	Securities & Exchange Commission (SEC) – Regulation S-K	Listed companies	Disclose the material effects that compliance (with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment) may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

Appendix 3 – Drivers and themes

Mapping the drivers identified during the research (in section 4) against the themes created (in section 5) to develop possible futures reporting

Focus on the material

- ACCA UK Awards for Sustainability Reporting Reports of the Judges 2003 onwards
- Lydenberg S., Rogers J. and Wood D.3 (2010). From Transparency to Performance
- UK Financial Reporting Council. 2009. Louder than Words

Information on demand

- Volans and GRI. 2010. The Transparent Economy
- Radley Yeldar. How does it stack up 2010?
- CSR Europe. Trends and Best Practice in CSR/ Sustainability Reporting (2009)
- Siegel D. (2009) Pull: The Power of the Semantic Web to Transform Your Business

Integrated reporting

- International Integrated Reporting Council
- Prince of Wales Accounting for Sustainability project: Connected Reporting: a practical guide with worked examples (2009) and Connected Reporting in Practice (2010)
- King Report on Corporate Governance in South Africa (King III)
- CORE Coalition- http:// corporate-responsibility.org/

Localism

- Volans and GRI. 2010. The Transparent Economy.
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Social media

- Universal McCann. 2009. Power to the people: social media tracker wave 4 Burston Marsteller. 2010. The Global Social Media Check-up
- Havas Worldwide (2010). Who cares wins: the rise of the caring company
- SustainAbility and Columbia University's Haas Business School (Enhancing Stakeholder Engagement Through Web 2.0. 2009
- Universal McCann. 2009. Power to the people: social media tracker wave 4
- FSC- www.fsc.org

Product story

- Fairtrade- www.fairtrade. org.uk
- MSC- www.msc.org
- CDP (Carbon and Water footrpinting)- www. cdproject.net
- The Co-operative Bank. 2009. Ethical Consumerism Report

Professional assurance/ credibility

- Owen, D.L., Chapple, W. and Urzola A.P. (2009) Key Issues in Sustainability Assurance. ACCA. London
- AccountAbility www. accountability.org
- List of reports complying with AA1000AS (2008) as of 14th September 2010 – Corporate Register.com

Standardisation

- Global Reporting Initiative - www.globalreporting.org
- Stakeholder comments: Mark Goyder, Dr Roger Adams, Rory Sullivan and Emma Howard-Boyd

Tailored disclosures

- Volans and GRI. 2010. The Transparent Economy

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