Generating Value with Sustainability Reporting

Each year, more companies join the sustainability reporting trend because they understand it is a value proposition. The reporting contributes to more effective decision-making, identifies risks and opportunities, and adds to a positive brand reputation.

Most global corporations now issue an annual sustainability report which reports on the Environmental, Social, and Governance (ESG) factors of Corporate Responsibility (CR), and it is expected that more companies of all sizes will join the trend each year. Once the purview of green companies, business leaders are recognizing that sustainability reporting delivers a host of benefits flowing from the identification of KPIs to the actual report itself. There is a value proposition that includes greater transparency, identification of ESG factors impacting business operating results, enhanced identification of risks and opportunities, improved natural resources stewardship, enhanced stakeholder trust building, and competitive differentiation, to name a few. Sustainability reporting brings Corporate Responsibility under "one roof," so to speak, making it easier to determine business value.

Report with Real Meaning

Business stakeholders expect corporate transparency on issues of importance. Issuing a sustainability report is not enough. It needs to contain information that has real meaning to consumers, investors, NGOS, communities, and any other stakeholders. Getting it right means the report should be timely and reflect sustainability issues of material interest to the marketplace to have the most value. Researchers at North Carolina State University conducted a study to determine the issues of most importance to consumers buying from 15 companies in a variety of industries. The research found that the Global Reporting Initiative standards the companies were using were not necessarily important to consumers. These standards measured things like product responsibility (product related accidents) and reducing trade barriers. Instead, consumers wanted to know about environmental stewardship, reducing risk and maximizing compliance, investments in community revitalization, employment opportunities, social justice, and employee education.[1]

The true usefulness of transparent sustainability reporting serious about ESG impacts and informing stakeholders is that the information it contains identifies how the business should operate or is operating in order to provide the greatest value to the business and its stakeholders. As a result of sustainability activities and reporting, companies can enjoy benefits like an enhanced reputation, stronger customer and employee loyalty, increased operational efficiency, reduced waste, and improved community relations. All of these benefits contribute to a stronger competitive advantage. Better risk management is another benefit as companies collect and assess data it has not measured before. Sustainability reporting can also better satisfy analysts concerning things like continued accessibility of critical resources and customer loyalty, making it easier to attract capital investors.

Recognizing Global Risks

Telling the world about sustainability efforts can generate goodwill among stakeholders, but it is also important to have quality information. A 2010 study found that companies with the highest quality reporting transparency in environmental performance had higher cash flows.[2] Later studies continued to affirm the positive correlation between sustainability practices and reporting to improved financial performance. In 2015, Deutsche Asset & Wealth Management and the University of Hamburg combined the information in 2,200 studies and found that the majority of the studies report a positive relation between ESG and financial performance. However, it was noted that companies experience the greatest improvement in financial performance when they focus on specific environmental, social, and governance areas rather than assuming a general approach.[3]

The issues businesses should be concerned with will fluctuate as global challenges change, which is why it is so important to know stakeholder concerns and potential global risks. The World Economic Forum's *Global Risks Report 2016* features information gleaned from 750 experts on the likelihood and possible impacts of 29 global risks over the next decade. The risks likely to have the greatest impact globally are climate change, weapons of mass destruction, and the water crisis. Other risks of concern are largescale involuntary migration, extreme weather events, economic risks, cyberattacks, and social instability. The *Global Risks Report 2016* advises businesses to develop operating models that take these risks into account. Customers and investors want to know what companies are doing in areas like child labor, the environment, how production and distribution operations are set up, community initiatives, and operation of the supply chain.[4]

Integrating Sustainability and Operations

The importance of sustainability is without question, and it is the success with which companies incorporate ESG into operations to get the desired results that really matters. Sustainability efforts are not independent of business operations. They are integrated. Sustainability reporting offers value and should be managed with great care. It can lead to new sources of capital; generate innovation as a result of looking at sustainability challenges with new perspectives and new data collection methodologies, and uncover new opportunities in markets. The new market opportunities may become apparent as a result of discussions with local communities or new perspectives applied to risk identification. Social media reactions to sustainability reports are excellent sources of information leading to innovation. Knowing the risks can guide supply chain development and management to achieve business sustainability in the future. For example, what are the risks of critical resources becoming scarce in the next 5-10 years, and how does that impact the supply chain?

Transparent sustainability reporting can bring value in so many ways, from improving a brand's reputation to producing innovation. It can improve operations and contribute to long-term success. It also comes with risks. The corporations that produce information that stakeholders believe demonstrates poor performance are at risk of seeing capital directed to competitors and consumers using social media to trumpet a company's issues. The report issued should be truthful but also provide enough information for readers to understand sincere company efforts to improve. Stakeholders have rising expectations about corporate transparency around sustainability challenges and responses, and those companies that meet those expectations are much more likely to maintain competitiveness well into the future.