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Sustainability rises up corporate agenda

By Ed Crooks

"What gets measured gets managed," said Peter Drucker, the business guru, and it is even more true when the measurements are reported to regulators and investors.

That is the thinking behind the pressure from some investors, governments and campaign groups for companies to improve their reporting of their environmental and social impact. By disclosing their results in areas such as water and energy use, waste and workplace safety, businesses will be encouraged to improve their performance.

For investors such as Aviva, which has been a leader in urging greater transparency on these issues, those factors are vital information because they can have material consequences for companies' financial results.

That argument is clearly gaining ground. Governments and stock exchanges around the world are coming out in support of "sustainability reporting", as it is known, driving the most far-reaching changes to corporate disclosure since the move towards international accounting rules a decade ago.

It could have a far-reaching effect on corporate strategy and investor behaviour, particularly in environmentally sensitive industries such as energy and food.

Mark Fulton of Deutsche Bank asset management, which has been seeking to highlight the importance of environmental issue for investors, says: "If a company doesn't rate well on these issues, it could be forced to do something about them. The question for companies is not just the cost of doing the reporting: it's that it could mean a change of strategy. That's where it gets serious."

Coca-Cola and PepsiCo, for example, have been increasing their disclosure about water use, and making it more of an issue in their sourcing and investment decisions.

At this week's Rio+20 summit, where there will inevitably be a large number of well-meaning but nebulous aspirations, an international commitment to push companies towards reporting more environmental and social data could be one of the most concrete outcomes.

Even if governments fail to agree such a commitment, companies, investors and stock exchanges are using Rio to announce further moves to increase the disclosure and use of environmental and social information.

The Sustainable Stock Exchanges Initiative, a UN-backed group, is on Monday holding a conference in Rio with exchanges including Nasdaq OMX from the US, Bovespa from Brazil, and the Istanbul stock exchange, at which some of them are expected to talk about requiring more disclosure of sustainability information from companies as part of their listing standards.

Mindy Lubber, president of Ceres, a US-based coalition of investors and environmental groups, says increased demands for environmental and social data from exchanges would be "an important step in the right direction".

She adds: "Voluntary reporting is great, and sustainability reporting is growing fast. But some disclosures ought to be mandatory, such as information about climate change. That is a material risk to businesses."

The model for campaigners on this issue is the Johannesburg exchange, which since 2010 has required every listed company to publish what is known as an integrated report, including environmental and social data alongside their financial results.

Other exchanges vary as to how far they want to follow that example. Bovespa has introduced the "report or explain" model advocated by Aviva, under which companies have to either publish environmental and social data or say why those issues are not material to their business. The Singapore stock exchange has published recommended guidelines for sustainability reporting, and suggested that they could become mandatory.

US exchanges and companies have generally not moved as far in this direction. NYSE Euronext is not sending anyone to Rio and Nasdaq talks about being in learning mode.

Practices vary widely among US companies. Some, including Southwest Airlines and United Technologies, the manufacturing group, produce full integrated reports but the US also has large international companies that do no sustainability reporting.

Overall, the state of integrated reporting today is where financial reporting was before the Great Depression and the creation of the Securities and Exchange Commission in 1934, according to Bob Eccles of the Harvard Business School. It lacks the whole infrastructure of standards, audit and supervision that now exists for financial data.

As a result, says Prof Eccles – who is the chairman of the Sustainability Accounting Standards Board, a new body set up to fill in those details for US corporations – even if there is a commitment by governments to require increased sustainability reporting, it would not have much immediate impact. There will still be a great deal of work to do to set out exactly what that would mean for companies.

Meanwhile, many investors still do not make use of the environmental and social information that they are given.

Even so, Ernst Ligteringen of the Global Reporting Initiative, a non-profit organisation that draws up sustainability reporting guidelines, believes progress towards increased disclosure is inevitable.

"It's only a matter of time. It may not be this year, but in five years I believe it will be virtually everywhere."