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INSIDE THIS PUBLICATION:

Balancing the New Demands on

Sustainability Reporting

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COMPLIANCE WEEK

Compliance Week, published by Wilmington Group plc, is an information service on corporate governance, risk, and compliance that features a weekly electronic newsletter, a monthly print magazine, proprietary databases, industry-leading events, and a variety of interactive features and forums.

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Inside this e-Book:

Pressure Is on to Get Sustainability Reporting Right

Regulators, activists, and investors are pushing companies to do a better job on sustainability reporting

By Karen Kroll

As sustainability reporting steadily moves into the mainstream, companies are faced with dual challenges: determining just what sustainability data will be informative for the audience they want to reach, and developing efficient processes to gather that data.

"It's very easy to say companies should report more about sustainability and how it relates to their business performance. But actually getting the right metrics and reporting on them is a challenge," says Don Reed, managing director with PwC's sustainable business solutions group.

The task will only get harder, as sustainability reporting mandates proliferate across the globe. "Carrots and Sticks," a research project of the Global Reporting Initiative, the United Nations, and others, recently reviewed sustainability and corporate social responsibility (CSR) reporting across 45 countries. The increase in mandatory reporting has been pronounced. In 2006, 58 percent of policies were mandatory; now, 72 percent of 180 policies in these countries are mandatory. One example: a requirement in India for sustainability reporting by state-owned companies.

Along with national regulations, a number of stock exchanges have, or may soon require, sustainability reporting for their listed companies. In a 2012 survey by the Sustainable Stock Exchanges Initiative, more than two-thirds of exchanges that responded indicated that they require or encourage reporting on sustainability-related issues.

Then there's the attention from investors. According to the 2012 Report on Sustainable and Responsible Investing Trends in the United States, as of year-end 2011, $3.74 trillion, or about one out of every nine dollars under professional management, was invested according to sustainable and responsible investing strategies. (The next report will be published at the end of 2014.)

Perhaps not surprisingly, then, a small but growing number of U.S. companies are disclosing environmental and social practices. In 2013, about 19 percent of U.S. companies disclosed their environmental and social practices, up from 10 percent in 2012, according to the Conference Board.

Frameworks

Companies that want to provide sustainability disclosures need to address two points, Reed says. First, determine to whom the disclosures need to be meaningful. Second, identify the information that will be meaningful to those groups. Based on those answers, companies are better able to choose a suitable disclosure framework.

The most newsworthy framework lately has been developed by the non-profit Sustainability Accounting Standards Board (SASB). Its standards, published one sector at a time since last year, are geared to U.S. public companies that disclose sustainability issues in mandatory Securities and Exchange Commission filings, such as companies' Form 10-Ks.

That's not to say that disclosures made under SASB standards wouldn't interest other stakeholders, such as employees or labor groups. However, "they're designed to be meaningful to financial stakeholders," Reed says.

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>
> Don Reed, Managing Director, PwC

The SASB standards help companies comply with existing disclosure regulations, especially those found within Regulation S-K, which requires "a brief description of material information on known trends and uncertainties that affect results of operations and financial performance," says Doug Park, SASB's director of education.

Because the issues that are material can vary from one industry to another, SASB standards are being developed for specific industries, Park says. The standards for the healthcare sector were released in mid-2013; those for the financial sector were released in February 2014. Standards for a handful of other industries, including technology, communications, and transportation, are scheduled for later this year. Diversified companies would use all sector standards applicable, Park adds.

Companies' use of the SASB standards currently is voluntary. The group believes, however, that "it's in companies' best interests and the best interests of the market to disclose information with SASB," Park says.

As of early March, the SASB's health standards had been downloaded nearly 1,500 times, an SASB spokesperson reports. The financial standards had been downloaded 450 times.

The GRI and IIRC Frameworks

In contrast to the SASB standards, the Global Reporting Initiative (GRI) guidelines "use a multi-stakeholder ap-

proach," with input from labor, investors, and society at large, as well as business, says GRI chair Christianna Wood. The guidelines cover the economic, social, and environmental aspects of organizations' operations, such as their labor and human rights practices and use of energy and other resources.

As a result, GRI reports might be relevant to a number of groups. Moreover, GRI standards can be used by non-profit and government entities, as well as businesses. (Indeed, in December 2013, Mayor Rahm Emanuel announced that Chicago would report under GRI.)

Yet another framework, Integrated Reporting, is being developed by the International Integrated Reporting Council. Integrated Reporting focuses "on value creation, and the 'capitals' used by the business to create value over time." As result, integrated reporting "provides the framework within which more long-term decisions can be made … and contributes toward a more financially stable economy and sustainable world," the IIRC says. More than 100 businesses are part of a pilot program. Among them are several headquartered in the United States, including Edelman, Cliffs Natural Resources, and Microsoft.

Gathering & Developing

Once an organization has identified the groups to which it will report sustainability information, and the framework most suitable to those audiences, it then must assemble and analyze the information to be included. That's not easy. "These are not trivial reports to put together," Wood says. "They take resources, staffing, knowledge, and information gathering."

A starting point is identifying the information already available to the company and determining how that compares to the information the organization would like to present, Reed says. "It may be that they're already gathering data that's useful in demonstrating performance on indicators."

Once gaps in the data are clear, the organization can create the systems, processes, and controls needed to gather what's missing. While some organizations turn to their ERP systems "most companies use more manual processes, like spreadsheets, to gather data from people at different locations," Reed says.

The data collection and presentation processes will get easier with time, as companies master the chore and share lessons learned. SASB, for instance, is developing a corporate roundtable to help companies learn how to use the standards and to offer guidance on technical and logistical issues, Park says. (The group is scheduled to launch mid-year.)

Over time, the various sustainability reporting frameworks may converge. As the Carrots and Sticks report observes, "As reporting organizations voice their concerns about the various frameworks they may use or need to comply with, there will be increasing calls for the alignment and harmonization of frameworks."

At the same time, the "journey of integrated thinking"—that is, the acknowledgement that business processes can affect not only a single company, but also its workers, customers, the environment and society—that sustainability reporting drives will also offer a more holistic way to view the processes occurring within an organization, Wood says. While such an approach requires more thought about a company's operations, it also may lead to more integrated, long-term decision making, she adds. ■

CSR TRENDS

The Global Reporting Initiative's "Carrots and Sticks" publication found major developmental trends in sustainability and CSR to be:

- Continued and growing interest in regulation, including corporate governance and disclosure requirements
- An increase in the number of countries becoming involved in the sustainability reporting policy arena, including developing countries
- An increasing number of policies inspired by or based on a 'report or explain' approach
- Growing reference to existing sustainability and reporting frameworks, and the continuing emergence of new frameworks
- A consistent focus on large and state-owned companies, yet voluntary reporting by SMEs is increasing
- Sustainability reporting has become a listing requirement on several stock exchanges in non-OECD countries
- The United Nations is now also asking governments to stimulate sustainability reporting by developing best practice and smart regulation
- In their introduction of policies, regulation and guidelines, governments are striving to harmonize the use of multiple frameworks

Source: Global Reporting Initiative.

The CFO and the Sustainability Reporting Chain

Why CFOs should care about sustainability reporting

By Francis Quinn, Elizabeth Ewing, and Mike Sellberg

It goes without saying that Chief Financial Officers (CFOs) pay a lot of attention to the financial performance of their companies—in particular, anything that could impact the bottom line in a positive or negative sense. Sustainability is increasingly on the minds of CFOs because it highlights various reputational and operational risks that should not be overlooked, including compliance issues.

These issues range from the necessity of banks in the United States having enough capital to pass Federal stress tests, to the imperative of dealing with oil spills like in Galveston Bay—which takes a terrible ecological and commercial toll—to the critical steps taken by General Motors addressing issues relating to vehicle safety.

Sustainability is becoming a business imperative regardless of whether the company operates in developed or emerging markets. The expectations of both customers and investors are evolving as more attention is paid to issues such as environment, social impacts, and governance.

Sustainability has presented some companies with substantial business opportunities. For example, GE's Ecomagination line of products brought the company US$21 billion in sales in 2011.[1] Furthermore, P&G reports that from 2007 to 2011, its Sustainable Innovation Products earned US$40 billion in revenue.[2]

The CFO plays an important role in key investment decisions because of the responsibility for evaluating new opportunities—such as sustainability-focused product offerings—and for identifying and analyzing any potential risks. That being said, not all CFOs are embracing the transition under way.

More and more investors are using sustainability as an investment criterion. ExxonMobil recently became the first energy company to respond to this investor interest by publishing a report on how it assesses carbon asset risk.[3] Energy markets are shifting in fundamental ways, and shareholder value is at stake if companies are not prepared to survive in a low-carbon economy.

As oil gets harder to find and extract, more and more unconventional assets, such as deep-water and tar sands, are being booked on balance sheets. These reserves are not only the most carbon intensive, risky, and expensive to extract, but are also vulnerable to devaluation. Investors will move their money to companies that are clearly managing these risks well and likely avoid companies that have not demonstrated management of said risks.

Forward-thinking CFOs need to reassess how they allocate shareholder capital and act strategically to keep their business models focused on managing these new issues. Deutsche Bank research found a marked correlation between strong environmental and social performance and a lower cost of capital. This correlation is clearly of interest to the CFO of any company trying to grow the business.[4]

Deutsche Bank research found a marked correlation between strong environmental and social performance and a lower cost of capital. This correlation is clearly of interest to the CFO of any company trying to grow the business.

Furthermore, CFOs must manage investments in new assets

1 "Progress Ecomagination Report 2011." (2011). General Electric. Retrieved from http://files.gecompany.com/ecomagination/progress/GE_ecomagination_2011AnnualReport.pdf

2 "2011 Sustainability Overview: Commitment to Everyday Life." (2011). Proctor & Gamble. Retrieved from http://www.pg.com/en_US/downloads/sustainability/reports/PG_2011_Sustainability_Overview.pdf

3 Makower, J. "Exxon, Stranded Assets and the New Math." (2014). GreenBiz.com. Retrieved from http://www.greenbiz.com/blog/2014/03/24/exxon-stranded-assets-and-new-math

4 "Sustainable Investing: Establishing Long-Term Value and Performance." (2012). Deutsch Bank Climate Change Advisors. Retrieved from https://www.dbadvisors.com/content/_media/Sustainable_Investing_2012.pdf

as well as any potential new liabilities, including carbon taxes and carbon credits. Good compliance increasingly requires companies to provide more accurate sustainability information. A 2011 study looked at 24 countries that have introduced mandatory reporting requirements since 2005, and all increasingly require third-party verification of the data disclosed.[5]

Another study concluded that sustainable supply chain practices that combine both social and environmental initiatives are positively associated with corporate financial performance as measured by return on assets and return on equity.[6] According to the study, these positive effects are not always immediately apparent, and a time lag of two years or more is not uncommon.

Since 2010, CFOs in the United States must personally sign off on the controls and procedures that are in place to report material climate change-related risks. Under these regulatory requirements, all CFOs need to ensure their companies' processes are high quality: climate change-related data must be quality assured and provenance verified as both reliable and pertinent.

As the importance of such reporting grows, the know-how, resources, and rigor that finance teams have in place for gathering and analyzing data will naturally lead them to take an increasing interest in how sustainability-related issues are managed.

That being said, it is not about CFOs taking on the responsibilities of other colleagues. Rather, CFOs are likely to take on a central role in managing the evolving way business performance is measured, evaluated, communicated, and perceived by stakeholders.

This paper seeks to lay out the complex landscape of sustainability reporting and provide some guidance for CFOs in selecting a system that can address their needs for developing sustainability reports.

5 Ioannou, I. and Serafeim, G. (2011, 2012). "The Consequences of Mandatory Corporate Sustainability Reporting." Harvard Business School Working Paper. Retrieved from http://www.hbs.edu/faculty/Publication%20Files/11-100_35684ae7-fcdc-4aae-9626-de4b2acb1748.pdf

6 Isaksson, R. and Steinle, U. (2009). "What does GRI-Reporting tell us about Corporate Sustainability?" The Total Quality Management Journal, Vol. 21 Issue 2, pp.168-191.

Overview of the sustainability reporting chain

Sustainability is a new approach to assess the vitality of companies and is becoming increasingly relevant on a global scale for its in-depth evaluation of investment and development opportunities. Sustainability is of paramount importance because investors, faced with the uncertain evolution of the global financial crisis, are looking at evaluation differently. They are evaluating not only the short-term financial performance of companies, but also their real viability: in other words, their ability to grow in the context of new challenges and managing new risks generated by a rapidly changing world.

The sustainability approach permits analysis of a company's capacity to develop innovative technologies, secure its access to raw materials essential to business, and manage economic recession trends in addition to its impact on sustainable consumption.

Furthermore, it is critical that this approach be considered by companies operating in emerging economies, including China, India, and Brazil, where national values are strongly supported by local authorities. These values can create political pressure to create new social and environmental regulations.

Leading companies recognize that it is in their own vested interest to acknowledge stakeholder queries and see sustainability and its underlying rationale very differently from their predecessors. In fact, they recognize two complementary aspects to sustainability that are not mutually exclusive: risk management and business growth opportunities.

What is the sustainability reporting chain?

The sustainability reporting chain is the group of departments, affiliates, subsidiaries, partners, distributors, suppliers, and customers that comprise a company's global reporting network as it relates to environmental impact and social responsibility. With increasing industry regulation and the growing importance of managing risk in a proactive manner, organizations now realize the necessity of collecting, analyzing, and continuously monitoring, as well as reporting sustainability data to its many stakeholders.

Who is and who should be involved?

Local operational teams that manage the collection, analysis, and validation of the sustainability data of their particular areas—for example, environment or health and safety—need to be directly involved. The process for collecting this data is generally either manual or semi-automated and may use spreadsheet templates or data from an enterprise system. The information is then rolled up into internal reports for local weekly and monthly reporting.

Data from local operational teams are subsequently consolidated by **corporate operational teams** across the entire organization for inclusion in quarterly environmental compliance reports, monthly or quarterly operation reviews, or annual re-

ports at a corporate level. Naturally, these documents include the corporate sustainability report.

In some companies, a cross-functional **sustainability team** manages the authoring of the monthly operation reports, quarterly board reports, and the annual sustainability report. Additionally, they will manage submissions to various ratings agencies, non-governmental organizations (NGOs), and analysts. This team collects information, both numbers and narrative, from departments across the entire organization for its reports.

The different departments typically include:

» Operations
» Human resources
» Environment
» Health and safety
» Supply chain
» Research and development
» Philanthropy

The sustainability team authors the draft report to be reviewed before final publication, whether web-based, paper, and/or mobile devices, ideally by:

» Operational SMEs
» Vice presidents
» Communications
» Public affairs
» Internal audit
» Legal
» Executive teams

As the report is being finalized, the CEO will review and approve the document.

Sustainability **consultants** are external firms that are hired to assist the sustainability team in a range of activities: identifying material sustainability issues, benchmarking performance and reporting practices, interpreting sustainability information, crafting the messaging, identifying information management needs, and recommending strategic next steps.

After the content is approved, the **design team** incorporates it into the designed layout. This team is typically external and works closely with the sustainability team to ensure the design is in line with the company branding and messaging.

In some cases, the **internal audit team** reviews the company's sustainability data from three perspectives: quality, pertinence, and provenance. The team can provide an internal, independent review of the data before the report is published.

A few companies engage the services of **external assurance** firms that specialize in verifying the accuracy of the whole sustainability report, specified performance claims, and/or report data. They provide an external, independent opinion on the reliability of the information. They may also weigh in on underlying reporting processes such as stakeholder engagement, materiality assessment, or data systems.

External assurance teams require access to the company's data collection and internal review processes as well as the people responsible for the content of the report. After the audit is completed, a signed assurance statement is typically presented in the sustainability report or on the company website.

Sustainability reporting chain life cycle

There are four main components of the sustainability reporting chain:

» Identifying the right set of material issues
» Data collection, analysis, and validation
» Reporting
» Publication

Once the right issues are identified, supporting information comes from operational facilities, subsidiaries and/or affiliates, and suppliers who provide information regarding their sustainability performance. Data is collected from across the company in many areas, including environment, emissions, water, waste, recycling, health and safety, compliance, supply chain, human resources, philanthropic activities, and relationships with local communities (Figure 1). Most sustainability reporting frameworks require companies to describe the way they manage these important issues, and how they measure performance, in the sustainability report.

Figure 1
Various data types in the sustainability chain

Environmental	Waste	Conflict minerals
Health and safety	Recycling	Philanthropy
Emissions	Compliance	Community relationships
Water	Supply chain	Human resources
Social media		

After the data is collected, the company must analyze, verify, and report findings both internally and externally. There are various departments, operational facilities, and teams that work within this process. Certain key indicators that are materially important are disclosed to stakeholders in various formats, including annual sustainability reports, integrated reports, investor relations presentations, and websites, as well as submissions to ratings agencies, NGOs, and analysts. Often times, important data and narrative commentary are leveraged across these reports and submissions.

However, the data set presented in the externally facing reports tends to be a portion of the full data set gathered by the company to manage its activities. The full data set is used to compile a broad range of internally facing reports, including monthly operations reports, risk reporting, quarterly scorecards, and progress reports to the board of directors or the executive.

Reporting frameworks, ratings agencies, and formats

A number of sustainability reporting frameworks provide guidance as to what a company should talk about in its annual sustainability report. Companies are free to choose whether they follow any of these frameworks. The most commonly used are the Global Reporting Initiative (GRI) guidelines. Another framework in the United States that is gaining some attention is the Sustainability Accounting Standards Board (SASB).

The fundamental difference between GRI and SASB lies in their audiences: GRI is stakeholder based, while SASB is specifically designed for investors.

The fundamental difference between GRI and SASB lies in their audiences: GRI is stakeholder based, while SASB is specifically designed for investors. Therefore, reports following the GRI guidelines are an expression of how companies identify, manage, and react to the effects on stakeholders. In contrast, reports following SASB standards communicate the organization's performance across a broad spectrum of topics and focus on issues that may affect the organization's near-term financial situation.

Each year companies receive requests from multiple sustainability rating agencies to provide information that the agencies analyze. This analysis is used to determine a perceived performance ranking of these companies, which is then published. The CDP (formerly know as the Carbon Disclosure Project) and Dow Jones Sustainability Index (DJSI) are probably the two best-known examples. In both cases, they send large questionnaires to companies in order to gather as much information as they can about the company and its activities. Most of the questions are common to all companies, but a portion are more specific to certain large sectors of activity.

The CDP has questionnaires for four major topics: carbon, water, supply chain, and forests. Companies provide information on a voluntary basis, and their submission and CDP ranking are posted online in the public domain.

Participation in the DJSI is by invitation only. Neither the information provided nor the final ranking is made public. Companies that do not provide information can still be ranked using information on the company gathered from the internet.

Sustainability reports are typically published in multiple formats including printed reports, interactive websites, PDFs posted to the internet, and reports designed for mobile devices. Some companies produce a complete report and also publish an executive or data summary. Companies also produce reports by geographical region to specifically address topics of local concern.

Once the company has finalized the sustainability report, it is published in the public domain for the benefit of the company's stakeholders. Stakeholder groups typically include shareholders, investors, employees, customers, suppliers, regulators, NGOs, and local communities.

In an attempt to be more responsive to stakeholder requests for more frequent updates on sustainability performance, some forward-looking companies are moving to more frequent external reporting that is published directly to the internet.

An integrated report combines both full financial disclosure and sustainability performance in a single document. Integrated reporting is mandated in several countries around the world. In fact, the International Integrated Reporting Council (IIRC) recently issued a framework for integrated reporting. According to some sources, 700 integrated reports were published last year with more companies publishing their integrated reports directly to the internet.[7] Some of these companies recognize that integrated reports may not reach the same range of stakeholders as sustainability reports and continue to publish a sustainability report for their broader audience.

Financial regulatory bodies are beginning to increase the scope of reporting mandates to include significant sustainability-related issues. In addition to disclosures on climate change risk, poten-

7 "CR Perspectives 2013: Global CR Reporting Trends and Stakeholder Views." (2013). Corporate Register. Retrieved from http://www.corporateregister.com/downloads/files.html

tially significant regulatory changes, and material environmental liabilities, publicly listed companies in the United States are now required under the Dodd-Frank Act to disclose on the presence of conflict minerals in manufactured goods. Additionally, the Securities and Exchange Commission (SEC) currently mandates disclosure of a basic set of sustainability indicators in the 10-K.

As mentioned previously, SASB is leading an initiative to see more comprehensive sustainability disclosure in filings to the SEC, in particular to address material sustainability issues in their 10-K documents.

Global firms with large supply chains typically require their suppliers to provide a substantial amount of information pertaining to the suppliers' sustainability performance on a range of issues, including environment, human rights, social, and labor. This information is generally conveyed in the form of boiler templates that suppliers are required to fill out and subsequently rolled up to the global firm.

Partly as a result of the 2008 financial crisis in the United States—and the recognition that the global economy and society are crippled without trust—stakeholders are focused on how they can determine whether companies are trustworthy.

Data, materiality, and verification

Assurance and verification

This mistrust of corporations' financial disclosures has been recently exacerbated by incidents such as the BP oil spill in the Gulf of Mexico, Tepco's mishandling of the Fukushima Daiichi nuclear disaster, and the uncovering of horse meat in Tesco's British beef industry products. Market values of these companies fell significantly in the wake of these incidents, reflecting loss of investor trust in company management and disclosures. Incidents such as these underscore the difficulty of judging the adequacy of company processes, environmental and social risks, and the potential financial consequences.

The role sustainability information plays in global business relationships reflects the increasing attention being paid to the non-financial effects of economic activity. Sustainability-related effects include a broad range of environmental, social, and governance issues. Awareness of large-scale global trends (e.g., climate change, warming oceans) and global issues (e.g., poverty, inequality) that affect the above issues is increasing. The information that companies provide on these non-financial topics helps stakeholders understand how they are navigating this changing global landscape and how their business strategy and risks are being managed.

External assurance can provide some level of confidence over the processes used to report data allowing informed management decisions based on accurate and reliable information, and further improving the credibility of external disclosures to stakeholders on performance. In the United States, about 10 percent of companies that publish sustainability reports have a third-party assurance provider verify all or part of the data presented in their communication.[8]

Data and materiality

Given the existing set of sustainability reporting standards, it is easy for some to consider sustainability reporting as an exercise in checking boxes and providing data sets. However, sustainability reports are not simply about providing data. The real questions companies need to ask are: What do people want to know about our company, and why? Ideally, the information that companies communicate should be the data that matters to stakeholders—their interests, questions, and concerns.

In the world of sustainability, this is referred to as material information, though the meaning differs from the financial definition. The idea is for each company to understand the:

- Interactions it has with stakeholders on environmental, social, and economic topics
- Significance of these and other issues to the company's own strategy, risk management, and success
- Issues that are important to both the company and to the stakeholders are deemed material, and are issues important for the company to engage in a continuing conversation
- Context of materiality for sustainability reporting purposes, the notion of the corporate boundary extends beyond the financial entity to effects that can occur both upstream and downstream in the value chain

There are several ways companies can verify that the information shared with stakeholders is reliable. Companies can have their management systems and internal processes certified to conform to recognized standards, such as ISO 14001, OSHAS 18001, ISO 14064, AA1000APS, or the GRI principles. In addition, the reported information can be assured, which means the assurer collects evidence to support the company's claims or the accuracy of the data in the sustainability report.

CFOs should recognize the wide variety of types of assurance and a range of processes and information on which assurance or verification can be performed. Unlike financial reports, which are developed according to standards designed to produce a uni-

form level of reliable information, the content and reliability of sustainability reports is much harder to discern and is often not verified by third parties. Even when third parties have reviewed company information, the methodologies, the competency of the auditors and the rigor of these reviews vary widely.

Data systems and quality

The new, broadening expectations around sustainability information are driving change in the systems available to manage corporate data and ensure quality. Though change is underway, investment in sustainability data management systems has not yet caught up with the resources devoted to financial data management. Inadequate appreciation of the effect of sustainability performance management on financial results hinders investment and transparency, even though the demands for transparency and accuracy in the areas of environment, health, and safety are similar to what has taken place in the financial markets over the last 10 years.

For the purposes of sustainability reporting, metrics and data are truly most valuable in the context of performance discussions around topics important to the organization and its stakeholders. Strategic risks and opportunities ought to be managed by internal programs and processes. The performance of such programs can then be measured with the right kinds of metrics and supported by solid data.

Once the material issues for various stakeholder groups have been appropriately defined and metrics have been identified, there still remains the challenge of how to measure the underlying data.

For example, though the methodologies for calculating greenhouse gas (GHG) emissions have settled out to some clear standards, companies still have several choices on how to report this information to their stakeholders. Some companies report absolute GHG emissions (total metric tons emitted), others report an intensity measure (metric tons/MWh or metric tons/sales), and some report both. The way this data is reported can make a difference in how stakeholders perceive and understand a company's performance.

Additional issues that complicate disclosure of high-quality data include the scope of the data collected, the original source of the data, the collection process, calculation methodologies, and the chain of custody of data from source to the corporate level.

Best practices to address these issues include the implementation of robust internal systems, such as processes that link material issues to the data collection process, internal checks and balances on data quality, management review of data, and balancing the effects of performance incentives tied to certain metrics. Such initiatives can speed data availability and reduce human error that can result from less sophisticated approaches. The potential risk of disclosing incorrect data and damaging trust is also reduced.

Sustainability reporting chain software application requirements

The CFO and sustainability reporting software

As a CFO gains understanding of the organizations, people, data, processes, and reports associated with their sustainability reporting chain, it is critical the company understands the key software requirements for reporting applications that extend across their chain. Companies are moving from just managing environmental issues to broader sustainability platforms that can drive improved operations and business performance. 60 percent of companies in a recent analyst survey said they were looking to increase the scope of issues managed under their environmental departments or programs over the next two years.[8]

When CFOs evaluate how sustainability reporting throughout this chain can drive improved business results, they should discuss key system and functionality requirements for sustainability reporting applications with their Chief Information Officers (CIO), Chief Sustainability Officers (CSO), and Vice Presidents of Environment. The following will assist in initiating and conducting these joint discussions. The ideal software requirements are segmented into five key areas:

1. Cloud-based sustainability platforms
2. Data management—the sustainability reporting chain system of record
3. Controlled co-authoring of complex reports
4. Change management with seamless real-time updates
5. Review, publishing, and mobile access

Cloud-based sustainability platforms

Most companies' sustainability reporting chains are global. It is key that sustainability reporting applications be cloud based to provide

8 Green Quadrant Environmental Management Software. (2012). Retrieved from http://www.verdantix.com/index.cfm/papers/Products.Details/product_id/430/green-quadrant-environmental-management-software-global-2012/-

instant and easy access to individuals in any division or company, residing anywhere around the globe. The same type of access is extremely cumbersome and expensive to achieve with on-premise systems that require a complex network and VPN infrastructure and firewall configurations maintained by large IT staffs.

Cloud-based systems enable rapid deployment of solutions, which can put business applications in the hands of users sooner than traditional enterprise software/on-premise deployments. This provides companies with a lower cost for implementation and quicker time to value. Cloud-based platforms allow for easy upgrades without IT involvement or messy installations on users' local computers. Many on-premise systems experience lengthy IT delays when upgrades are attempted. In contrast, many cloud-based solutions are updated several times a year, with no effect on the end user.

Companies should look for systems that are designed for business users and don't require IT involvement, including system administration. These systems tend to focus on simpler user experiences by avoiding complex interfaces. Why should something as simple as creating a new template, adding a user, or changing user permissions require IT involvement?

Of course, companies can choose to involve IT when necessary, but requiring that involvement substantially slows the pace of productivity. Sustainability managers should be able to control the platform for their teams by using "zero IT" software that is easy to access, use, and administer.

These types of user-friendly solutions are more readily adopted, have higher customer satisfaction ratings, and reduce IT overhead for maintenance, changes, and upgrades. Analysts predict that complex on-premise solutions such as ERP systems will migrate to the cloud aggressively due to some of these constraints.[9]

Figure 2

What the cloud brings to the table for CIOs

	On-Premise	Cloud-Based
Future of software delivery		X
Rapid innovation		X
Customer/Vendor—shared risk model		X
Application and infrastructure economies of scale		X
Lower total cost of ownership (TCO)		X
IT deployment	X	optional
IT administration	X	optional
Seamless/Non-Disruptive maintenance and upgrades		X
Proactive infrastructure scaling		X
Uptime and availability	X	X
Natively designed for global web access		X
Data redundancy (3 or more instances)		X
Data security	X	X
Security innovation		X

Sustainability reporting system of record (SRSoR)

Companies that have implemented on-premise environmental, health, and safety (EHS) databases have received value per the annual Verdantix Green Quadrant Report:

> *...many customer panel members said establishing a single repository for managing their firm's global EH&S data was the main benefit they derive from deploying software. Particularly for recent implementers of software, this represents a significant step up from managing their data via multiple spreadsheets, custom-built databases and paper log books.*[10]

These systems ultimately provide value to sustainability efforts, but at what cost? Companies have traditionally taken the on-premise, enterprise deployment methodology much the like ERP implementations of the 1990s and early 2000s. This ERP-like implementation approach for EHS can take years, involve large numbers of business and IT staff, and cost millions of dollars.[11]

Furthermore, consider that these systems are primarily de-

9 Ganly, D., Kyte, A., Rayner, N., and Hardcastle, C. "Predicts 2014: The Rise of the Postmodern ERP and Enterprise Applications World." (2013). Gartner. Retrieved from https://www.gartner.com/doc/2633315

10 Green Quadrant EH&S Software. (2014). Verdantix. Retrieved from www.verdantix.com/index.cfm/papers/Products.Details/product_id/657/green-quadrant-eh-s-software/-

11 "EnCompass expands sustainability reporting at Enbridge." (2013) Enbridge. Retrieved from http://csr.enbridge.com/The-Environment/Greenhouse-Gas-Emissions/Expanding-Sustainability-Reporting

signed for EHS data. Where does the complete set of sustainability data needed for reporting across a company's sustainability reporting chain fit into that paradigm? A new system of record for all sustainability reporting chain data is needed (Figure 2)—a SRSoR.

The need for this new system has recently been recognized by experts:

> *Being able to 'close the books' on the sustainability data set, as well as the financial data, in real time will be essential to timely communications, and an enormous improvement over the many-month-delay in data availability that currently exists. Real-time, high-quality data management systems will enable companies to track lagging indicators of performance and leading indicators of risk—and therefore manage the business more precisely.*[12]

Key requirements for a new SRSoR are:

- Provide comprehensive support for all sustainability data
- Provide a common datastore for collecting and organizing both structured and unstructured sustainability data
- Bring meaning and trust to data
- Provide real-time datastore technology that meets the data in motion requirements of the sustainability reporting chain

There is a distinct need for a SRSoR that is comprehensive in its support for the gamut of sustainability data throughout the reporting chain, not just EHS data. It must be able to easily support the addition of new data types as business imperatives require. It must be able to quickly extend the datamodel to support a decision to collect social media for social risk and compliance management—a trend that is becoming more prevalent.[13]

A SRSoR must synchronize with structured systems to access EHS or financial data and also support the collection and management of unstructured sustainability data. This provides a common sustainability datastore, which can be used for linking into a variety of sustainability reports (Figure 3). If an EHS system is in place, the SRSoR provides a necessary complement to all other sustainability data along with synchronizing the EHS data in a common datastore with other unstructured data.

The amount of data and information that is moving through the sustainability reporting chain is increasing. This information is often ad hoc or unstructured data and exists in the form of spreadsheets, documents, images, and files. It is scattered across emails, file systems, and websites. Analysts estimate this unstructured information is more than 90 percent of the information in an enterprise.[14]

12 Ewell, E. (2014). "Trust, But Verify" a chapter in CSR Index 2014. New York: InnoVatio Publishing.

13 Hayes, N., McClean, Duong, J. (2014). The Forrester WaveTM: Social Risk and Compliance Solutions, Q2 2014. Forrester.

14 Gantz, J. and Reinsel, D. (2011). "Extracting Value from Chaos." IDC Digital Universe Study. Retrieved from http://www.emc.com/collateral/analyst-

Figure 3

Data Request	Data Compilation	Process Management
Restricting structural and formula changes—define reference and input cells	Aggregating data from multiple sources	Process dashboards—visibility into template and provider status
Indicating requirements for data providers	Copying/pasting or rekeying adds risk	Administering template permissions
Distributing templates	Navigating multiple templates	View contributors to aggregations
Changing templates mid-cycle	Ensuring version control	Safeguarding data
Require approvals for data providers	Real-time integration with SRSoR datastore	Accessing templates remotely
Variance calculation/commentary	Real-time updates of sustainability reports	Linking data into multiple destinations

The SRSoR must provide capabilities to automate manual data collection processes with the goal of giving teams more time for analysis. Typically, the manual operations of searching, collecting, aggregating, and managing the data providers—sometimes hundreds of providers—take up most of the sustainability teams' time, leaving little for analysis and strategic interpretation.

To achieve this goal, a data collection system should bring a nimble structure to the unstructured data world by providing:

- Collection templates that can be developed by business users, not the IT department
- Automatic consolidation of information from various sources and global teams
- Automatic roll-up and aggregation across data providers' submissions
- Seamless integration into the SRSoR datastore
- Visibility and oversight of the entire collection process

The key functionality of a data collection application for unstructured sustainability data is listed in the following table.

Once a common datastore for sustainability data has been established, it is important to embed both meaning and trust into this data. The most advanced way to bring meaning and trust into data is by using semantic tagging.[15] This involves tagging data with terms that themselves are tagged, so that each term is well defined. Definitions can be concise, without ambiguity, and can even show how terms relate to each other.

This process of tagging creates what is called semantic data. This type of data captures the meaning of other data. This data about data (metadata) may be used to capture contextual information that increases data quality and trustworthiness and is thus essential to every organization's sustainability activities.[16]

Data that is meaningful and trustworthy has been analyzed, interpreted, and curated with strategic insight embedded. It is important that a SRSoR adapts to include this embedded insight as new data about the data. Semantic data model architectures can provide the SRSoR with these capabilities. For a primer on semantic data including technologies being utilized today, see linkeddatatools.com and *CSR Index 2014*.

The technology behind the SRSoR must provide a real-time datastore for the highly unstructured data requirements of the sustainability reporting chain. Traditionally rigid, relational database management systems (RDBMS) no longer meet the requirements of today's data management challenges. Instead, nimble, flexible, and extensible datastore technologies are needed to support data in motion ecosystems such as the sustainability reporting chain. These technologies must also be designed for use by business teams, not just IT professionals.

Fortunately, there is a next generation of datastore technologies based on the key-value datastore and graph datastore architectures. This is the NoSQL approach (see nosql-database.org and www.mongodb.com/nosql-explained for details). A graph datastore such as HyperGraphDB (www.hypergraphdb.org) can be utilized to implement a semantic data model, as outlined above. These next-generation datastores are designed to power cloud-based platforms that provide scalability, availability, reliability, and enhanced security.

Since traditional EHS systems are built on legacy RDBMS, companies looking to manage EHS data for the first time can consider a cloud-based SRSoR to collect and manage all sustain-

Figure 4

Key requirements of SRSoR datastore technology

	SRSoR Datastore	Traditional RDBMS EHS Systems
Supports cloud-based platforms with scalable and reliable architectures	X	X
Scalable key-value datastore	X	
Semantic graph-enabled datastore	X	
Enhanced security through distributed architecture	X	X
Data model extensible by business users, not IT	X	
Complements and extends traditional EHS RDBMA investment	X	
Data collection applications for managing unstructured data	X	
Web-based data APIs for external application access to sustainability data	X	X

reports/idc-extracting-value-from-chaos-ar.pdf

15 Quinn, F. (2014). "Corporate Social Responsibility: From 'Compliance' to 'Performance'" a chapter in CSR Index 2014. New York: InnoVatio Publishing.

16 Ritz, D. (2014). "Trust is Technical Matter" a chapter in CSR Index 2014. New York: InnoVatio Publishing.

ability and EHS data. The advantages of a SRSoR over traditional EHS databases is shown in Figure 4.

Controlled co-authoring of complex reports

Most sustainability reports cannot be generated from an ERP or EHS system as canned reports. These are complex reports that contain narrative, data, and graphics. They are developed through a collaborative process of data analysis, filtering and curation, strategic interpretation, and authoring by a team of individuals that may span the globe. Furthermore, these reports have embedded strategic insight that is connected to sustainability data.

Data may be presented in tables or charts and may also be scattered throughout paragraphs. To further complicate things, the same data values are typically repeated throughout the report making it very difficult to update if the single source value changes. Authors should be able to incorporate sustainability data from an SRSoR as well as financial data through simple data linking to support integrated reporting (see www.theiirc.org).

The solution to these types of reporting problems must at minimum provide the following:

- Multiple users can edit the document at the same time without version control issues
- Both document and presentation formats, including charts, that can be linked to a single source of data
- A full audit trail to track all submitted updates from any user
- Permissions that can be used to control access to the document at both overall document level and the individual section level
- Blackline reports that enable reviewers to see changes between revisions of the report

To create complex reports for sustainability, an authoring environment must allow multiple authors and analysts to work in the documents or presentations at the same time. However, control is paramount, as users should not have to concern themselves with manual version control. Track changes can also be used with authoring teams, so it is easy to see changes made by certain contributors. Permissions should be available to determine which users can accept certain changes in the documents.

A full audit trail of any author's changes must be stored and comparisons between different versions, or blacklines, should be supported. An easy-to-use permission model that doesn't require IT administrators should be available to control access to documents, sections of documents, and slide groups for only the necessary authors or reviewers. A full commenting system should allow commentary by other authors and reviewers. Other users should be able to reply to these comments on discussion threads, and comment filtering should be enabled to filter comments by data, reviewer, etc.

Finally, applications for sustainability reporting must be as easy to use and familiar as a user's current office products. They must also support integration with layout and design products such as Adobe® InDesign® to facilitate designed reports that are highly stylized and visually appealing. Ideally, the integration should allow content revisions to continue in parallel with layout and design to provide the most time-efficient process.

Change management with seamless real-time updates

As mentioned above, data is scattered throughout sustainability reports in tables, charts, and paragraphs with data values being repeated across multiple reports. The source values for all these usages can change frequently during the document drafting process.

Imagine if you could change a piece of data one time and have it updated instantly in all reports—monthly EHS operational reports, quarterly board committee reports, quarterly sustainability scorecards, CSR reports, and DJSI and CDP submissions.

An ideal solution for complex sustainability reporting must provide resilient data linking technology that allows any changes to source values to automatically sync impacted data in tables or text references throughout all affected documents, presentations, and workbooks in real time. An audit trail of any changes to data values should also be trackable in a data lineage view. Supporting documentation uploaded to a digital support binder could be attached to data links that support internal audit and external assurance.

The appearance and formatting of the impacted data usages must be allowed to change without changing the underlying data value. For example, two numbers can be linked to the same data, but one number can appear in text as $1.2 billion while another can appear in a table as $1,200,000 (reported in thousands).

This type of data linking could also be used to syndicate data from other systems. Imagine a monthly operation report created as a slide presentation where data is seamlessly linked to a workbook that aggregates data from the SRSoR for sustainability data, risk data from an enterprise risk management system, and to financial data from an ERP/general ledger. This type of loosely coupled data integration could be accomplished for sustainability reporting without IT involvement.

Review, publishing, and mobile access

The distribution of reports for review is oftentimes overlooked. An environment for authoring sustainability reports should provide digital review facilities where drafts can be distributed to different review groups with the workflow being managed by the authoring team.

Comments from reviewers should automatically be aggregated and displayed in the authoring environment, so authors can efficiently manage and address comments. By automatically aggregating comments into one editing view, the author can immediately address redundant or conflicting feedback.

A sustainability reporting system should also support the review of multiple document types including PDFs of fully designed report layouts. An electronic books manager should be included, so multiple file types can be easily aggregated into one environment. This book can be distributed to review groups who can comment on designed files and other graphics. Sending digital reports and books to a mobile tablet viewer or desktop viewer is more secure than email or hard-copy reports. The books can also be electronically distributed for board committee and other oversight meetings where committee members can add bookmarks and comments.

Once reports are finalized, sustainability reporting applications should support publishing to a variety of formats including PDF, e-books, presentations, and direct data feeds for websites. In addition, submissions to ratings agencies such as CDP and DJSI should be automated between sustainability reporting applications and the agency submittal software. This will, however, require a commitment by both the ratings agencies and reporting application vendors.

Final note

The authors hope that this white paper helps CFOs better understand the business imperatives surrounding their companies' sustainability reporting chains and the importance of data verification and materiality to these chains. Furthermore, CFOs can investigate with their CSOs and CIOs how the next generation of software technology can help them capture the highest business value from this chain.

About the authors

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Francis Quinn is the Director of Corporate Social Responsibility Technologies at Workiva. Quinn began his career as a research fellow at the Japanese Ministry of International Trade and Industry. In 1996, he joined L'Oreal Group as a researcher in biomimetic and composite polymers. Quinn later led the integration of The Body Shop into L'Oreal and built the company's global sustainable growth strategy as director of sustainable development.

Quinn's inventions have earned him more than 30 patents. He has written or contributed to five books and authored several white papers on sustainable development, CSR strategies, and policies on competing in international markets. He has also published original research on sustainable innovation, including nanotechnologies, biomimetic polymers, and technological risk. Quinn has been recognized internationally by his peers, professional associations, academic institutions, news outlets, international groups, and non-governmental organizations.

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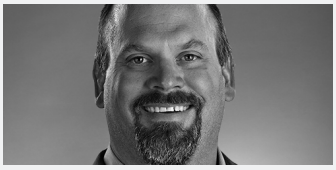

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Sustainability Group Targets Healthcare, Finance

By Tammy Whitehouse

Healthcare companies have some new standards to consider on how to report on material sustainability issues, as do companies in the financial sector and technology and communications. Non-renewable resources are the next on the list who will soon see new standards specific to their operations.

The Sustainability Accounting Standards Board has issued its first three sets of standards in a planned industry-focused series of standards that would tell companies how to account for sustainability issues, including environmental, social, and governance matters, that would be material to the company's performance. The non-profit board, funded by a handful of foundations, has conducted research to determine what sustainability issues would be regarded as material, then developed standards working with industry representatives on how to report on them

The organization recently named former New York City Mayor Michael Bloomberg as board chair and Mary Schapiro, former chairman of the Securities and Exchange Commission, as vice-chair. "More than 30 years ago I started a company on the idea that greater market transparency leads to better investment decisions, and that idea is at the heart of SASB's mission," said Bloomberg in a statement.

As SASB continues to develop standards for six more industries, Rogers says its new co-chairs will help to build awareness and credibility "with the people who need to implement those standards, whether they're CEOs or investors."

The board, which began its standard-setting activity in October 2012, is focusing on material sustainability issues that public companies are already required to report in their Form 10-K, says Jean Rogers, founder and executive director of SASB. "They are issues we are determining at an industry level to be material," she says. "The securities laws already require material issues to be disclosed, but the accounting infrastructure doesn't exist, nor does any clarity for issues that are material or might be material."

Rogers says SASB has been keeping the Securities and Exchange Commission advised of its progress with quarterly updates and the evidence it gathers through research, but there's no word so far on the extent to which the SEC might enforce the standards on public companies.

"The accounting infrastructure is very well set out for financial issues, but there is no accounting infrastructure for nonfinancial issues," Rogers says. "We are providing that clarity and standardizing that disclosure so companies can comply with the law that already exists. It is up to the SEC to enforce it as it sees fit."

SASB's first group of standards focused on the healthcare sector are specifically targeted at companies in sectors such as pharmaceuticals, biotechnology, medical equipment and supplies, healthcare delivery, health care distributors, and managed care. For pharmaceutical companies, for example, SASB has developed standards on how to report on access to medicines, drug safety and side effects, safety of clinical trial participants, affordability and fair pricing, ethical marketing, human resources and employee safety issues, counterfeit drugs, corruption and bribery, quality management in manufacturing and the supply chain, and efficiency in energy, water, and waste.

For the financial sector, SASB released a batch of standards that focus on sustainability issues for commercial banks, investment banking, asset management and custody activities, consumer finance, mortgage finance, security and commodity exchanges, and insurance. For commercial banks, for example, standards focus on the integration of environmental, social, and governance considerations in credit risk analysis, customer privacy and security, legal and regulatory compliance, and systemic risk management. SASB has developed a full matrix of sustainability issues to address within the financial services sector, saying it has gained consensus around these issues working with some 225 participants in an industry working group representing corporations, market participants, and public interest groups.

> "They are issues we are determining at an industry level to be material. The securities laws already require material issues to be disclosed, but the accounting infrastructure doesn't exist, nor does any clarity for issues that are material or might be material."
>
> Jean Rogers, founder and executive director, SASB

After that batch of standards, SASB is working on additional standards for non-renewable resources, which it is planning to release on June 25, and transportation, on which it is currently accepting public comment until July 17. Next up is the services sector, which is currently in the industry working group stage. SASB is planning to finalize sustainability standards for services in early December.

The board is looking for industry participants who would be willing to help with the standard-setting process for sectors such as services, resource transformation, consumption, renewable resources and alternative energy, and infrastructure. ■

Sustainability Reporting Gets Standards

The Sustainability Accounting Standards Board's mission is to identify material sustainability issues

By Jaclyn Jaeger

Some revolutionary changes are happening in the world of sustainability reporting that—for better or worse—demand the attention of companies.

The Sustainability Accounting Standards Board, a nonprofit standard-setting body established in 2011, has issued its first three sets in a planned series of industry-specific reporting standards, designed to bring uniformity to how companies account for the environmental, social, and corporate governance risks that matter most to their operational and financial performance. First industry up at bat: healthcare. The inspiration for SASB and its standards sprung from investor activists clamoring in recent years for greater disclosure of "ESG" performance. Companies responded by publishing annual reports of their corporate social responsibility efforts, but a lack of standard disclosure metrics left investors unhappy since they couldn't compare one company's CSR efforts against another's. Enter SASB.

Accredited by the American National Standards Institute to set standards for disclosure of sustainability issues by U.S. publicly listed companies, SASB set out to identify material ESG issues and develop standardized performance metrics for 88 specific industries across 10 sectors. By following the same definition of materiality as defined by the Securities and Exchange Commission, the hope is that companies will use the ESG standards in their annual Form 10-K reports.

Jean Rogers, founder and executive director of SASB, says the intent of the group is to become for ESG reporting what the Financial Accounting Standards Board has been for financial reporting. "Our goal is to standardize the disclosure of these material sustainability issues," she says.

The SEC requires public companies to disclose material information in the Management Discussion and Analysis section of their annual reports—but how ESG risks fit into the mix of material data has always been an elusive practice at best. For that reason, some sustainability executives say the standards are a welcome development.

"Until SASB came along, it's been extremely difficult to compare apples-to-apples," says Scott Tew, executive director for the Center for Energy Efficiency and Sustainability at Ingersoll-Rand. "The only way you can compare apples-to-apples is for everyone to agree on what is most material for a particular industry."

SASB developed its standards by establishing working groups for each industry composed of stakeholders, including companies, investors, analysts, auditors, and consultants.

Ingersoll-Rand is one of several companies that sit on SASB's advisory council. Other companies include Hershey Co., McDonald's, JP Morgan, Johnson & Johnson, UPS, Con Edison, and several more.

> "Until SASB came along, it's been extremely difficult to compare apples-to-apples. The only way you can compare apples-to-apples is for everyone to agree on what is most material for a particular industry"
>
> Scott Tew, Executive Director, Center for Energy Efficiency and Sustainability, Ingersoll-Rand

Rogers says that SASB has had "no problem getting companies to participate"—because of, rather than in spite of, ESG reporting fatigue. "They're tired of spending a lot of time and money doing so many different initiatives that aren't necessarily looked at by investors," she says.

What's more, "investors tell us the same thing," Rogers adds. "They're inundated with so much information that it makes it difficult for them to ascertain what's material. There is angst on both sides."

Carrots and Sticks

For many other companies that may (quite understandably) groan over the idea of another ESG reporting initiative, be warned that investors and regulators alike are following these developments closely.

"It's surprising how quickly SASB has established a level of prominence and impact in this space," says Kathy Nieland, U.S. sustainable business solutions leader at PwC. "Investors are absolutely taking note of what standards they're developing."

Even though the use of SASB-developed metrics in SEC reports is voluntary, SASB is hoping to change that. "It's really up to the SEC to enforce the inclusion of this information in the Form 10-K," Rogers says.

Anne Sheehan, director of corporate governance at pension giant CalSTRS, which has more than $170 billion under management, says the SEC likely will be a "very active observer" in SASB's efforts, given that the agency's role is to ensure investors have material information. "I don't know in terms of formal rulemaking that the SEC is there yet."

SASB briefs the SEC on its progress with quarterly updates and the evidence it gathers. Whether the SEC will actually enforce the standards on public companies is still an open question. Commissioner Luis Aguilar, for example, has long supported the idea of more disclosure about risks around climate change. On the other hand, the agency has a full plate struggling to implement rules for the Dodd-Frank Act.

"Whether or not they're successful will be the proof as to whether they're legitimate or not," says Cary Krosinsky, executive director for the Network for Sustainable Financial Markets.

The value proposition for firms is that the standards focus on issues that matter most to U.S. companies. In comparison, efforts such as the Global Reporting Initiative and the International Integrated Reporting Committee are guidelines focused on a global scale—and European views on CSR can be different from material disclosures under U.S. securities law.

SASB's efforts have sparked some companies to think of sustainability practices in new and innovative ways. "Our strategy has been to integrate sustainability thinking into how the company operates its business," Tew says. "We're really working on changing some of our already-existing processes."

"Until recently we weren't formally asking our design engineers to think about the materials they choose for future products, or to evaluate what happens at the end of a product's lifecycle," Tew says. "All that has changed now, because we've changed the process of how we develop products."

What's Next

SASB issued its first set of standards last summer, beginning with the healthcare sector and focusing on pharmaceuticals, biotechnology, medical equipment and supplies, healthcare delivery, healthcare distributors, and managed care.

For pharmaceutical companies, for example, SASB has developed standards on how to report on access to medicines, drug safety and side effects, safety of clinical trial participants, affordability and fair pricing, ethical marketing, counterfeit drugs, and efficiency in energy, water, and waste.

The standards were developed using a rigorous process that included industry working groups, a public comment period, and an independent standards council review. The working groups for the healthcare sector, which included 127 survey responses, represented publicly traded companies with more than $800 billion in market capital and investment firms with more than $952 billion in assets under management.

SASB also released standards for the financial sector in February, followed by technology and communications in April. Standards for non-renewables are also in development.

As with any new undertaking, kinks will need to be kneaded out along the way, Sheehan says. "It's going to be an ongoing, iterative educational process to perfect this effort as they address various industry sectors."

"The only burden is that it takes a long time to get it right," Tew says. "It's time consuming. It's intense. It's detailed, but it's also being done right." ■

SUSTAINABILITY TIMELINE

The table below provides the status of SASB's standards for each sector.

Sector	Stage	Key Dates
Healthcare	Issued	Standards Released: July 31, 2013
Financials	Issued	Standards Released: Feb. 25, 2014
Technology & Communication	Issued	Standards Released: April 2, 2014
Non-Renewable Resources	Coming Soon	Projected Release Date: June 25, 2014
Transportation	Public Comment	Projected Release Date: Sept. 4, 2014
Services	Industry Work Group	Projected Release Date: Dec. 3, 2014
Resource Transformation	Not Started	Projected Release Date: Feb. 24, 2015
Consumption	Not Started	Projected Release Date: June 2, 2015
Renewable Resources & Alternative Energy	Not Started	Projected Release Date: Nov. 24, 2015
Infrastructure	Not Started	Projected Release Date: Mar. 31, 2016

Source: SASB.

Think You Can Ignore the EPA? Think Again

By Joe Mont

You may not own a giant smokestack or conduct fracking to recover natural gas, but your company still needs to worry about the Environmental Protection Agency and it ever-broadening purview.

While the energy, mining, and agricultural sectors have an obvious and heightened risk of EPA enforcement, others could face either routine or unexpected environmental scrutiny from the agency. That poses a problem for companies more focused on, and familiar with, the compliance demands of the Department of Justice, Securities and Exchange Commission, and other financial regulators.

"Most companies do their best to comply with environmental regulations, but because of the number and nature of programs out there some are really blindsided," says Justin Savage, a partner at the law firm Hogan Lovells and a former enforcement official at the Justice Department's Environment and Natural Resources Division. "It is common for companies to inadvertently fall into a regulatory investigation or compliance issue because they were simply not aware."

Retailers, for example, can run afoul of the Resource Conservation Recovery Act—one of the EPA's many guiding statutes—because of chemicals in the broken or unsold products they discard. A manufacturer buying engines from China could discover it violated the Clean Air Act, in particular the requirement that importers obtain certificates of conformity from the EPA to certify those engines meet U.S. emissions standards. Large manufacturers that require permits for wastewater disposal and air emissions can be scrutinized for recordkeeping lapses.

> "It is common for companies to inadvertently fall into a regulatory investigation or compliance issue because they were simply not aware."
>
> Justin Savage, Partner, Hogan Lovells

Any company that imports goods or materials, including retailers, likely falls under the Toxic Controlled Substances Act. "You could be importing pencils from Brussels and be liable," says Robert Hogfoss, a partner at the law firm Hunton & Williams who specializes in environmental law.

Recent EPA actions against retailers include:

- Walmart pleaded guilty in May 2013 for violating the Clean Water Act by illegally handling and disposing of hazardous materials at its retail stores and, separately, failing to properly handle pesticides that had been returned by customers.
- In August 2013, Fry's Electronics was fined $50,000 by the EPA for importing and selling an unregistered gaming equipment wipe that falsely claimed to be antibacterial and anti-pathogenic. Products that claim to kill or repel bacteria or germs are considered pesticides, and must be registered with EPA before their sale or distribution.
- Also in August 2013, discount retailer Family Dollar paid a $600,000 to resolve charges from mislabeled bleach products.

Banks, too, can face unexpected enforcement actions from the EPA, says Hogfoss, mostly through their real estate dealings. If a bank forecloses on a property, or even holds a mortgage on one, and the owner walks away and leaves it contaminated, the lender could be held responsible. "Banks have to be very careful in how they structure their holdings," Hogfoss says.

When the EPA Knocks

For companies facing an unexpected visit from the EPA, the strategy shouldn't be much different than dealings with the SEC or Justice Department, Hogfoss says. Cooperation, transparency, and self-reporting are valued, compliance programs rewarded. "They will be reasonable with you, if you are reasonable with them," he says. "The important thing is to ask them to sit down with you, explain why they are there, and ask how you can help. You should start a dialogue and try to defuse things."

Companies may be able to secure lower penalties and fines with cooperation and self-reporting. "You are always better off coming in early and advising us of a problem as opposed to waiting for us to come and get you," says Doug Parker, director of the EPA's Criminal Investigation Division. Almost all EPA statutes require the agency to consider the level of cooperation in civil and criminal actions.

Expect any admission to be scrutinized, however. "We have to do some digging on those," Parker says. "If an entity comes to us with self-reporting that's great, we are just not going to take it at face value. Was it only because a whistleblower came forward? We will do our own due diligence in terms of assessing the value of that information." In criminal cases, this information will be presented to the Justice Department, who then will make the call on how much cooperation credit is warranted.

The EPA's baseline fine is $37,500 per violation, Savage explains. "If you are a facility with multiple violations that can really add up over a year. Under the self-disclosure policy, those penalties can be significantly reduced or eliminated." In recent years, however, critics say requirements to satisfy that policy "are too onerous and do not create the proper incentive for self-policing" and there is a move afoot within the agency to cease the program, he says.

Others warn that the EPA isn't always so kind when companies admit their own infractions. "Increasingly, self-disclosure still results in fines that in previous years might not have been assessed," says Karl Karg, a partner at law for Latham & Watkins and former associate regional counsel for the EPA. "The drive to collect more enforcement and penalty dollars has led them to be less generous with their self-disclosure policies."

Changing Behaviors

Another wrinkle in the EPA's enforcement approach could mean added liability for individual executives. The SEC has garnered a lot of attention recently for a push by Chairman Mary Jo White to go more aggressively after individuals when fraud is committed, not just companies. The EPA has long taken this approach.

"Our focus is on the individual," Parker says. "To change behavior, we really have to hold individuals accountable. They are the ones who make the decisions. Almost 80 percent of those charged are individuals, not corporations."

Changing behavior also characterizes another strategy companies can rely upon, "supplemental environmental projects" they can negotiate with the EPA post-enforcement. Since 1991, the agency has allowed companies to devote a portion of their assessed penalty—more than half in some cases—to a related improvement project. "If you spilled something into the water, you could buy some advanced pollution control equipment that is not yet required by law," Hogfoss says. "It is win-win. At the end of your case with the EPA, everyone is sitting around the table brainstorming really positive projects."

The EPA also responds favorably to companies that have voluntarily implemented an environmental management system—compliance protocols, internal controls, and response plans to prevent, or at least minimize and respond to, environmental damage. These programs are also mandated by the EPA as part of a civil or criminal penalty, much as financial regulators often demand on-site, third-party monitors as a condition of settling an offense or striking a deferred-prosecution agreement.

"There is no question companies that have a more sophisticated, thorough, and diligent approach to managing their environmental affairs are better off in the context of a resolution with the EPA," Karg says. "When it sees a company is diligent about environmental affairs, that they have an environmental management system and self-disclose issues, it all adds up in terms of reducing penalties."

No 'Paper Tiger' Compliance

The EPA also rewards effective compliance programs, with the key word being "effective," says Brent Fewell, a partner at law firm Troutman Sanders and formerly the second highest ranking water official at the EPA. "It doesn't expect perfection; it expects a good faith effort to comply with the laws. It encourages companies to adopt environmental management systems as a critical part of the continuous improvement process they want to see from companies."

"Like other regulators, they don't like window dressing," Fewell adds. "They don't want companies to have an environmental compliance program that's a paper tiger."

Companies will have less to worry about if they are serious about self-analysis, "look for problems, find them, fix them, and put in place measures to ensure that non-compliance doesn't happen in the future," Fewell says. "Credibility matters and companies that have strong and effective compliance programs are much better off with the EPA when they get that knock on the door—and eventually nearly every company is going to draw attention." ■

NEXT-GENERATION COMPLIANCE

Below is a summary of the EPA's new enforcement initiatives and focus on "next-generation compliance."

Next-generation compliance is focused on the following five areas:

1. Designing regulations and permits that are easier to implement, with a goal of better compliance and environmental outcomes.
2. Using and promoting advanced emissions/pollutant detection technology so that regulated entities, the government, and the public can more easily see quantified pollutant discharges, environmental conditions, and non-compliance.
3. Shifting toward electronic reporting by regulated entities.
4. Expanding transparency by making the information we have more accessible, and making new information obtained from advanced emissions monitoring more readily available.
5. Developing and using innovative enforcement approaches (data analytics and targeting) to achieve more widespread compliance.

Source: EPA.

Sustainability Reporting Slow to Catch On

By Louis Thompson Jr.
Compliance Week Columnist

The number of U.S.-based companies issuing sustainability reports may have reached a record high this year, but that doesn't mean the concept is catching fire.

Some CEOs and board members are shunning the reports because they say they drain valuable resources that could be deployed elsewhere.

The Oxford English Dictionary defines sustainable as "to be capable of enduring," a characteristic that corporations strive for, but a 2013 survey of 1,712 corporate members of the United Nations Global Compact from 113 countries "shows that while increasing numbers of chief executives recognize the need to change, they are not following through with concrete actions." The report goes on to say that, "the Gap between what companies 'say' and 'do' is enormous. For example, while nearly two-thirds of respondents claim to evaluate sustainability policies and strategies at the CEO level, only around a third trains managers to integrate these into their work."

Louis M. Thompson Jr.
Columnist

Indeed, 90 percent of company boards say they discuss and act on sustainability issues, yet only eight percent link remuneration packages to social, environmental, and governance performance. Put another way, "sustainability is not penetrating the core corporate culture," John Brock, chairman and CEO of Coca-Cola Enterprises, says. "Innovation and technology drive sustainability; there's still a lack of engagement at the board level and a failure to evaluate progress," he says.

"A significant challenge is the lack of a compelling business case: Just 26 percent of companies say they evaluate sustainability initiatives across their business, and 44 percent say sustainability initiatives are perceived to be expensive and result in insufficient expected returns," Brock says. Leading sustainability companies like Unilever, Kingfisher, and Marks & Spencer "have aligned profitability and sustainability throughout their organizations and value chains," he adds.

What have we learned from the 2013 proxy season? The Conference Board says that during the first half of the year, there were 24 shareholder proposals on sustainability reporting, representing nine percent of shareholder proposals on social and environmental issues. There were 18 during the same period in 2012, and in 2009 there were only nine on sustainability reporting.

Investors seem to be calling for companies to take sustainability reporting more seriously. This year, sustainability reporting proposals received the second highest support level among environmental and social issues, just behind board diversity proposals. Of the 24 proposals, 15 were voted on and one passed by a 57.2 percent of the votes cast that was submitted to CF Industries by the board of pensions of the Presbyterian Church.

Boards, though, haven't been listing that well. Despite the fact that more than half of S&P 500 companies publish sustainability reports, Thomas Singer, an independent consultant for the Conference Board says "board responses to this year's proposals on sustainability reporting nearly unanimously recommended voting against the proposals based on a claim that sustainability reporting is too resource intensive." Of the 15 voted proposals, boards criticized the Global Reporting Initiative compliance requirements as "too complex, lengthy and vague."

> Compliance officers and investor relations officers should look at the GRI Initiatives and their own company reporting process and suggest to the GRI folks what needs to be changed and improved.

Accenture joined with the UN Global Compact survey and found CEOs globally said, "We'd like to do more on sustainability, but investors just don't care." Accenture asked the following questions to see if they could uncover why CEOs feel this way. They were:

1. "Do you think your share price currently includes any value directly related to sustainability?

2. How many times have you gone on record to the analyst community to explain to them how your sustainability program is generating value—and what did you tell them?

3. How big an impediment are financial markets in terms of decisions where there is a trade-off between sustainability and profit?

4. What changes could be made in the financial system to encourage companies and individuals to prioritize sustainability?

5. What do you need from your investors to allow you to progress further with transforming your business to-

ward a truly sustainable one?"

The Accenture survey suggests "the pace of change may be slow since only 7 percent of CEOs in the communications industry, for example, regard investors as an important voice in guiding their approach to sustainability."

Andrew Last, a public relations executive with more than 20 years of experience reported in his blog that sustainability was big talking point at the Davos World Economic Forum last January. He says corporations are "adopting the power of PR as an accelerator of change, which can have benefits across multiple audiences including company staff. Going very public, very fast early on sustainability can have remarkable results."

Paul Polman, chief executive of Unilever, won praise for using the media to push his progressive agenda along more quickly than might otherwise happen. Last says Polman's message is that "the big issues the world is facing require new approaches, new business models, and new partnerships. Responsible businesses must take a more active leadership role." His top three tips for getting it right are:

1. "Set and communicate a clear direction on sustainability, which liberates people throughout your organization to talk passionately and freely about what you are doing. They are your best advocates.
2. Be transparent about your motives. Don't let PR wrap your business motives in cloying half stories about the social good your business is driving.
3. Tell the story of the journey. Be open about what's not working as much as what is. Vulnerability plays surprisingly well with sustainability stakeholders and a cynical public."

Perhaps those responsible for the Global Reporting Initiative based in Europe, need to take a close look at compliance requirements of the GRI to see which requirements are making the reporting complex, lengthy, and vague—issues that are driving CEOs and boards from taking a vested interest in the process and supporting the initiatives. Compliance officers and investor relations officers should look at the GRI Initiatives and their own company reporting process and suggest to the GRI folks what needs to be changed and improved.

A year or so ago, there were some positive signs that institutional investors were beginning to embrace sustainability reporting and provide an investment premium for good reporting. The surveys cited above suggest that is changing and not for the better, at least in the eyes of executive management and the board. Greater transparency in simple language that consumers can believe and have confidence in is necessary. The so-called "green-washing" seems to be undermining consumer confidence in sustainability claims. Credible PR is clearly important in the entire communications process. ■

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Published online 06/18/13

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Published online 05/14/13

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Prior to joining NIRI, Thompson was assistant White House press secretary to President Gerald Ford.

A former journalist and news anchor, Thompson serves as a former chairman on the advisory council for the Greenlee School of Journalism and Communication at Iowa State University, where he was the 2001 recipient of the James W. Schwartz Award for Distinguished Service in Journalism and Communication conferred by the Greenlee School. In 2000, he was the first recipient of the IR Magazine-Barron's Lifetime Achievement Award in Investor Relations. He can be reached at lthompson@complianceweek.com.