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How sustainable is your reporting?

Survey of sustainability reporting across the ASX30

Sustainability & Climate Change

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pwc

What would you like to grow?

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The new way of reporting

The challenge for companies is to identify which sustainability issues are truly relevant and material to their business

Annual reviews and reports are an essential medium used to communicate a company's yearly performance and to a limited extent, its future direction. Increasingly, stakeholders perceive the way a company manages sustainability - its environmental, social and governance (ESG) - risks and opportunities as an important component of this discussion. This recognises that financial information alone does not provide a complete view of the company's overall performance.

Companies commit significant efforts to producing stand-alone 'sustainability' or 'corporate social responsibility' reports, but sustainability issues are often discussed in isolation from information on corporate strategy and performance. The end result is often numerous, disjointed and inconsistent messages about the company's overall performance and strategy.

Disjointed reporting confuses stakeholders and raises questions about the quality and integrity of a company's management and governance frameworks. In such cases, stakeholders will often turn to other sources of information which the company has no control over.

The challenge for companies is to identify which sustainability issues are material to their business (i.e. which will impact on their long term strategic success and shareholder value) and so require management time for monitoring and reporting.

Drivers for increased disclosure of non-financial performance

There is a large and growing movement worldwide toward mandatory public company disclosure of ESG (environmental, social and governance) information.

- The Australian Stock Exchange released '*Guidelines from the Group of 100 about the Review of Operations'* which suggests companies provide information including discussion and analysis of non-financial key performance indicators (KPIs), risk profile and investments in future performance of the business' dynamics: environmental, social, legal and regulatory compliance.

- The importance of ESG risk consideration as a fiduciary duty has been discussed, and has gained increasing recognition in recent years. A 2009 report by the UN Principles for Responsible Investment (UNPRI) supports the view that pension funds should address climate change as part of their fiduciary duty, and should be pursuing investment strategies that will mitigate the potential systemic risk of climate change and profit from low carbon capital opportunities.[1]

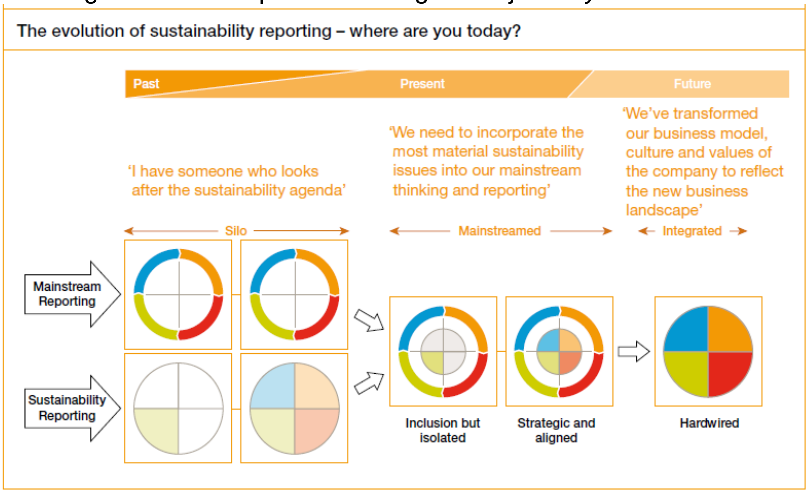
- In the UK, the Financial Reporting Review Panel issued a press notice in March 2011 reminding companies of their requirements under the *Companies Act 2006* to provide disclosures about the business including environmental matters, employees, social and community issues necessary to understand the company's performance or position.

[1] UNPRI (2009) Investor leadership on climate change http://www.unpri.org/files/climate/pdf

- In 2010, the Accounting for Sustainability and the Global Reporting Initiative established the International Integrated Reporting Committee (IIRC) to develop a framework to assist companies producing connected and integrated corporate reporting within one report.

This increasing push for companies to report both financial and non-financial data together in mainstream reporting, is being referred to as 'integrated' reporting.

The diagram below depicts the 'integration' journey.[2]



The new approach to reporting

A company cannot move to integrated reporting in a single step. Companies must first manage their business in an integrated manner – embedding sustainability into the core business - in order to monitor and assess performance of both financial and non-financial KPIs together.

Whether companies choose to go down the integrated reporting pathway or not, there are a number of elements which indicate a company's maturity in addressing sustainability. They include:

- awareness of the company's key stakeholders, their sustainability interests and issues;
- clear articulation of the company's material sustainability risks and opportunities to the business now and in the future;
- disclosure of ESG targets and performance data (which indicates a company's commitment to taking action and quantifying performance); and
- external assurance over ESG data (which signals that robust data capture, reporting systems and controls are in place).

The survey: looking at the ASX 30 companies

PwC surveyed the latest public reports (available as of April 21st 2011) of the top 30 companies listed on the Australian Stock Exchange to investigate the quality and maturity of ESG performance reporting by considering its materiality, relevance and reliability.

[2] PwC http://www.corporatereporting.com

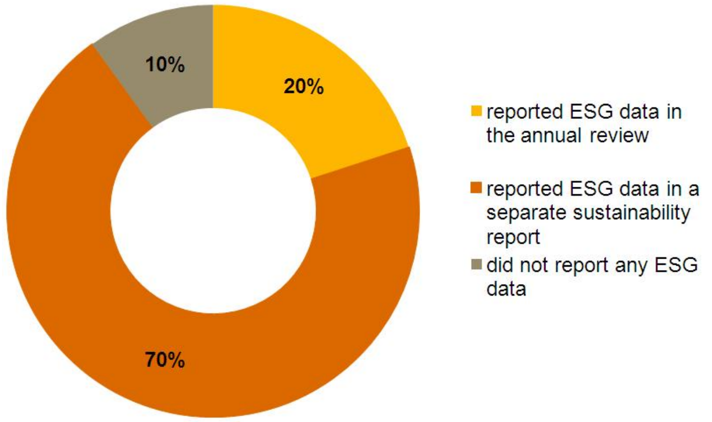
Finding 1: Integrated reporting is only starting to emerge

What we looked for:

- Extent and manner in which companies reported ESG performance in annual reviews.
- For those companies which did not report ESG performance in their annual review, the extent to which they reported ESG performance in other forms such as ‘sustainability’ or ‘corporate responsibility’ reports.

What we found:

The pie-chart below provides the results on the extent to which ESG data was reported by the companies surveyed.



What this means:

PwC found there is a strong trend in Australian companies to publicly report ESG performance data, mostly in separate sustainability reports. Australian companies are making progress on the journey to align sustainability values to core business and communicate efforts to stakeholders with 20% of reports considered ‘included but isolated.’ Whilst further work is needed for sustainability to be considered ‘hardwired’ into their annual review, it is an indication of the maturity of sustainability in these organisations. At the opposite end of the spectrum however, some companies did not report any ESG data in their annual review or in a separate sustainability report; despite having the data to meet their meet their *National Greenhouse and Energy Reporting Act 2007* (NGER) obligations.

Finding 2: Good disclosure of material sustainability issues but little disclosure of the approach taken

What we looked for:

- Disclosure of the company’s material sustainability issues.
- Disclosure of the company’s stakeholder engagement process.

What we found:

- 67% of companies disclosed their material sustainability issues.
- 27% of companies disclosed their stakeholder engagement process.

What this means:
Although many companies stated that they determined their material issues through stakeholder engagement, few actually disclosed the process undertaken to arrive at them. On this basis, it is difficult to form a view on whether companies understand their stakeholders' concerns and expectations and review them regularly.

Companies who engage with their stakeholders to identify material issues are in a better position to meet their stakeholders' expectations. Failing to provide stakeholders with information about how the company is addressing sustainability issues can lead to stakeholders misunderstanding the company's position and performance.

Examples of leading practice:

- Amcor disclosed its stakeholder engagement process and the issues of concern which emerged. It directed the reader to sections of the sustainability report addressing those issues.
- Westpac charted the impact or potential impact of several sustainability risks to the business and the level of stakeholder concern.

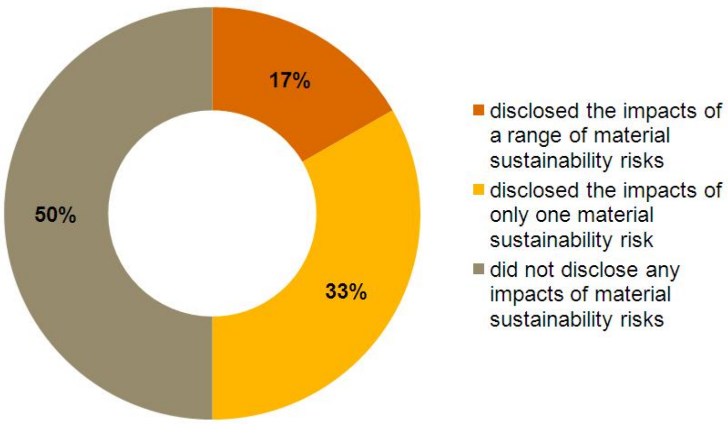
Finding 3: Limited discussion of material sustainability risks and impacts to the business

Companies are starting to realise one of the benefits of disclosing sustainability risks is the opportunity to explain efforts to mitigate them

What we looked for:

- Disclosure of the implications of sustainability issues for the business, such as impacts on the company's profitability, licence to operate, brand or reputation.

What we found:
The pie-chart below provides the results of the extent to which the companies surveyed disclosed material sustainability risks.



What this means:
In the past, many companies were reluctant to disclose their sustainability risks either because they were not understood or for fear that stakeholders would question the long term viability of the business. This trend still exists today with 50% of companies surveyed failing to articulate the financial implications of their sustainability issues and activities on the business. This potentially leaves unanswered questions

for stakeholders about the relevance and significance of sustainability issues and what steps are being taken to mitigate those risks.

However, 17% of companies surveyed effectively discussed sustainability risks in the context of the business; suggesting that these companies are seeing the benefit of disclosing this information with stakeholders. Communicating sustainability risks presents the opportunity to discuss what steps are being taken to manage and mitigate those risks.

Disclosing what sustainability issues are being faced, why they are important to the business and what the company is doing about them provides the reader with appropriate context and justification for the selection of ESG performance data reported.

Examples of leading practice:
A number of companies effectively communicated the link between sustainability issues and the impact to the overall company strategy:

- ANZ and Commonwealth Bank both identified the link between the benefits of employee diversity and its ability to service a wider range of customers.
- Insurance Australia Group discussed the consequence of working with inappropriate suppliers as it can impact on its own performance and reputation.
- NAB, Newcrest Mining and Telstra cited the benefits of community engangement on their brand, employee engagement and licence to operate.
- Rio Tinto outlined its risks of operating in jurisdictions with variable levels of political and legal stability on its ability to operate.
- Brambles indicated climate change will potentially impact its manufacturing and distribution service continuity.
- Transurban said it was important it maintain relationships with the government and communities to ensure it has a thriving business.
- BHP Billiton cited the importance of managing its water consumption. Many of its operations are in remote areas with limited access to high quality water. Water is a vital input to its activites.

Finding 4: Most report ESG performance data but only half are setting targets

90% of the ASX30 reported quantifiable ESG data

What we looked for:

- Disclosure of ESG performance data related to sustainability issues such as community engagement, customer and product stewardship, employee engagement and diversity, environment, governance, safety and supplier.
- Disclosure of specific numerical targets and timeframes for ESG performance targets. Merely stating that the company is aiming to improve, reduce or maintain performance was not deemed meaningful as it does not allow for future performance to be evaluated against promises made in previous years.

What we found:

- 90% of companies reported ESG KPIs.
- 57% of companies reported ESG KPIs and disclosed some corresponding targets for the ESG KPIs reported.
- A wide range of ESG KPIs were reported by the companies surveyed. A selection of which are outlined in the table below

ESG KPIs reported

Sustainability Area	ESG KPI reported
Community	Complaints, dollar amounts donated to charities, forms of contribution, employee volunteer hours, engagement meetings
Customer and product stewardship	Satisfaction, complaints, enquiry response time, product life cycle assessments, sustainable products offered, product recalls
Employee	Engagement survey results, training completion, training hours, female representation at various levels, age, ethnicity, employment type, turnover, employees affected by outsourcing to offshore, graduate intake, absenteeism, parental leave return rate
Environment	Greenhouse gas emissions, energy consumption, water consumption, waste recycled, waste sent to landfill, spills, endangered species affected by projects, levels of personnel expertise employed to manage environmental matters
Governance	Cases detected by the whistleblower program
Safety	Lost time injury frequency rate, workers' compensation claims, number of incidental releases of substances, random drug/alcohol test results, noise induced cases
Supplier	Supplier audits for quality/ethical policy compliance
Regulatory	Non-compliance with regulatory audits

What this means:

The results indicated that most companies (90%) have processes in place to collect ESG performance data across various environmental, social and governance issues. This is a positive sign, although of these companies only 57% disclosed associated targets. Performance needs to be measured against baseline data or in terms of progress towards a stated target. Failure to disclose a target makes it difficult for stakeholders to know what companies are aiming for and how they are tracking over time.

Disclosure of targets indicates commitment to drive performance improvement, to take action and monitor progress. Conversely, failure to set targets could be interpreted as a lack of accountability and good governance. Of those companies who set targets, most were related to environmental performance, safety or employee diversity.

Example of leading practice:

- Origin Energy has a five year sustainability strategy with quantitative targets for various indicators. Year on year performance data is presented graphically to show how progress against the target and actions disclosed for the forthcoming year.

Finding 5: Quality of disclosed sustainability strategies varies

By disclosing a long term sustainability strategy, companies provide confidence that their corporate governance framework is robust in managing long term viability and profitability

What we looked for:

- Disclosure of future actions to be taken to improve or maintain performance in at least one sustainability issue, such as continuing, developing or implementing a program.
- Disclosure of the length of time the sustainability strategy stands for. Long term being defined as beyond three years and short term anything less than three years.

What we found:

- Overall, 64% of companies disclosed a sustainability strategy.
- 10% of companies disclosed a long term sustainability strategy.
- 27% of companies disclosed a short term sustainability strategy.
- 27% of companies disclosed a sustainability strategy with an unspecified timeframe.

What this means:

Very few companies have a long term view of sustainability. Over a quarter of companies reported an action plan for the forthcoming year. Whilst these plans disclosed tangible actions to be undertaken, they did not demonstrate a commitment to improving performance over a longer time frame. Over another quarter of companies disclosed a sustainability strategy which did not relate to a specific timeframe. It was unclear whether these companies have a long term view of sustainability or not.

Companies who disclose a long term sustainability strategy show they have dedicated considerable time and effort to understand their current and future sustainability risks and have analysed how their peers or market leaders have converted similar risks into opportunities. These companies have then decided they will commit to investments over the long term to ensure they take advantage of these opportunities. Companies who only have a short term sustainability strategy may fail to manage their sustainability risks and recognise potential opportunities. By disclosing a long term sustainability strategy to stakeholders, companies provide confidence that their corporate governance framework is robust in managing long term viability and profitability.

Too often companies forget that reporting is not just a reflection of the past year's performance, but also an opportunity to give stakeholders insight into the company's future direction. This can give companies a valuable competitive advantage.

Examples of leading practice:
A small number of companies disclosed the measures they would undertake to mitigate climate change risks:

- BHP Billiton said it is developing greenhouse gas abatement cost curves to identify cost-effective abatement options into the future.
- QBE Insurance has developed modelling tools to incorporate the changing environment into its investment decisions.
- Santos is embedding a carbon price into its portfolio planning processes.

53% of the ASX had their ESG data externally assured

Finding 6: Companies are seeking to provide confidence in reported ESG data

What we looked for:

- An assurance statement from an external assurance provider that the ESG data disclosed fairly represents the company's performance in those matters presented.
- An assurance statement from an external assurance provider that the ESG data disclosed complies with the GRI (Global Reporting Initiative) framework or that it has been verified by GRI.

What we found:

- 53% of companies disclosed externally assured ESG data.
- 10% of companies had some ESG data externally assured such as greenhouse gas emissions.
- 30% of companies had externally verified its GRI application level.

What this means:

Sustainability reporting, whether it be in print or online, does not have the same level of regulation as financial reporting therefore companies tend to report on the issues that they determine to be important to their business and stakeholders. However, as with financial data, many different measurement methodologies exist for ESG data and these methods can be changed to influence results.

Most of the companies surveyed are developing their report based on the GRI, a network-based organization that provides principles and indicators that organisations can use to measure and report on their ESG performance.

Whilst the GRI reporting framework helps achieve a level of consistency and comparability in sustainability reporting, many companies are seeking external assurance to provide confidence in the reliability of their ESG data. Assurance also signals the quality of internal controls, data capture and reporting systems in place.

How can you enhance your reporting?

When reporting on sustainability it is important to consider the overall readability of the report; language used, use of diagrams and tables, size of the report and use of other complementary communication channels (e.g. websites for detailed data).

PwC's recommends:

1. Know your material sustainability issues by engaging internal and external stakeholders. Disclose their concerns and explain the implications of these issues on your business.
2. Articulate your sustainability strategy in terms of what issues are being addressed and how you will manage them - both in the short and long term.
3. Quantify ESG performance in a meaningful, connected way. Set targets, monitor progress, report year on year performance data and discuss the corrective actions which will be taken in the forthcoming year.

4. Obtain external assurance over your ESG performance data and other claims to provide the reader (and yourself) with confidence over the quality and robustness of your data capture systems.

How can you move to integrated reporting?

If you choose to move to integrated reporting, then sustainability needs to be embedded and integrated into the day to day operations of your business.

The overall objective must be to build one integrated information set (i.e. one model for internal and external reporting) that can flex with the changing dynamics and can deliver truly valuable strategic and operational insights to management.

The model should provide a logical structure for thinking about the information needs of your business and the critical links and interdependencies that exist between the various information sets – external, strategic, business and performance. It succeeds when governance interfaces with remuneration and risk; when strategy is designed to exploit a changing market environment; when strategic priorities align with KPIs; and when the material interests and concerns of multiple stakeholder groups are satisfied.

It is this joined-up thinking that is critical and lies at the heart of an integrated business and reporting model.

Today, few companies excel in this space but we believe that it is now a key determinant of corporate success.

For further information, see http://www.corporatereporting.com

Appendix: Reports surveyed

The reports surveyed were the companies' latest and publicly available on their website as of April 20th 2011.

Company	Annual review	Non-financial report
Amcor	Annual report 2010	Sustainability report 2010
AMP	Annual report 2010	
ANZ	Shareholder and corporate responsibility review 2010	
BHP Billiton	Annual Report 2010	Sustainability report 2010 Our Sustainability Framework Sustainability Supplementary Information 2010
Brambles	Annual report 2010	Sustainability report 2010
Commonwealth Bank Australia	2010 Annual report	Sustainability report 2010
CSL Limited	Annual report 2009-2010	Our Corporate Responsibility 2010
Fortescue	2010 Annual report	2009 Public Environment report
Foster's	Annual report 2010	Sustainability report 2010
Incitec Pivot Limited	Annual report 2010	Sustainability report 2010
Insurance Australia Group	Annual review 2010	Business Sustainability FY10 Performance
Macquarie Group	2010 Annual report	
National Australia Bank	Annual review 2010	
Newcrest Mining Limited	Annual report 2010	Sustainability report 2009
News Corporation	Annual report 2010	
Oil Search Ltd	Annual report 2009	Stakeholders - our essential partners in development
Orica	2010 Annual report	Sustainability report 2010
Origin	Annual report 2010	Sustainability report 2010
QBE Insurance Group	Annual Report December 2010	
Rio Tinto	2010 Annual report	
Santos	Annual report 2010	Sustainability Report 2010
Stockland	2010 Shareholder review	Corporate Responsibility & Sustainability 2010
Suncorp	Annual Report 2009/10	Corporate responsibility at Suncorp
Telstra	Annual report 2010	Corporate citizenship report 2010
Transurban	2010 security holding review	Sustainability report 2010
Wesfarmers	Wesfarmers Annual Report 2010	Wesfarmers 2010 Sustainability Report
Westfield Group	Annual Report 2010	
Westpac Group	Annual Review and Sustainability Report 2010	
Woodside	Annual report 2010	Sustainable Development report 2010
Woolworths Limited	2010 Annual Report	Corporate responsibility report 2010

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