

# Take sustainability to heart

While *corporate responsibility* has been overwhelmingly driven by external pressures and expectations, *sustainability* goes right to the heart of the business model – raising significant questions and challenges for the corporate reporting model, says **Erica Hauver**

In the last decade we've seen a whole raft of social and environmental issues gain and maintain a central position in the public consciousness. Climate change, poverty, and HIV/AIDS are only the most high-profile of a list that ranges from obesity, to child labour, to ethical sourcing.

For major multinational companies the consequence has been a new and unprecedented level of global scrutiny. The NGO community in particular is increasingly media-savvy, and increasingly adept at using that expertise to exert both positive and punitive pressure. The carrots have come in the form of high-profile awards and indices for corporate responsibility (or CR); the sticks make themselves felt in a degree of external pressure that has seen sector after sector targeted on specific social and environmental practices.

For many companies the most obvious consequence has been the striking rise in corporate responsibility reporting in the course of the last decade. The number of reports being issued has quadrupled in that time. A PwC survey last year found that 83% of FTSE350 companies now have a section in the annual report dedicated to their CR activities.

But even if most large companies now have CR policies and principles, many of these have been driven by the need to put something in the CR report, and can bear little relevance to what actually happens in the business day-to-day. In such a context it's hardly surprising that many CR reports have been reactive and defensive, with little hard data on real impacts, especially in so-called 'soft' areas such as social development and human rights.

In the last 18 months, the profound challenge of sustainability became a mainstream concern for governments, the media, and consumers alike. Climate change impacts and adaptation, water scarcity, natural resource depletion, energy and food supply and demand are just a few of the interrelated issues that are focusing minds on how we live within our means.

## Slow progress

While there are some very important signals that indicate the market is turning its attention to these challenges, progress is slow. Even in the wake of the Stern Review and the Intergovernmental Panel on Climate Change report, sustainability objectives still rarely form part of a company's strategic and commercial objectives. And the growing number of sustainability reports are quite often a re-branding of the old-style CR report.

Initiatives like the GRI framework have attempted to address some of these concerns by providing companies with a more rigorous and consistent framework against which to report. However, even the largest businesses can find this apparatus resource-intensive and unwieldy, and many find it insufficiently flexible for the very different sustainability issues faced by

different industry sectors. As a result, all but the most technical readers may struggle to discern the big picture from the plethora of detail.

The other major trend of the last few years has been the move to an issues-based approach to reporting (animal testing policies for pharma, Equator Principles reporting among banks, sustainable sourcing practices for the food industry). This has some undoubted advantages, but there is still a need for new metrics and new methodologies, which can assess real and meaningful performance improvements.

## Will investors drive development?

One of the key – and thus far largely silent – parties here is the investment community. We have always expected that institutional investors would drive the development of a more effective sustainability reporting model, but so far the demand for such a model has been, at best, patchy. Investors who focus on Sustainable and Responsible Investment (SRI) are one obvious exception, as are those funds that follow sectors where sustainability issues are already having positive or negative financial consequences.

That said, there is more and more evidence that the real momentum for change will come from inside business, rather than outside. The cleverer companies are already starting to shift from the tactical management of dozens, or even hundreds, of different CR metrics to the deeper and more difficult task of integrating the principles of sustainability into corporate strategy and operational performance. This will not be easy in itself, and those who attempt it will want a new reporting model that can quantify and communicate what they have achieved.

## Tough questions

This raises some tough questions that companies, investors, regulators and NGOs will need to find answers to:

- How can we create an integrated reporting model that communicates what is important in an effective way?
- How can you demonstrate the link between a responsible and sustainable approach to business, and long-term financial success?
- How do you decide which are the right key performance indicators for your particular sector?
- And how do you manage the balance between robust data and the need for a clear understanding of the wider picture?

As the effort to find some answers to these difficult questions progresses, I will keep you updated in future *World Watch* articles.

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