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"We have mined our way to growth. We have burned our way to prosperity. We believed in consumption without concerns about the consequences." — UN Secretary-General Ban Ki-Moon

Reporting what matters, where it matters

CEOs must be hybrid leaders capable of running the business of today while piloting their organisations through our volatile environment to make them fit for the future

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LET'S get real. The term sustainability reporting is one that generally, you as a reader or a report preparer dread. Readers are often overwhelmed by the thickness of these reports or they don't understand the reason why organisations are reporting on sustainability. Report preparers are amassing a lot of data and trying to make sense of it. The way in which the concept of sustainability has developed in Corporate Malaysia has caused it to be somewhat detached from an organisation's overall strategy and has resulted in people losing sight of the value it actually brings.

I might sound like a typical consultant, trying to pitch a sale to you but trust me, many companies still view sustainability reporting as a check box activity. Or bluntly speaking, reporting on the amount of money donated to various causes.

But it is reassuring to know that there are companies in Malaysia ahead of the curve, who are embedding the sustainability agenda into their corporate strategy by asking these important questions:

- How can I demonstrate the value that I am creating to shareholders?
- Will our strategy deliver sustainable shareholder value in a changing global operating environment?

In this article, I'd like to provide an overview as to how your organisation can derive more value from sustainability reporting, instead of merely looking at it as a "thick booklet". We will firstly look at some of the recent guidelines introduced by the Global Reporting Initiative (GRI), a non-profit organisation which promotes the use of sustainability reporting among companies. GRI has been around since 1997 and develops frameworks that provide metrics and methods for measuring and reporting sustainability-related impacts and performance.

GRI released the fourth-generation of its guidelines, called G4, focusing on reporting what matters, where it matters. Companies that adopt this approach will realise that it is no longer all about the sustainability related indicators that the organisation monitors, but having a focus on what is material to the organisation and its stakeholders instead. The previous guidelines encouraged organisations to disclose as many indicators as possible. Scores of A, B and C were given to organisations based on the number of indicators they disclosed. This led to a lack of focus on reporting what is critical as everyone just wanted an A.

With the new G4 guidelines, organisations are now encouraged to firstly conduct a materiality assessment. This needs to take place before deciding what data to gather. A materiality assessment could take place during an internal or external stakeholder engagement session in which environmental and social initiatives are prioritised. Engaging both internal and external parties in your materiality assessment forces all parties to look at an organisation holistically and to collectively determine if the issues raised are a risk that is already happening, one that could be mitigated or an opportunity for the organisation to pursue. Whatever the outcome is, determining these upfront will enable organisations to create more relevant sustainability initiatives or measures. Targets set would translate into more meaningful results as they are in line with stakeholders' expectations. In summary, reporting less does imply more when it comes to measuring and communicating sustainability performance.

Considering that the G4 was launched just last year, I don't expect to see many organisations adopting it just yet. Organisations which are currently sustainability reporters are given a transition period until the end of 2015 to progress from G3/G3.1 (the previous generation of guidelines) to G4. Reports published after 2015 should be developed in accordance with the G4 guidelines. My advice to businesses wanting to learn more about G4 is to always go to a GRI Certified Training Partner because they are organisations that are certified to deliver GRI Certified Training Programmes and you receive a certificate directly from GRI.

In line with the G4 focus on materiality and the big picture beyond one's fiscal obligations, a few global organisations have already started measuring the full impact of their organisation's activities instead. According to Pricewaterhouse Cooper's (PwC's) 17th Annual Global CEO Survey, it is more than just measuring inputs and outputs. Today, companies need to go a few steps further and look at the overall outcome resulting from their business activities, the impact on their bottom line (the commercial role) and also measure the full value of the impact on their various stakeholders (the social role). *(Refer to Figure 16 of the CEO survey report.)*

The results of the survey, which was launched at the Annual Meeting of the World Economic Forum in Davos recently, revealed that most CEOs recognise that business has social as well as financial responsibilities. 44% of respondents believe that it is important to balance the interests of different stakeholders, instead of focusing solely on investors, customers and employees *(refer to Figure 15 of the report)*.

While this concept of total impact measurement and management is still relatively new among Malaysian companies, it does hold the answers to the issues keeping top management awake at night: How do I quantify and monetise these impacts? Which sustainability initiatives will deliver the best returns given the expectations of shareholders and the society?

PwC's global sustainability team has assisted organisations worldwide in assessing the impact of international business on poverty reduction. Some of our global wins include developing the world's first environmental profit and loss account for Puma, and assisting a leading developer in the UK in estimating its contribution to a country's economy, its total tax contribution and the social return of investments on training and development. Even internally, we practice what we preach by measuring and valuing the impact of our community education and employment initiatives against PwC's global corporate responsibility guidelines.

Both the G4 and total impact measurement and management concept show that moving forward, there will be a greater focus in using sustainability reporting as a meaningful stakeholder engagement tool. Top management will be able to make better informed decisions and pursue various opportunities for growth while bearing the interests of society in mind, without compromising on traditional values like quality or integrity. Or to borrow a concept from PwC's 17th Annual Global CEO survey; CEOs must be hybrid leaders capable of running the business of today while piloting their organisations through our volatile environment to make them fit for the future.

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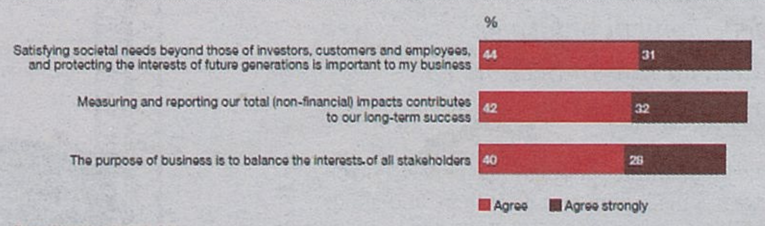
The need for hybrid leadership

Figure 15 Most CEOs believe business has a social as well as a commercial role

Q: To what extent do you agree or disagree with the following statements? (Three of the statements listed.)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Figure 16 Measuring an organisation's total impact helps to show the best route forward