Communicating Value Through Sustainability Reporting

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There is mounting evidence to suggest a positive link between the reporting and management of non-financial factors (such as environmental, social and governance issues) and operational/financial performance. At the same time, company boards are increasingly coming under pressure to explain in their corporate reporting how they are developing long-term, sustainable businesses – and how well they are performing against longer-term goals. Some of these pressures come from investors as they focus more on sustainability performance and how it’s translated into value. In fact, PwC’s 19th Annual Global CEO Survey found that 52% of CEO say that creating value for wider stakeholders helps them to be profitable.

Regulators around the world are increasingly requiring organisations to report non-financial information and place it in the context of the business model of the organisation, its strategy, performance and remuneration. For example, in 2010 the Johannesburg Stock Exchange mandated that all listed organisations need to comply with the Integrated Reporting (‘<IR>’) Framework. More recently, the Singapore Exchange (SGX) will be introducing sustainability reporting on a “comply or explain” basis.

Here in Malaysia it’s a similar story. Bursa Malaysia has for some time now been supporting disclosure of non-financial information. As far back as 2007 Bursa Malaysia implemented rules requiring listed issuers to disclose their corporate social responsibility (CSR) activities related to marketplace, workplace, community and environment, which laid the foundation for sustainability reporting in Malaysia.

In October last year, Bursa Malaysia enhanced this sustainability listing rules requiring companies to disclose a sustainability statement in their annual report explaining how the company has managed the material economic, environmental and social (‘EES’) risks and opportunities facing the business. This rule will come into force for large companies for the year ending 31 December 2016 and should be considered a significant change to the status quo.

Beyond philanthropy

In PwC’s recent benchmarking survey of the annual reports of the top 50 listed companies on Bursa Malaysia in 2015, we found that whilst 90% included either a separate CSR or sustainability section in their annual report, only 36% embedded a strategy for managing these non-financial resources and relationships in their overall strategy and only 12% discussed the future availability of all relevant material natural, social, human or manufactured resources required to create value for their business.
These findings underline how the majority of organisations in Malaysia view the current Bursa Malaysia CSR requirements as an opportunity to showcase their philanthropic activities alongside brief information on water usage or carbon footprint rather than to engage stakeholders meaningfully about how they are ensuring the resilience of the business model.

With the new sustainability listing requirements, this approach will no longer suffice.

**Compliance burden or opportunity?**

At any forum, conference or roundtable event where report preparers gather, the most frequent response to learning of new reporting requirements is invariably a collective sigh and a comment or two about scarce resources and questioning the wisdom of adding more complexity to the annual report. With the transition to IFRS still fresh in the mind of many this is understandable, and for organisations that treat this new requirement as a compliance exercise, there will be little benefit either for the business or for its shareholders.

However, we believe that more holistic reporting can help businesses achieve a better dialogue with investors and other stakeholders, and support the growth of more inclusive and sustainable capital markets. Additionally, and for many businesses this may well be the primary incentive, we believe a broader understanding of EES value drivers, risks and opportunities will drive intelligence for more connected internal decision making.

We’re not alone in thinking this. In fact, we’re already seeing CEOs from across the globe seize this as an opportunity. In PwC’s 18th Annual Global CEO survey, 75% of CEOs told us that measuring and reporting the total impact of their company’s activities across social, environmental, fiscal and economic dimensions contributes to the long-term success of their organisation. We also asked investors what they thought about this widening of emphasis from the traditional financial reporting modes. We were told clearly that annual report disclosures about strategy, risks, opportunities and other value drivers can have a direct impact on a company’s cost of capital. Only 11% thought otherwise.

**What do organisations need to do?**

The sustainability listing requirements (implemented on a staggered basis by market capitalisation) mandate main market issuers to report on their material EES matters in a Sustainability Statement, including how they are identified, why they are important, and how they are managed. The table below illustrates key deadlines for listed issuers.

The information required in the Sustainability Statement is aligned to the Global Reporting Initiative (GRI) 4 requirements. Furthermore, the amendments also make clear that if an organisation already complies with the GRI framework, then it does not need to do anything more to comply with the new amendments.

**How to respond?**

For organisations that are considering how best to respond to the new requirements, there are 2 options:

<table>
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<tr>
<th>Listed issuers with market capitalisation as at 31 December 2015</th>
<th>General Sustainability Statement</th>
<th>Detailed Sustainability Statement</th>
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<tr>
<td>Listed issuers with market capitalisation as at 31 December 2015</td>
<td>General Sustainability Statement Narrative statement of the management of material economic, environmental and social risks and opportunities</td>
<td>Detailed Sustainability Statement Detailed disclosure on the sustainability governance structure, scope of the Sustainability Statement and management of material sustainability matters (including key indicators)</td>
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<td>Listed issuers with market capitalisation ≥ RM 2 bil.</td>
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1. GRI framework
The GRI framework is the most recognised sustainability reporting framework and used globally by over 19,000 companies. The framework is prescriptive and provides guidance for organisations to measure and report their economic, environmental, social and governance performance. Useful for new reporters, the GRI G4 guidelines focus on disclosure of material sustainability issues and provides guidance on how to prepare the information. This year, the GRI G4 Guidelines will transition to GRI Sustainability Reporting Standards, which will be updated on a regular and independent basis.

In addition to providing guidance on disclosure of material sustainability issues, GRI covers over 70% of the United Nations Sustainable Development Goals (SDGs) indicators, setting a strong foundation for businesses to respond to the SDGs. The SDGs consist of 17 goals agreed upon by 193 countries, including Malaysia, in September 2015 by the United Nations. A PwC survey conducted in South East Asia indicated that businesses that embrace sustainability in their strategies are more likely to have a favourable standing with citizens. This is supported by the fact that citizens are 80% more likely to use an organisations’ goods and services if it signed up to the SDGs.

2. Integrated reporting framework
Integrated reporting connects the internal management of a business’ value drivers to its financial performance, and so creates a shared business language for management and investors. This new and shared business language enables a better and more robust dialogue with investors, which can deliver real benefits for companies and investors.

The key difference between integrated reporting and more traditional sustainability reporting is that <IR> focuses on value creation and its target audience is primarily investors. The target audience of sustainability reporting is the stakeholders of an organisation and the focus is on value creation to the same degree.

As <IR> is a principles based framework, adopting <IR> is not prescriptive and organisations will be able to tailor how and what they report to the specific needs and stakeholders of their organisation. It will also allow for flexibility and, to a degree, a certain element of ‘future proofing’ the organisation’s reporting as <IR> seems to be the longer term aspirational goal of regulators in Malaysia and globally.

For organisations looking to compete for capital internationally, being able to demonstrate compliance with an internationally recognised framework such as <IR> will also bring credibility to their reporting in the eyes of current and potential investors.

Telling a concise and coherent story
At PwC we have been working on more holistic reporting models and we view sustainability reporting as a way to communicate value from non-financial information. The drivers behind integrated reporting – a focus on value creation across resources or capitals (such as financial, manufactured, human, social, intellectual and environmental) – continue to align with our own long-term vision for thriving and self-sustaining economies.

Our sustainability framework helps organisations look at the bigger picture, by striking a balance between staying competitive, driving innovation and preserving our environment.

Figure: PwC’s corporate sustainability framework

Through our work in this area we have identified several reporting tips to help companies articulate their own unique sustainability story most effectively:

1. Embed sustainability into your corporate strategy – Demonstrate how sustainability is integrated into the company’s core corporate strategy.
2. Engage with internal stakeholders (e.g. employees) first and get senior management on board by raising awareness.
3. Materiality matters – Demonstrate an understanding of the sustainability issues relevant to key stakeholders and business; and report only those of material importance.
4. Provide a balanced view – Report the negative and positive impacts and how this has informed the company’s strategy and be transparent how the issues have been addressed.
5. Obtain third party pre-assurance and assurance – Helps the organisation check the reliability and credibility of reported content.

Finally, companies should consider using multiple communication channels such as videos and interactive graphics. This will help companies to communicate their sustainability performance and value created more effectively to key stakeholders.

Note: PwC is the only professional services firm in South East Asia delivering the Global Reporting Initiative (GRI) training. As certified GRI trainers, we have deep knowledge of sustainability from the perspective of disclosure and reporting. PwC’s corporate responsibility report is the first in Malaysia to adopt the new GRI 4.0 guidelines.