State of sustainability disclosure: Australia

There is no denying that sustainability reporting has now become a mainstream business practice worldwide. Of the 4,100 companies included in KPMG’s authoritative Survey of Corporate Responsibility Reporting 2013, almost three-quarters now provide reporting in this area—a notable increase of 7 percent since 2011.

The greatest growth in sustainability reporting has occurred in the Asia Pacific region. In Australia alone, there has been an incredible 25 percent rise since 2011 – 82 per cent of the top 100 companies in the country now report on issues of sustainability, and it is ranked as the 12th most prolific reporting nation, up from 23rd place in 2011.

Of the world’s largest companies – the G250 – 93 per cent produce sustainability reports, with 82 percent of these referring to the Global Reporting Initiative (GRI) Guidelines. Domestically, the Australian Council of Superannuation Investors identifies GRI as the most suitable reporting framework for investors, due to its widespread international support and the ability for investors to compare information across companies both domestically and internationally.

Integrated Reporting, an emerging practice merging both financial and sustainability reporting, has garnered great interest in its short history, and is currently undertaken by 10 per cent of reporting companies globally.
Investors take note

Last year saw further attention from the investment community on issues of sustainability. There is a growing global momentum for funds to divest from companies perceived to be putting their shareholders at risk now and in the future and others are placing ethical screening at the heart of their investment decisions.

124 Australian companies are now signatories to the UN Principles for Responsible Investment (UNPRI). These Asset Owners, Investment Managers, and Professional Service Partners have committed themselves to putting the six Principles for Responsible Investment into practice, by incorporating sustainability issues into their investment decision making and ownership practices. Listed companies can expect more sophisticated questions from investors as this area continues to mature.

There is abundant evidence that profitability and cash flow strongly correlate with a high level of sustainability performance and disclosure – and investors are taking note. A Harvard Business School examination of 180 businesses over ten years, found that 'high sustainability' companies significantly and consistently outperform their counterparts over the long-term.

By the end of 2012, funds under management in responsible investment portfolios in Australia totalled $152 billion or 16 percent of total assets under management, up 3 percent from 2011. ESG (Environmental, Social and Governance) integration has proven to be the dominant method of responsible investment, representing 89 percent of the overall market total ($135 billion). According to the Responsible Investment Association of Australia’s 2013 Responsible Investment Benchmark Report: core responsible investment funds are delivering better returns than both the benchmark and the average of all mainstream funds in all but one category [out of 12] across time periods (1, 3, 5 & 10 years) in three major investment categories – Australian equities, international equities and multi-sector growth funds.

A recent report by CPA Australia and the University of Sydney, which analyzed the non-financial reporting practices of the top 40 listed companies from the Australian, Hong Kong and London Stock Exchanges, also found that that a company's profitability and cash flow correlated with a high level of sustainability disclosure.

While reporting has become mainstream amongst the world's largest companies, the next tier of companies are still not reporting in the numbers required to generate the critical mass of significant and comparable sustainability data that must be used by investors and market analysts in order to bring about wider transformation at a market level. There is still a lot of work to be done.
International developments and policy reform

GRI helps shape public debates and advocates for change to the policy makers that matter – be they governmental, non-governmental, national, regional, or international. Wherever possible we seek to work with others that share our goals. We are proud to have international partnerships with the OECD, UN Environment Program, UN Global Compact and ISO.

Placing sustainability reporting in a broader context is significant for the transition to a sustainable global economy. The United Nations Sustainable Development Goals are set to replace the UN's Millennium Development Goals in 2015. GRI, the United Nations Global Compact and the World Business Council for Sustainable Development have partnered to advance the pending Goals for business through the Post-2015 Business Engagement Architecture. GRI’s role in the architecture is to support business by establishing a reporting process that helps companies to set goals, measure performance, and manage change, assisting in the transition towards a sustainable economy. This architecture illustrates the main building blocks necessary to enhance corporate sustainability as an effective contribution to sustainable development, creating value for both business and society.

Government regulation for reporting is also on the increase. GRI’s recent report, Carrots and Sticks, Sustainability reporting policies worldwide - today’s best practice, tomorrow's trends (2013) shows that governmental regulation and other instruments are increasingly being introduced. Today, there are over 180 regulations and other instruments in 45 countries, a threefold increase since 2006. Of these, 72 percent are mandatory, an 18 percent increase since 2006.

The European Commission is currently considering a proposal for a directive enhancing the transparency of certain large companies on social and environmental matters. If passed, the directive will see over 6,000 companies across the EU encouraged to disclose on their sustainability performance. The objective of this proposal is to increase EU companies' transparency and performance on environmental and social matters and, therefore, to contribute effectively to long-term economic growth and employment.

Regulation changes are also starting to take place in Australia. Last year the Australian Securities and Investment Commission (ASIC) updated its guidance document Regulatory Guide 247 Effective disclosure in an operating and financial review and introduced a clause regarding sustainability risk: An OFR should include a discussion of environmental and other sustainability risks where those risks could affect the entity’s achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the entity and its business strategy.

Additionally, stock exchanges are placing increasing importance on sustainability disclosure. In March 2014, the ASX Corporate Governance Council released its revised Corporate Governance Principles and Recommendations. In it the Council have introduced a new recommendation under Principle 7: Recognise and Manage Risk. The new recommendation, Recommendation 7.4, states; ‘A listed entity should disclose whether it has any material exposure to economic, environmental and social...
sustainability risks and, if it does, how it manages those risks.’ The introduction of this recommendation will see over 2000 ASX listed companies consider and address the environmental, social and economic risks to which they are exposed.

By introducing this recommendation, the ASX joins Bovespa Brazil, Johannesburg Stock Exchange, Shen-Zeng Stock Exchange and the Shanghai Stock Exchange by requiring companies to disclose their sustainability performance, a trend that is advancing globally.

GRI supports the introduction of this recommendation to enable greater organisational transparency and accountability on non-financial disclosures. The recommendation, as per all recommendations under the guidelines, is based on a ‘report or explain’ principle in which a company reports on issues of sustainability or explains why it has not. Under this provision, reporting organisations will have the flexibility to report on issues of sustainability that are relevant to their business, using a framework that is relevant to their business and their stakeholders.

“"The Post-2015 Business Engagement Architecture is designed to drive and scale up corporate actions to directly advance United Nations goals. It connects the dots in the ever-growing field of responsible business initiatives, standards and certifications. And it calls on corporate leaders to work together on an entirely new scale — collaborating and co-investing to share risks and realize opportunities. The Architecture report is also an open call to organizations, initiatives and networks working globally to engage business. I am pleased that the World Business Council for Sustainable Development and the Global Reporting Initiative have joined us."”

Ban Ki-Moon, United Nations Secretary General
Reporting what matters

GRI was founded on a radical premise: a sustainable economy where all organisations manage their economic, environmental, social and governance impacts and performance responsibly, and report on them transparently. GRI’s work focuses on supporting more organisations to report and, in doing so, enhancing the quality of information disclosed.

Over the last two years, we have worked to improve GRI’s Sustainability Reporting Framework. In a consultative process that has drawn together the insights and experience of thousands of people from all corners of the world, we were delighted to launch the G4 Reporting Framework in May 2013. The aim of G4 is simple: to help reporters prepare sustainability reports that matter – and to make robust and purposeful sustainability reporting standard practice.

A key component of the G4 Guidelines is to harmonise with existing global reporting frameworks and benchmarking indices. In this globalised economy, it is imperative that reporting instruments can transcend national boundaries and communicate with one another. This alignment improves the comparability of reports and the efficiency of reporting practices as well as enabling the effective assurance of data. G4 has established alignment with key frameworks and indices including CDP (formerly the Carbon Disclosure Project), UN Global Compact, OECD Guidelines and ISO 26000, among others.

A linkage document between the GRI Guidelines and the International Integrated Reporting Council (IIRC) Framework is expected to be released soon. Just as companies will still require financial accounts for integrated reporting, G4 will assist companies in creating sustainability accounts. The recently released International Integrated Reporting Framework does not feature newly-created indicators but instead offers advice and principles on how companies can demonstrate the link between financial and sustainability accounts drawing from existing reporting standards and guidelines.

Since the G4 Guidelines were released in May 2013, several Australian companies have produced G4 reports including Asciano, Australian Ethical Investment, Origin and Stockland. The latter produced an integrated report with the assistance of the G4 Guidelines. We are delighted that Australian Ethical Investment, BHP Billiton, Kilter Rural, Fuji Xerox Australia, Stockland, the University of New South Wales, VicSuper and Westpac Group have also signed up to GRI’s G4 Pioneer Program and are amongst many companies that have committed to produce a G4 report this year.
Looking ahead

GRI’s vision will continue to be of a sustainable global economy where organisations manage their economic, environmental, social and governance performance, through responsible and transparent reporting. Its mission is to make sustainability reporting standard practice, by providing guidance and support to organisations.

In Australia, we have four roles going forward:
- We will continue to convene and engage the corporate sustainability community on issues of transparency and accountability, bringing the best of Australia to the world, and the best of the world to Australia
- We will help build the capacity of reporters in order to continually improve reporting, ensuring that we are producing quality and meaningful sustainability reports
- We will continue to advocate for transparency and accountability on organisational sustainability performance
- We will drive thought leadership, which will enable a transition to a sustainable, transparent and accountable economy.

We cannot do any of this without the help of our supporters. We invite you to join us in this mission. Become a GRI Organizational Stakeholder to advance Australia in the transition to a sustainable and resilient economy.

About the Global Reporting Initiative

The Global Reporting Initiative (GRI), a Collaborating Centre of the United Nations Environment Programme (UNEP), produces a comprehensive Sustainability Reporting Framework that is widely used around the world, to enable greater organisational transparency. The Framework, including the Reporting Guidelines, sets out the Principles and Indicators organisations can use to report their economic, environmental, and social performance. GRI is committed to continuously improving and increasing the use of the Guidelines, which are freely available to the public.
Website: http://www.globalreporting.org