The Form and Substance of Sustainability Reporting

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SUSTAINABILITY

Sustainability is becoming an increasingly important item on the board agenda. Starting from this issue, *SID Directors' Bulletin* will carry a new column focused on this subject.

On 20 June 2016, the Singapore Exchange (SGX) announced that it will be mandatory for all listed companies to report their environmental, social and governance (ESG) practices. This report will be prepared on a "comply or explain" basis, and will take effect in 2018, for any financial year ending on or after 31 December 2017. This requirement is a step up from the voluntary sustainability reporting regime that has been in place here since 2011.

Sustainability reports covering non-financial information, such as the ESG factors, policies and practices, are relatively new compared to financial reports. While the earliest evidence of double-entry bookkeeping dates back to the 13th century, sustainability reporting stretches not much more than half a century.

Evolution

In the broadest sense, the history of sustainability reporting could be traced back to as early as the 1960s in Europe when corporations started to recognise their role in society, above and beyond profit maximisation. The sustainability movement and reporting in the US dates back to the first Earth Day in 1970. After that, the movement gained momentum with a 1987 United Nations (UN) report, *Our Common Future*, better known as the *Brundtland Report*.

In fact, the modern use of the term "sustainability" was first developed by the UN Brundtland Commission. It defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

The sustainability movement has evolved since.

In the wake of the financial crisis of 2008, the 2010 UN publication *Corporate Governance in the Wake of the Financial Crisis*, refined the hallmark of business sustainability as "conducting operations in a manner that meets existing needs, without compromising the ability of future generations to meet their needs and has regard to the impacts that the business operations have on the life of the community in which it operates and includes environmental, social and governance issues". This extends what had been mostly about environmental and social issues to include governance.

In addition, various frameworks have also been developed, of which, three are globally well-recognised:

- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.
- International Integrated Reporting Council's (IIRC) Framework.
- Sustainability Accounting Standards Board's (SASB) Standards.

Sustainability reporting is no longer just practised among the so-called green companies. It is emerging to be a best practice employed by corporations globally. It is growing in significance as corporations, their shareholders and other stakeholders recognise that non-financial issues impact financial performance, and vice versa.

Consumers, governments, regulators are becoming more aware, expect and demand that corporations adopt more sustainable behaviours too.

Form or substance

However, in light of the recent major corporate scandals such as Volkswagen's Diesel Gate, one can be excused for wondering whether corporations seek anything beyond maximising profits for their shareholders, by any means necessary. Does sustainability reporting then make any difference?

Volkswagen is one of the European companies that embraced sustainability and responsibility from quite early on. It was much ahead of many of its German rivals in its adoption of sustainability reporting. In its 156-page, *Sustainability Report 2014*, the automaker details its commitment to its customers, its employees and the environment. Here are a couple of excerpts from the report:

…our conviction that stable, long term business activity based on ethical criteria is a precondition for acting in an environment friendly way and playing a responsible part in shaping the future of people within the Group and in society at large.

Volkswagen Group places environmental sustainability at the core of our operating philosophy. We don't just talk about it, we take action, finding inventive ways to be responsible in everything we do.

As a result, we are on our way toward our goal of becoming the world's most environmentally sustainable automaker by 2018.

That was a pretty impressive report.

Yet on 22 September 2015, Volkswagen revealed that 11 million of its cars can appear more environmentally-friendly than they were during emissions tests. That revelation came days after the US Environmental Protection Agency alleged that nearly half a million cars Volkswagen sold in the US had software installed that deceived emissions testers.

Knowing what we now know has been going on in the company, exposes the hypocrisy and irony of some of these statements in their sustainability report.

So while the sustainability reporting movement has accelerated globally, and Singapore has taken steps to roll out such reporting, it is also timely to consider the reporting agenda – understand why we do this, what it takes to comply in spirit and in substance, and to do it right. We should also not let one scandal and misbehaviour of a corporation – even one as esteemed as Volkswagen – to negate all the good work that the sustainability movement has accomplished. ■