

CHAPTER 3**SUSTAINABILITY REPORTING**

3.1 Introduction

This chapter will focus on different types of reporting. It will also examine what influences reporting and how reporting differs in different countries. Where ever there is funding, there needs to be reporting. Thus this is a critical aspect when considering donor funding and its sustainability.

In King III (2009), the document on corporate governance, it is stated that the board of directors should appreciate that strategy, risk, performance and sustainability are inseparable. King III (2009), places a lot of emphasis on sustainability. Paragraph 2.2 of KING III states: the board should ensure that strategy will result in sustainable outcomes taking account of people, planet and profit. According to the website Sustainability Solutions (2012), sustainability can be defined as: “an organizations ability to define a relevant mission, follow sound management practices, and develop diversified income sources to ensure long term continuity of quality, community-orientated services. It is also the creative and on-going processes which organizations engage in to sustain their programmes over the long term, after initial funding has ended.” The definition of a report was given by Sustainability South Africa (2012). A report refers to “a single, consolidated disclosure that provides a reasonable and balanced presentation of performance over a fixed period”. Sustainability reporting is “a practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development”. In terms of paragraph 9.2 of King III (2009), sustainability reporting requires commentary on the financial results, disclosure if the company is a going concern, and a description of how the company made its money whilst also conveying the positive and negative impacts on operations.

Nidumolu, Prahalad and Rangaswami stated that the main reason why companies comply with sustainability may be because they want to acknowledge that they are socially responsible. Nevertheless companies also have to comply with sustainability reporting because it is a requirement of the King III report on corporate governance.

Crespy and Miller (2010) stated that information from NGO's in the public and private sectors is discordant. NGO's "demand a larger role in designing, developing, and implementing sustainability programmes, but they themselves do not do the very same things they ask corporations to do. NGO's and Multinational corporations differ in primary goals, financial reporting requirements and primary stakeholder groups. Yet these groups support a shared concern for increased disclosure of organizational sustainability."

3.2 Background on Reporting

The financial and economic crisis the world experienced over the last decade, forced reporting to be evaluated, "as it has altered the basis of trust between investors and companies" (Engelbrecht, 2010:12-13). Climate change has become one of the main concerns today. Climate change has come about from human activities over the last 160 years. It affects health and food availability (Solomo et al., 2007). Stakeholders (investors) will keep raising the bar of reporting, as investors needs more information to weigh companies against each other to determine their eminence, as can be seen from the Ernst and Young business risk report. Climate change, and sustainability risk ("radical greening") were ranked 4th in 2009, rising from 9th in 2008 by Ernst and Young's business report, regarding what's essential in including when compiling a financial report.

"Since the release of the second King report for Governance in 2002, many South African companies have issued sustainability reports. In 2009, King III enhanced the concept of sustainability reporting through the introduction of an integrated report, which is a holistic and integrated representation of the company's performance in terms of financial and environmental, social and governance disclosures. The report should effectively describe the impact of the company's strategy on its stakeholders addressing people, planet and profit (triple bottom line)", Engelbrecht (2010:12-13).

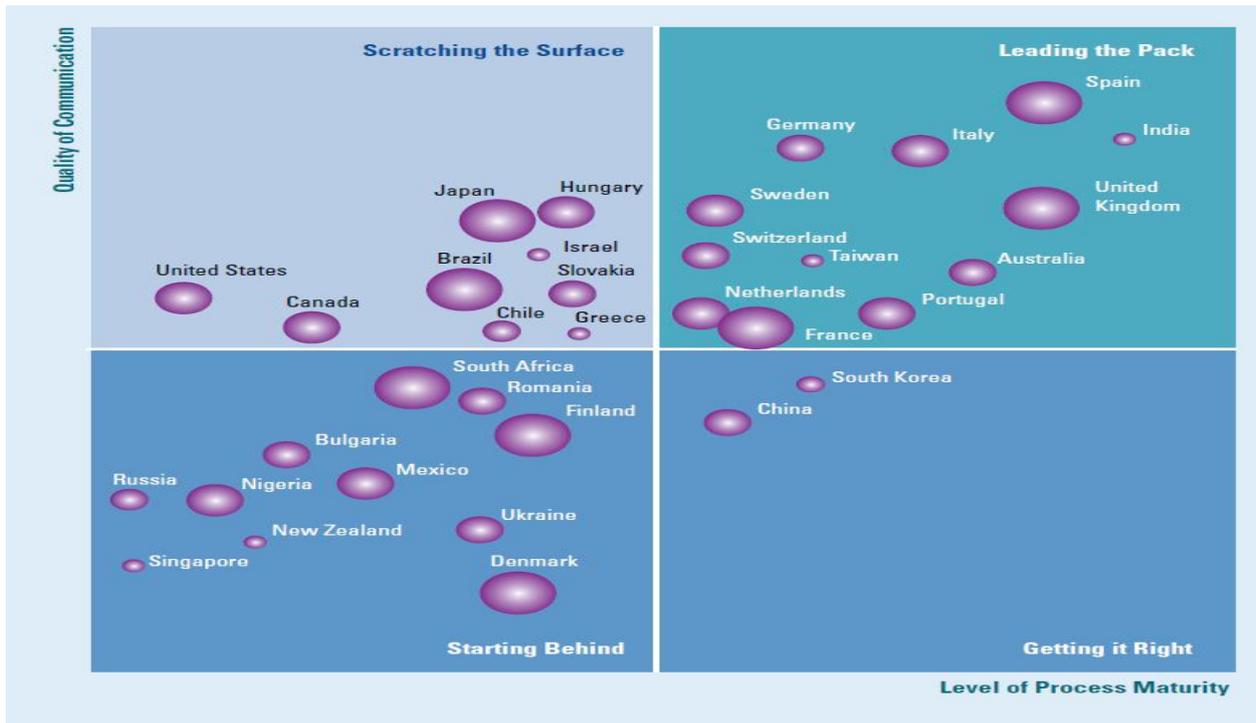


Figure 3.1: Country Overview of Sustainability Reporting

Source: KPMG, 2011

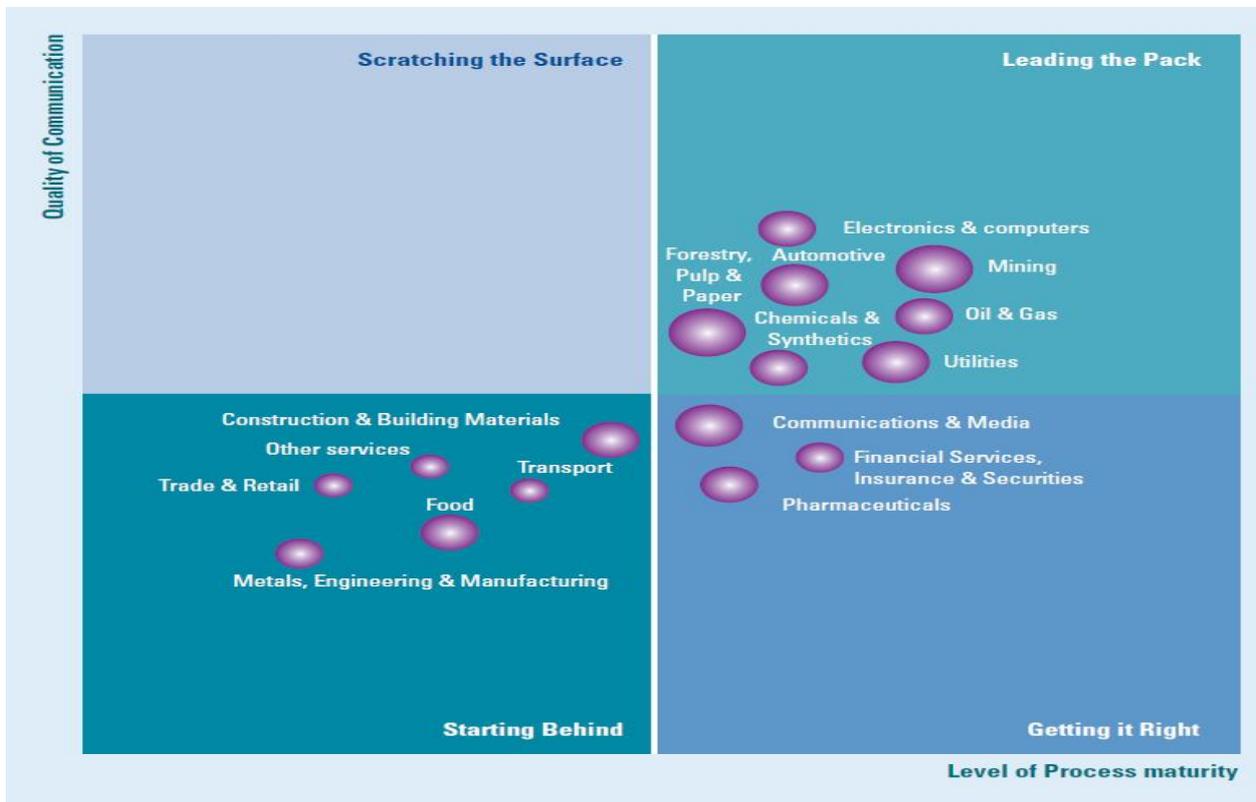


Figure 3.2: Industry Overview of Sustainability Reporting

Source: KPMG, 2011

From Figure 3.1 and Figure 3.2 it is noted that countries in Europe show the highest rate when it comes to sustainability reporting, while North and South America, the Middle East and Africa are slowly gaining ground on sustainability reporting. According to KPMG (2011), 95% of the 250 largest companies in the world now make use of sustainability reporting, whereas 2/3's of the reports are based in the US. Consumer based companies, the pharmaceutical and construction industries more than doubled their reporting, but trade, retail and transportation have continued to lag behind. Of publicly traded companies 69% conduct sustainability reporting compared to just 36% of family-owned enterprises and 45% of co-operatives and private equity firms.

3.3 Theory versus Actual Reporting

There is a big difference between the theoretical reporting and actual reporting that must be done for donor funding. In theory it sounds easy, whilst the actual reporting has its own structures that one can get entangled in. Each donor has its own outlines for reporting, which makes reporting complicated especially when receiving donor funds from several donors. Books, publications, governed acts and reports give guidelines about how one should compile a report, but the actual reporting proves quite different.

When making a report about a specific project, it is necessary to take into account for whom the report is being made. For instance, some donor funding is received from Canada and given to South Africa. Canada (University of Ontario) gives outlines in their memorandum of agreement of how their grant should be spent. They also give an outline for what they gave money to/for with the required category and sub-line divisions. These categories may not be overspent and funds may not be transferred between categories. The sub-lines of each category may also not be overspent and prior authorisation must be given to move funds between line items in a certain category.

According to the institution's guidelines or specific programmes (in this case, the School of Nursing Science) reporting for governance, financial control and stakeholder communication purposes, needs to be done in the corporation that received the donation.

Secondly, reporting needs to be done for other stakeholders according to IFRS (International Financial Reporting Standards) or GAAP (General Accepted Accounting Principles, in South Africa) for auditing purposes (in this case, the North West University). Lastly, reporting needs to be done according to the donor countries guidelines (in this case, the University of Ontario). Thus three different reports need to be compiled for one project. The magnitude of reporting can escalate if there are seven projects all receiving funds from different countries or, on the other hand, one project that receives funding from more than one donor, each with their own set of guidelines on reporting.

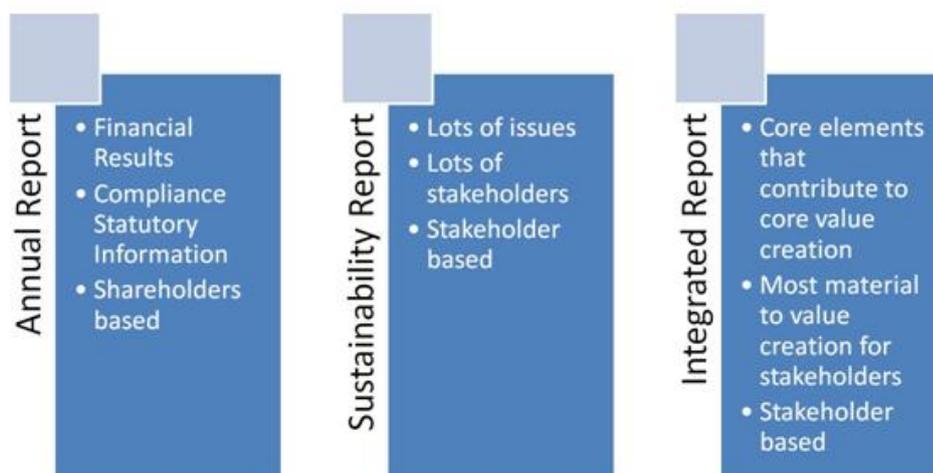


Figure 3.3: Reporting Progress

Source: Rossouw, 2012

Figure 3.3 gives an outline of how reporting has progressed over the last decade. At first annual reports were sufficient. Subsequently stakeholders wanted more detail about how the company they were investing in functioned and what was in it for them. The last picture shows how the public became involved in knowing what a company does for the environment and for them.

3.4 Integrated Reporting

In addition to annual reports, the King code introduced triple bottom line reporting. This entailed reporting on economic, social and environmental issues. Now King III has introduced a new report, the integrated report. Engelbrecht (2010:12-13) stated that “integrated reporting is not merely slapping two reports together (one financial, one

non-financial); it is a process to demonstrate how sustainable development strategies can actually improve business. The requirements for integrated reporting will have a significant impact on the accounting profession.”

Engelbrecht (2010:12-13) asserts that, “The accounting profession will have to change, and quickly.” An increasing number of audit and accounting companies have sustainable development experts on their payroll in order to ensure that their reports meet the requirements of integrated reporting. Prof Mervyn King said, “The new economy of today is characterised by business unusual, whereby we have no option but to make more with less. Governance, strategy and sustainability are inseparable.”

The Integrated Reporting Committee of South Africa was established in May 2010 in order to establish some guidelines for integrated reporting as originally outlined in the King III report. According to Muller (2011:24-26), the integrated report should include:

- Statutory requirements regarding annual financial statements;
- Commentary on the key risks that could limit the prospects for future value creation;
- A record of how the organisation has impacted both positively and negatively on the economic life of the community;
- Forward-looking information on how the positive aspects can be enhanced and the negative aspects negated;
- Statements of assurance on the information in the report.

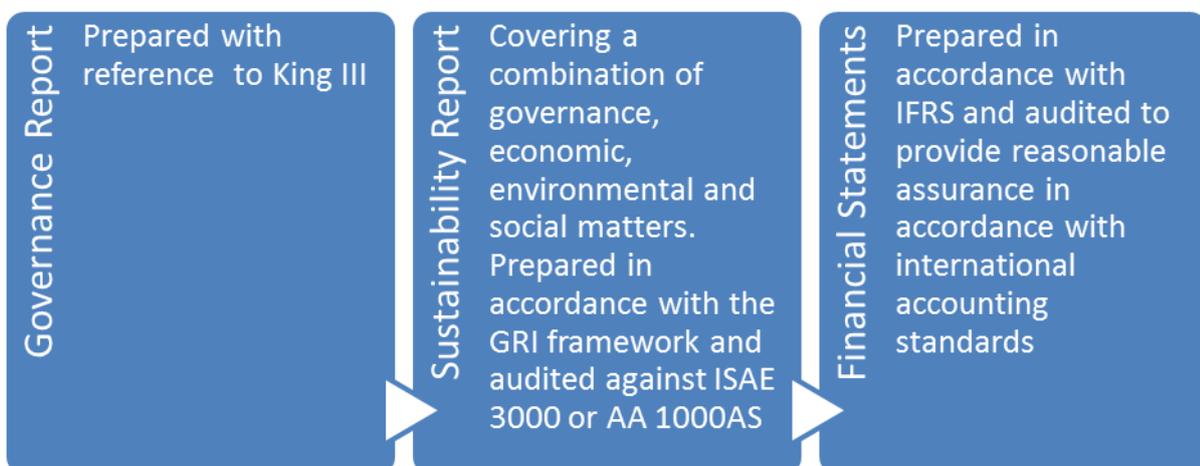


Figure 3.4: The Integrated Report – SA IRC

Source: Deloitte, 2011

According to Deloitte (2011), the integrated report should address issues such as governance, sustainability and financial matters but not only the financial matters. King III, GRI framework, the Sustainability Model (governance, economic and environmental matters) and IFRS should be taken into account when a report is generated.

The integrated report is not simply an annual report with a cross reference to environmental, social, economic and governance indicators, as this does not address factors such as strategy, risk and opportunity. Deloitte (2011) states, that the integrated report should be of such a nature that it can be used on its own to provide sufficient financial and sustainability information to form an opinion on its own. The integrated report should also contain future information about how objectives (that have been established in the past) will be met and how risks and opportunities can be identified and dealt with.

3.5 Integrated Reporting Framework

Rossouw (2012), has proposed five guiding principles for international integrated reporting.

They are:

- Strategy focus
- Connectivity of information
- Responsiveness and stakeholder inclusiveness
- Future orientation
- Conciseness, reliability and materiality.

3.6 KING 1+II+III and Sustainability Reporting

With the rise of sustainability reporting, a new impediment arose. Chief Financial Officers (CFO's) were expected to do more than what was expected of them in the past. Accounting departments were now responsible for handling financial and non-financial information. Non-financial information plays a significant part in compiling a sustainability report. "According to recent Chartered Institute of Management Accountants (CIMA) research, most CFO's believe that finance teams should act as the organisational "clearing house" for all financial and non-financial information delivered to senior managers", (Rossouw, 2012).

Sustainability reporting differs from typical financial reporting, as sustainability reporting includes information that is not always financially measurable. Sustainability reporting standards are “divergent in content and application”. The standards remain voluntary and are not always consistent, as everyone interprets them differently. Whereas financial standards are woven into legislation and governed by statute, with strict penalties, sustainability reporting is not subject to “such rigorous control” (Stilwell, 2009:27).

The King I, II and III reports were put into place as a guideline for reporting. According to Furter (2009:15), parts of King II have been written into legislation, while most of the codes remain only as a framework for voluntary implementation. The King reports also include environmental accounting in compliance with local environmental laws and regulations.

According to “Sustainability reporting in general - Guidelines to sustainability reporting”, the elements of environmental accounting are:

- Measurement and disclosure of environment-related financial information in the context of financial accounting and reporting.
- Measurement and use of environment-related physical and monetary information in the context of Environmental Management Accounting (EMA).
- Estimation of external environmental impact and cost often referred to as Full Cost Accounting (FCA).
- Accounting for stocks and flows of natural resources in both physical and monetary terms, that is, Natural Resource Accounting (NRA). Includes aggregation and reporting of organisation-level accounting information, natural resource accounting information, and other information for national accounting purposes.
- Consideration of environment-related physical and monetary information in the broader context of sustainability accounting.



Figure 3.5: Sustainability Leadership – Capturing Value in Three Key Areas

Source: McKinsey, 2011.

When it comes to ensuring sustainability McKinsey divided the key aspects of reaching sustainability into three main categories. These were divided into a further three categories, to ensure a model which incorporates sustainability in all aspects of a company's outputs.

When one examines environmental sustainability, the issue of social and economic development comes to mind. According to "Sustainability reporting in general - Guidelines to sustainability reporting", the environmental issues are:

1. Climate Change:

Climate change is occurring because of global warming – a human intervention is causing global warming to happen at an accelerated rate with likely catastrophic consequences.

2. Agriculture and Food Production:

Global warming and climate change have contributed toward worldwide food shortages and rising food prices, as crops fail and production decreases. At the same time, unsustainable farming practices and poor management of agricultural land have played a large part in the world's greenhouse gas emissions.

3. Disease:

Climatic variations affect the incidence and distribution of many kinds of diseases – for example, heat waves can contribute to respiratory problems and heart failure; extreme weather, such as a flood, is often followed by outbreaks of cholera and typhoid.

4. Fresh water:

Growing populations and sustained droughts are squeezing the world's water resources. Water quality is further deteriorating due to pollution.

5. Wetlands:

Although these patches of swamps are often overlooked, wetlands play a critical role in protecting of ecosystems – acting as natural filters to improve water quality, and slowing the flow of water during periods of flooding.

6. Land degradation, deforestation and desertification:

Desertification and land degradation have a profound effect upon population of countries. If not constructively dealt with, they will lead to lower agricultural yields, poverty and ultimately, starvation. Many millions of people around the globe have had to move off their land because it is no longer sustainable.

7. Ozone Depletion:

The Montreal Protocol was adopted in 1987. The Protocol phases out the production of substances believed to contribute to ozone depletion. After ozone levels reached a record low in the mid-nineties, scientists began to record small but significant improvements in levels of atmospheric ozone.

8. Acid Rain:

Electricity generation, factory pollutants and motor vehicle exhaust emissions contain chemical compounds that react with the atmosphere, creating what is known as acid rain. The rain, with its high acid content, raises the acidity of bodies of water and soil and kills off vegetation and necessary micro-organisms.

9. The Oceans:

Two-thirds of the world's population live within sixty kilometres of the coast, and almost half of the world's cities are sited in and around the tide-washed river mouths known as "estuaries". Climate change and over-exploitation of the ocean's resources have resulted in rising sea levels, declining fish stocks and valuable oceanic eco-systems, such as coral reefs, are threatened with extinction.

10. Population Growth:

As the earth's population grows, so too does the demand on the earth's resources. More people equal more food, more water and more energy. This translates into more space, more consumer goods and more waste disposal. The United Nations Population Division has projected that the world's population will surpass nine billion in 2050 – while the world's current population is estimated at around six billion people.

11. Poverty:

The World Bank defines extreme poverty as living on less than US\$1 per day and moderate poverty as less than US\$2 a day. Until all people are able to enjoy at least a basic standard of living, many of the environmental issues will not be solved, because poverty-stricken people will do anything (even steal or kill) to survive.

12. Biodiversity and conservation:

Many environmental campaigns are viewed in isolation without understanding their relevance in the context of the ecosystem in which they exist. Saving a single plant or animal species is not the solution. We need to protect the whole ecosystem within which they live. Biodiversity measures the relative diversity among organisms present in different ecosystems and is essential to survival

The above ten guidelines to sustainability reporting represent areas that are critical. It is important to know that organisations are caring for the world we live in. Global warming is affecting every single one of us; its consequences have crucial implications especially to the poor and less fortunate. Nevertheless all people are affected.

3.7 Sustainability Framework

The millennium era brought along its own challenges, with more and more businesses making use of Internet, social media and technology in favour of hand-written bookkeeping and reports. This has changed the nature of business, collaboration and accountability forever. A decade later global warming forced businesses to look differently at reporting to ensure that they were competitive in their market by complying with what the consumer expected from them especially to protect the environment. This led to new challenges, ensuring that company's remained sustainable while implementing new types of reporting.

According to Sustainability South Africa, there are two different tools one can apply to ensure sustainability in everyday strategies:

➤ **IFAC sustainability framework**

The International Federation of Accountants (IFAC) launched a sustainability framework in 2009. This framework focuses mainly on climate change policy development, carbon disclosure, cap-and-trade systems, and sustainability reporting.

➤ **Sustainability decision – making model**

Sustainability South Africa states that, The Accounting for Sustainability Project (A4S) believes that through integration of environmental and social factors into business and management reporting, a fundamental connection between strategic directions, financial performance and sustainability impact can be made clear. This model has been developed so that issues can be taken into account more effectively in day-to-day decision-making processes.

The model can be divided into three broad categories:

1. A review of the whole product or service range to understand the impact of the organisations main sustainability objectives.
2. Analysing the life-cycle of particular products and services to determine the impact of the key sustainability factors.

3. Understanding all the various options and reaching a balanced, fully informed and documented decision as to how the sustainability performance of a particular product or service can be improved.

Sustainability South Africa also listed ten elements to implement sustainability successfully. They can be listed as:

1. Board and senior management commitment.
2. Understanding and analysing the key sustainability drivers for an organisation.
3. Integrating the key sustainability drivers into the organisations strategy.
4. Ensuring that sustainability is the responsibility of everyone in the organisation (and not just of a specific department).
5. Breaking down sustainability targets and objectives into targets and objectives that are meaningful for individual subsidiaries, divisions and departments for the organisation as a whole.
6. Processes that enable sustainability issues to be taken into account clearly and consistently in day-to-day decision-making.
7. Extensive and effective sustainability training.
8. Including sustainability targets and objectives in performance appraisal.
9. Champions within the organisation to promote sustainability and celebrate success.
10. Monitoring and reporting sustainability performance.

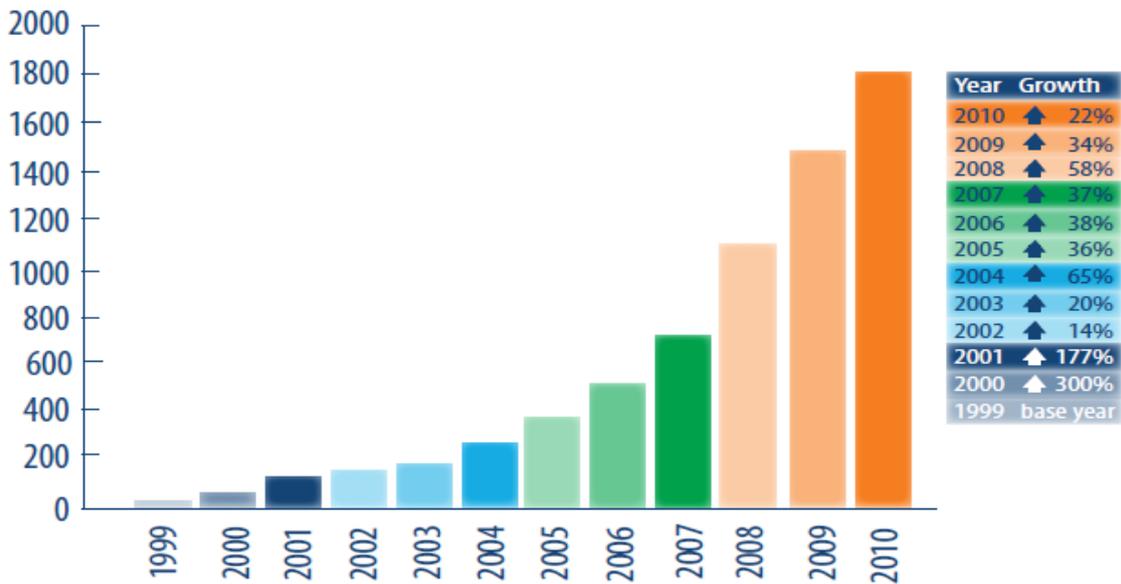
3.8 GRI (Global Reporting Initiative) Reporting

According to Sustainability South Africa, GRI stands for the Global Reporting Initiative. The GRI framework had certain guidelines put in place for GRI reporting. These guidelines include:

- Reporting principles.
- Profile disclosures.
- Disclosures on management approach.
- Disclosures on performance indicators.



The GRI's goal is to make sustainability reporting standard practice by providing guidance and support to reporting organisations.



Graph 3.1: GRI Reporters 1999 – 2010

Source: Sustainability reporting guidelines.

Graph 3.1 clearly indicates that companies and individuals compiling GRI reports showed an upward trend from 1999 to 2010, reaching 1 800, and rising with almost 400 from 2009 to 2010.

Table 3.1: Reporting Principles

Defining Content	Materiality	Topics and indicators that reflect social, environmental, economic impacts that would influence stakeholder assessments and decisions
	Stakeholder Inclusiveness	Identify stakeholders and explain how responded to their expectations
	Sustainability Content	Performance in the wider context of sustainability
	Completeness	Material topics, indicators and definition of reporting boundary to reflect impacts
Defining Quality	Balance	Reflect both positive and negative aspects of performance
	Comparability	Issues and information should be selected, compiled and reported consistently
	Accuracy	Information sufficiently accurate and detailed for stakeholders to access performance
	Timeliness	Reporting occurs on a regular schedule and information is available in time to make informed decisions
	Clarity	Information presented in a manner that is understandable and accessible
	Reliability	Information and processes used to prepare report should be gathered, recorded, compiled, analysed and disclosed in a way that could be subject to examination
Boundary Setting		The Sustainability Report should include the entities over which the reporting company exercises control or significant influence both in and through its relationships with various entities upstream (e.g. supply chain) and downstream (e.g. distribution & customers)

Source: Rossouw, 2012

Corporate responsibility and accountability are necessary for a sustainable future, with forecasts of more than nine billion people by 2050. Social needs, such as access to energy, food and healthcare, have become more significant than accountability and conservation. Therefore, transformational change in reporting is now imperative, ensuring external readers that the company places a high value on the future of our planet and its inhabitants.

3.9 Triple Bottom Line

The term “triple bottom line” was allegedly coined by John Elkington in 1995 (Sarre & Treuren, 2001), but became popular after Elkington’s book, “Cannibals with Forks: The Triple Bottom Line of 21st Century Business” was published in 1997. Triple bottom line reports are frequently referred to as sustainability reports (Milne and Gray: 2008).

In 1993, according to the Association of Chartered Certified Accountants (ACCA) (Milne and Gray: 2008), less than a hundred companies produced these reports were, although exceeding 1 500 reports in 2003.

Triple bottom line reporting is also a requirement of King III (2009) and is referred to as economic, social and environment reporting.

The triple bottom line can be summarised graphically:

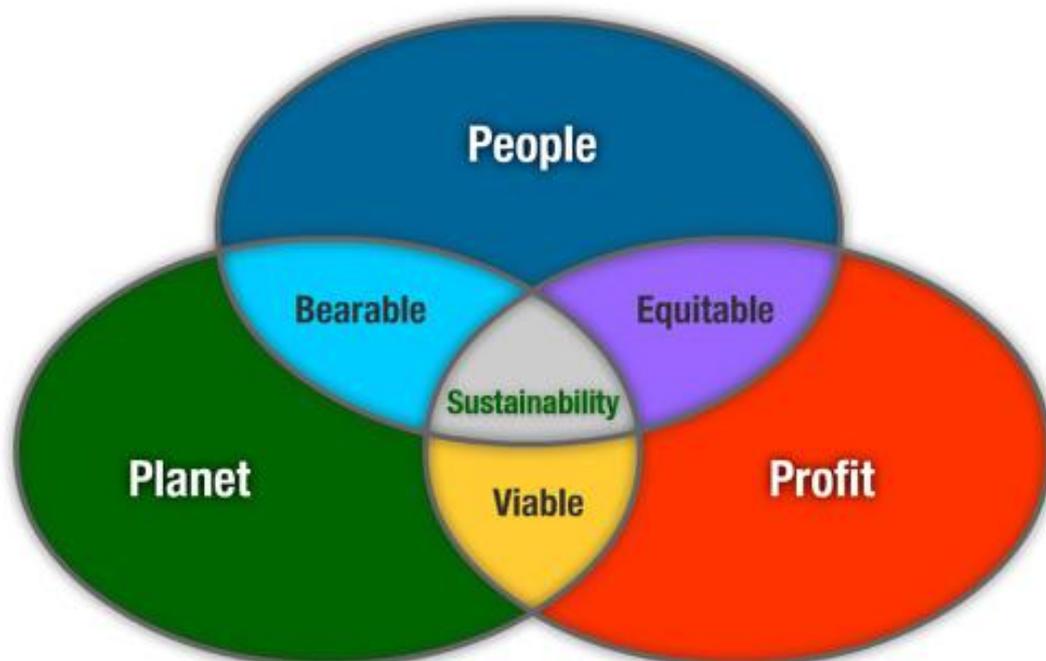


Figure 3.6: Triple Bottom Line

Source: Google Images, 2011

A more descriptive breakdown of the above figure is:

- **Profit (economic growth):**
Innovation, capital efficiency, risk management, margin improvement, growth enhancement and total shareholder return.
- **Planet (environmental stewardship):**
Clean air, water and land, emissions reductions, zero waste releases and spills and biodiversity.

- **People (social progress):**
Diversity, human rights, community outreach, indigenous communities and labour relations.
- **Bearable (socio-environmental):**
Safety and health, environmental regulations, global climate change, access to clean water, crisis management and environmental justice.
- **Equitable (socio-economic):**
Job creation, skills enhancement, local economic impact, social investments, business ethics and security.
- **Viable (Eco efficiency):**
Resource efficiency, product stewardship, life-cycle management and products to services.

Consequently the 'triple bottom line' is described by Vanclay accordingly:

- social, environmental and economic performance
- sustainable development, sustainable environment, sustainable communities
- impact on society, the environment, and economic sustainability
- economic, environmental and social sustainability
- economic prosperity, environmental quality, and social justice
- economic growth, ecological balance and social progress
- economic growth, social progress and environmental health
- economy, environment, equity
- profit, people, planet.

“A triple bottom line report is an accounting of business performance in terms of its impacts on the economy, the environment and society.” (Vanclay)

The Michigan Supreme Court maintained in *Dodge v. Ford* (1919), that a corporation must be managed for the benefit of its shareholders. The court also disagreed with Henry Ford's statement, “to employ still more men; to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes.”

The Sarbanes Oxley Act of 2002 states that “a company must make a code of ethics for its senior financial officers available to investors. It can do this by including the code of ethics in its annual financial report, on its Internet website, or by offering to provide the code of ethics upon request in the annual report.”

The purpose of triple bottom line reporting is to ensure sustainable development by meeting the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development also creates a couple of key challenges, as it obliges companies to make use of new ways of thinking and make innovative choices in their day to day business and ways of trade.

3.10 The Way Forward

Reporting requirements have evolved over the last two decades. Organisations have many stakeholders or interested parties. Reporting should recognise the needs of all stakeholders. As the volume of reporting places a burden on information providers, it is necessary to consider future developments.

➤ **The most important leadership challenges facing business today are:**

- the integration of sustainability into core business functions
- to convince investors about the value of sustainability and planning for the long term.

More and more countries are integrating sustainability into their legislation to ensure that everyone complies with it. Developing countries, like South Africa, making use of the JSE reporting requirements and KING III, whereas China is using SSSE are a few countries integrating sustainability reporting.

One of the main challenges thus far to ensure sustainability and which can be measured worldwide, is to develop sustainability reports with a standard content. This should include a set of indicators, formalised guidelines on how to select and present content, industry specific requirements, and such like.

➤ **Some pitfalls that have been identified thus far include:**

1. Do not reduce the concept of integrated reporting to:

- combining the sustainability and other business impacting information with the annual report.
- the risk of information getting lost in the abundance of legally required information, space being too limited to tell the full and balanced story and the medium being inaccessible to key stakeholder groups.

2. Take care to balance the story and the figures:

- not all information can be captured in figures and quantitative targets – while telling the story may be incomplete without the concrete results to support it.

3. Full implementation of integrated reporting could take three to five years for many organisations.

4. Challenges that will need to be addressed include the efficient gathering of non-financial information.

5. Key performance indicators are not always relevant to strategies.

(Rossouw, 2012).

A practical problem with the requirements for integrated reporting is the authenticity of the reporting. The question arises whether the actions reported on, made a measurable impact on society and the environment, or was it merely reporting for the sake of compliance?

3.11 Chapter Summary

The different types of reporting can be time consuming, thus further decreasing the life time of a project. Without a proper background of the different reporting requirements explaining the significance of each aspect of the different reports, mistakes will be made. The King I, II and III reports give general guidelines on how reporting must be done. Sustainability reporting is also becoming more prominent. In a few years from now companies won't have a choice about sustainability reporting. As environmental and social issues become more of an international concern companies will be obligated to include them as part of their reporting.

Hopefully by then general guidelines for interpreting these reports would have been established, so that different company's sustainability reports can be assessed against each other.

The reporting of donor funds is essential for recipient of donor funding, now and in the future. An adequate reporting system, especially on sustainability reporting, is imperative when applying for donor funds. Donors have the right to know what recipients do with their funding. The more inclusive and detailed the reporting, the more reliable the spending of the funding and the bigger the chance of renewed funding.

According to Stilwell (2009:27), the requirements of environmental reporting will keep on growing in the future, as well as the amount of historical data that needs to be retained. The author also states that organisations that fail to adapt to these changes, will risk damaging their reputation and thus lose business.