Introduction

Sustainability reporting has evolved considerably since 2000 when the first voluntary international standard for sustainability reporting was published. This report reviews these global trends, some of which are in the very early stages, to reveal opportunities for organizations seeking to be leaders in accountability and transparency and to enhance their practices in this area.

Key trends profiled in this report include:

- Quantity and Quality of Reporting
- Reporting Standards
- Materiality
- Stakeholder Engagement
- Integrated Reporting
- Third Party Assurance
- Data Quality
- Frequency of Reporting
- Multiple Reporting Channels and Formats
- Multi-media Features
- Board Oversight

The final section provides an assessment of the top implications of these reporting trends for reporters. This report uses corporate social responsibility (CSR), corporate responsibility (CR) and sustainability terminology interchangeably.

Note: This is not all original work. Considerable sections are excerpts from other publications.
Trends

1. Quantity and Quality of Reporting

CR reporting is becoming mainstream, particularly among large companies. A recent 2013 KPMG study found that “CR reporting is a mainstream business practice worldwide, undertaken by almost three quarters (71 percent) of the 4,100 companies surveyed in 2013. This [...] is an increase of seven percentage points since 2011.”¹ The KPMG study of Canadian companies found that 83 percent produced CR reports in 2013, up from 79% in 2011². (According to Industry Canada, in 2008, 80% of all companies listed on the Toronto Stock Exchange reported at least some CSR information in their annual reports or in a stand-alone report.)

The Corporate Register, which provides the world’s largest online directory of CSR reports, documented close to 5,000 English-language reports in 2010, and close to 6,000 reports including those written in other languages³. About one-fifth of reporters in any given year are first-timers, revealing the continued growth in CSR reporting⁴.

While sustainability reporting is becoming mainstream, only one in five large companies studied (250; 23 percent) publishes a well-balanced report that discusses CR challenges and setbacks as well as successes. Companies in the food and beverage, pharmaceuticals and electronics and computers sectors are most likely to do so⁵.

2. Reporting Standards

Global Reporting Initiative

An international, multi-stakeholder, non-profit organization, the Global Reporting Initiative (GRI), was established in the late 1990s to produce a global disclosure framework for sustainability information. GRI launched the first sustainability reporting guidelines in 2000 after considerable consultation with a wide range of industry, non-profit and government stakeholders. The guidelines have gone through four iterations, with the most recent released in 2013 and referred to as G4 Guidelines.

The GRI guidelines are the most widely adopted global framework for CSR reporting. They include considerable guidance on what to report and how to report. According to KPMG, seventy eight percent

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of reporting companies worldwide refer to the GRI reporting guidelines in their 2012 CR reports, a rise of 9 percentage points since their 2011 survey. In 2010, 66 Canadian companies submitted a GRI report.

ISO 26000 Guidance Document

The International Organization for Standardization’s “ISO 26000” guidelines provide organizational guidance on social responsibility. This international standard includes “transparency” as one of seven key principles of CSR. According to the guidelines, an organization should be transparent regarding:

- Its performance on relevant and significant issues of social responsibility.
- The known and likely impacts of its decisions and activities on its stakeholders, society, the economy and the environment.
- Its stakeholders and the criteria and procedures used to identify, select and engage them.

The guidelines address CSR communications, including reporting, and provide tips on ways and means to enhance reporting credibility.

Regulatory Reporting

Some anticipate that mandatory sustainability reporting will become the norm in future, further driving standardized reporting protocols. In 2013, the Global Reporting Initiative, KPMG and others produced a scan on the approach to mandatory sustainability reporting in forty-five countries. The study found: 134 separate mandatory policies covering different aspects of CR reporting and a further 53 voluntary policies; many policies are based on a “report or explain” approach; and sustainability reporting has become a listing requirement on several stock exchanges in non-OECD countries. As an example of a regulatory approach, Denmark’s Financial Statements Act requires CSR disclosure for large companies.

In Canada the Canadian Securities Administrators published “Environmental Reporting Guidance” in 2010 for reporting issuers covering material environmental risks, environmental risk oversight and management, and forward-looking information requirements related to environmental goals and targets. A further driver of sustainability disclosure in Canada is the Canadian Environmental Protection Act, which requires companies to report certain pollution emissions, and the GHG Emissions Reporting Program, which requires significant GHG emitters to report.

It is predicted that governments will increasingly regulate aspects of sustainability reporting in order to advance the disclosure of relevant, accurate and comparable information to investors and other stakeholders.


3. Materiality

Reporters are increasingly emphasizing materiality practices, where efforts are allocated to reporting on those issues that intersect between business and stakeholder priorities. Materiality matrices in reports are becoming increasingly more common and more detailed. GRI defines material topics as those that “reflect the organization’s significant economic, environmental and social impacts” and topics that “would substantively influence the assessments and decisions of stakeholders”. In KPMG’s 2013 study, over three quarters (79 percent) of the top 250 companies issuing CR reports discuss the identification of CR issues that are material to their business and stakeholders. However, 41 percent of all the reporting companies do not explain the process they use and only a small minority (5 percent) assess material issues on an ongoing basis.

4. Stakeholder Engagement

Stakeholder engagement is becoming increasingly more important in reporting. Reporters are not only identifying key stakeholders, they are also discussing their approach to engaging with different stakeholder groups, as well as how respective concerns and expectations are being addressed. Stakeholder engagement is an integral component of carrying out a materiality analysis, complementing the internally identified business priorities with those of external audiences interested in the management of sustainability issues.

A Craib-PwC study reviewed the 2009 CSR reports of 75 companies and found that 88% identified major stakeholder groups; 97% described specific engagement methods; and 59% provided the results of stakeholder engagement. This reveals the emphasis reporters are putting on stakeholder engagement generally. KPMG’s 2013 review of CR reporting found that six in 10 companies in the Americas explain the process used to engage stakeholders in the sustainability reporting process and that the mining and metals, engineering and manufacturing sectors scored the highest for identifying key stakeholders in their reports.

An updated global standard for stakeholder engagement was released in 2011: AA1000 Stakeholder Engagement Standard. It provides the basis for designing, implementing, evaluating and assuring the quality of stakeholder engagement.

5. Integrated Reporting

Integrated Reporting is an emerging approach to corporate reporting that brings together material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, showing the connectivity between them and explaining how they affect the ability of an organization to create and sustain value over the short, medium and long term. It presents information about an organization’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. Proponents believe that integrated reporting will help

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investors, and other stakeholders, to understand not only an organization’s past and current performance, but also its future resilience.

An Integrated Report makes visible how an organization uses different capitals (financial, manufactured, human, intellectual, natural and social), its impact on them, and their independence.

The International Integrated Reporting Committee (IIRC), an international cross-section of leaders from the corporate, investment, accounting, securities, regulatory, academic, civil society and standard-setting sectors, published the International Integrated Reporting Framework in late 2013.

It is difficult to predict the degree of take-up of this new reporting framework. Meanwhile, companies continue to experiment with CSR disclosures. KPMG’s 2013 study found that the majority of the 4,100 companies they studied (51 percent) include CR information in their annual financial report, a dramatic increase since 2008 when it was 20 percent. They further found “of those companies that include CR information in their annual reports, the majority (58 percent) do so in a separate chapter, rather than integrating CR data into the wider narrative on business performance and value. An increasing number but still a minority (42 percent) are starting to make the link between CR and business strategy by including CR information in the Director’s report”. Three percent of reporting companies in the KPMG research reference the work of the IIRC. (The majority of companies claiming to produce an integrated report are based in South Africa due to the governance requirements of that country and the Johannesburg Stock Exchange.)

Including a sustainability insert in an annual report, however, does not demonstrate the achievement of streamlined systems and actual integration of sustainability into the business strategy.

6. Third Party Assurance

A key trend predicted to grow over the coming years is the number of reports which are independently assured by a third party as a “fair presentation” of non-financial performance information, similar to the process of third party assurance of financial statements. Reporters verify their disclosures as a means of increasing the credibility of their claims.

KPMG on Assurance

“We believe that the use of assurance mechanisms will be critical to further improving […] data quality and management.” “A growing number of companies look to external assurance providers to validate and certify their CR and integrated reports. And while most cite enhanced credibility as the leading benefit from gaining external assurance, our experience shows that companies can gain significant internal benefits as well. For one, assurance often provides opportunities to identify and drive process and performance improvements through the organization. But […] the use of assurance has also provided opportunities for organizations to sharpen their CR reporting to deliver more value to management, customers, investors and stakeholders.”


In addition to enhancing the report’s credibility, assurance can also increase the reporting organization’s confidence in the data, an important factor if the organization uses the non-financial information to guide strategy, operations and remuneration. Both internal and external stakeholder confidence in the results can be increased through third party verification of data. Indeed, many companies realize internal improvements as a result of third party verification, similar to the financial audit process. Particularly, third party verification can help strengthen the underlying processes and controls over reporting. According to KPMG, the desire to enhance credibility is the most frequent driver for companies to seek assurance, with improving the quality of reported information (to reduce the risk of restatements) close behind.\(^\text{12}\)

KPMG’s 2013 review of global trends in CR reporting reveals that over half (59 percent) of the largest companies studied (their top 250) invest in external assurance, up from 26 percent in 2011\(^\text{13}\). They note that of those companies investing in external assurance two thirds of them engage a major accountancy firm. Of the top 100 companies, “72 percent opt for a limited rather than reasonable level of assurance, 10 percent for a reasonable level of assurance and a further 10 percent opt for a combination of the two levels. Over half (52 percent) choose to verify their whole report rather than selected indicators or chapters.”\(^\text{14}\)

Reporters sometimes use other means to enhance the credibility of their disclosures, such as third-party commentaries from stakeholders, typically via stakeholder panels or NGO, academic or subject matter expert statements. One third (31 percent) of the top 250 global company 2012 reports studied by KPMG include stakeholder comments – and of reports that communicate third party views one quarter (26 percent) include stakeholder panel comments.\(^\text{15}\)

There is no generally accepted standard for assurance on sustainability reports. The two main international standards are the International Standards for Assurance Engagements (ISAE) 3000 and AA1000AS, which are complimentary: the ISAE 3000 focuses on assurance procedures while the AA1000AS emphasizes the quality of the reporting process.

ISAE 3000 is the more common of the two, due to its obligatory nature for accounting firms. A 2008 KPMG reporting study found that 62% (18% in 2005) of the top 250 companies and 54% (14% in 2005) of the top 100 companies adopted the standard. The usage of AA1000AS has also increased since 2005 with 33% (18% in 2005) of the top 250 and 36% (10% in 2005) of top 100 companies utilising it as of 2008\(^\text{16}\). Another notable trend is an increase in the use of multiple standards, mainly AA1000AS and ISAE 3000. As the two standards are complementary, this is not surprising.


The focus of sustainability reporting assurance varies, taking the form of:

- Addressing the accuracy of specific performance indicators.
- Evaluating the compilation process of the reporting.
- Assuring the accuracy and completeness of the claims and assertions in the report.\(^{17}\)

It is expected that the trend towards increased assurance will grow in future.

### 7. Data Quality

There is a growing awareness of the need for internal control processes and systems to ensure data integrity, with some reporters providing a description of data methodologies and internal controls to support data reliability.

An Ernst and Young 2011 survey of sustainability reporters found that the tools used to gather information for sustainability reports are "suboptimal," with spreadsheets such as Excel widely used as the primary data collection source, supplemented by email and even telephone calls (which prevent third-party verification and/or assurance)\(^{18}\). In order to verify information, companies need to show a reliable, accurate information trail. It is predicted that sustainability reporting information systems will eventually be brought up to a level equal to current financial reporting, including a comparable quality of governance, controls and management. This will reduce the risk of misstated data and the negative impact on credibility and reputation.

As well, some companies engage internal auditors to verify data quality, confirm data validity and reduce the risk of misstated information.

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**KPMG on Data Integrity**

“With the increasing scrutiny of [sustainability] data by both external stakeholders and internal management, companies will quickly find that misstated data poses not only a risk to their credibility and reputation, but also impacts the management insight and innovation that [sustainability] reporting provides. As a result, greater focus must be placed on developing higher levels of data integrity through better governance, systems and controls that meet the future demands of both the company and its stakeholders.”


According to KPMG research into 2012 reports, the restatement rate of the top 100 reporting companies is 25 percent\(^{19}\), compared to a Fortune 1000 restatement rate of financial statements of 3.1%\(^{17}\).

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\(^{18}\) As cited in: [http://www.greenbiz.com/blog/2012/01/30/6-biggest-trends-sustainability-reporting](http://www.greenbiz.com/blog/2012/01/30/6-biggest-trends-sustainability-reporting)

The most common type of restatement is an updated or improved methodology being applied, followed by updated definitions, then errors or omissions and finally scope updates.\(^{20}\)

Very few companies (20\% of the top 250 and 12\% of the top 100 in 2011) identified that they had implemented an IT system to support the reporting of sustainability information. However, to ensure further long-term improvements in data quality and value, many organizations will likely now turn to exploring how best to integrate sustainability reporting into their current IT infrastructure.\(^{21}\)

The GRI conducted an international survey in 2010 and found that the proportion of companies that use some form of software – from simple spreadsheets to multiplatform online systems – to monitor their sustainability performance increased by 50\% between 2006 and 2010. GRI offers a Certified Software and Tools Program in which they verify the correct usage of the GRI content in CSR reporting software and digital tools for a fee. They maintain a free directory of certified software and tools with a current listing of 24, including OneReport and CRediT360. KPMG published a market review of software packages that cover sustainability reporting features in addition to standard financial reporting (see page 14 for the full list). Other reporting software includes SoFi and Measurabl.

### 8. Frequency of Reporting

As companies become more accustomed to gathering and reporting on their sustainability performance annually and to using sustainability information to inform business strategy, the need arises for more frequent sustainability information. As well, as investors become more accustomed to relying on sustainability data to inform their investment analyses, they too will drive a trend to more frequent sustainability reporting. Thus, some companies are moving from annual to half-yearly updates to quarterly online reporting on key sustainability performance with the aim of shortening the report feedback loop – receiving direct feedback from internal or external stakeholders in a timely manner and thus being able to make relevant adjustments.

In addition to performance reports, a number of companies update their sustainability websites with additional content such as news and case studies, and put forward their opinion or position on topical matters.\(^{23}\)

Timberland, an outdoor clothing and products company, for example, has been reporting on key sustainability performance indicators on a quarterly basis since 2008. It has evolved its sustainability reporting process from a static presentation of data providing delayed performance information to a dynamic presentation of quarterly information.

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Another example is Canadian Tire: it publishes quarterly forecasts of avoided wastes, emissions, energy and costs resulting from corporate sustainability initiatives together with financial results. (It should be noted that this practice focuses on reporting forecasts, and not actual performance resulting from the projects). However, Canadian Tire is calculating actuals to compare to forecasts on selected projects.

Many companies offer web visitors the opportunity to stay informed on the latest new content on the site by receiving updates by email or subscribing to an RSS feed (which stands for “Really Simple Syndication” and refers to a technology that provides internet users a method of getting relevant and up to date information sent to them to read at their convenience. It is like a subscription service, which delivers information to a subscriber’s RSS Reader every time a selected website updates).

9. Multiple Reporting Channels and Formats

Companies are also evolving the method by which they communicate sustainability information to their various audiences. They are increasingly using multiple forms of media to communicate results; according to KPMG’s 2011 research, only 20% of the top 250 rely solely on stand-alone sustainability reports, and barely 10% restrict their report either to web-only formats or annual reports alone. For example, many organizations (approximately 40%) now incorporate a special-purpose sustainability website into their communications that enhances accessibility for the various audiences and enables readers to view data through different lenses and perspectives. A small but growing number have even developed mobile applications (such as iPad Apps) to deliver even greater access to stakeholders.

Websites are predicted to become dominant sustainability information carriers in future. As of 2010 81% of companies had sustainability information on their websites, up from 75% in 2009. Increasingly, corporate websites will be the repository for sustainability performance data and information, going well beyond the traditional annual sustainability report. The website will also increasingly be used for reporting on less material issues, with more material issues included in sustainability or integrated reports.

Online sustainability reports are becoming more user-friendly. Early reporters published PDF reports designed for printing, while increasingly reporters are using HTML formats, which are easier for browsing. The PDF format is designed to retain the exact look of the print document, and is in most cases not ideal for on-screen reading. According to a PwC/Craib report, 15% of companies produced an HTML version of their sustainability report in 2010.

Today, most companies issuing sustainability reports combine and complement traditional hard copy reporting with information available on their website in PDF, HTML or interactive/dynamic formats – a growing number of companies are taking advantage of the unique possibilities that the web can offer in terms of interactive and multimedia features. There is also a trend to increased customisation of reporting, including the production of summary reports and regional/local, issue-specific or stakeholder-specific reports. Companies can encourage readers to examine and segment corporate sustainability

data to suit their unique needs and interests. Segmentation is made possible through the use of “build your own report” options available to the online user.

As KPMG comments in its 2011 international survey of sustainability reporting, “as more and more companies start to employ multiple vehicles for communication (above and beyond their printed annual report), [it is expected they will increasingly] focus on developing and implementing a comprehensive communication strategy that enhances trust and value for the company within its different stakeholder groups”.

10. Multimedia Features

Social media – the use of corporate blogs and sites like Facebook and Twitter – is increasingly being deployed to communicate information about corporate social and environmental performance. Given the diversity of stakeholders, particularly younger demographics, it is no longer assumed that a single report posted deep within a company’s website satisfies all interests.

Not only are more organizations putting their information out in multiple communication channels, they are leveraging the capacity of online platforms. In 2010 companies were using these internet platforms to report on different aspects of their CSR performance: micro-sites (48%), videos (35%), social networks (24%), interactive maps, diagrams or games (23%), and blogs (15%). 24% of companies use social networks such as Twitter or Facebook for sustainability reporting. Other options include podcasts, slide shows, animations and innovative formats for presenting data in dynamic graphs and charts.

Companies are leveraging rich media content to enhance the usability and user experience of the website by providing alternative ways of accessing the information (e.g. reading, watching, listening). Multimedia content can often convey a message in a more engaged, personalized way than simple text.

Executive speeches or interviews, case study videos of the company’s initiatives, visualisation tools to convey complex issues in a user-friendly format, and games and quizzes to raise awareness of sustainability issues and dilemmas in an entertaining way – these are just some of the innovations companies are deploying to increase the reader’s understanding of their sustainability performance, risks and opportunities.

Companies are also leveraging web-based tools to enhance opportunities for two-way dialogue with different stakeholder groups, for example interactive surveys, webchats, wikis, blogs and social networks. These media allow the company to reach new audiences in new ways.

Many reporters also include a feedback form on their website while some companies publish stakeholder views on their sustainability performance on their websites.

Online communities, social networking sites, and wikis are being explored as platforms by some leading companies to facilitate informed interaction between company representatives and different stakeholders.

11. Board Oversight

According to Business for Social Responsibility (BSR) in a 2010 Discussion Paper, an increasing number of Boards are signing off on their company’s sustainability reports before publication (no details provided on number of companies)\(^\text{30}\). BSR comments that these reports do not raise the same kinds of legal attestation requirements associated with financial reports—yet.

However, a 2010 study by Calvert Asset Management and the Corporate Library of the S&P 65 found that 14% (9 of 65) of Boards determine the overall scope of, provide input on, and recommend adoption of sustainability reports. The same report comments that Board oversight of sustainability reporting is valuable because it is typically the most authoritative public statement on the company’s sustainability’s priorities, progress and challenges. It is an important indicator of accountability, as the Board would have oversight of the metric and data the company is publishing\(^\text{31}\).

A Conference Board study conducted of corporate secretaries at 54 companies (September 2009 – January 2010) similarly found that only 11% of corporate Boards had a direct role in reviewing and approving the sustainability report before its release\(^\text{32}\). It is not yet a significant trend for Boards to play a substantive oversight role of sustainability reporting, however this is likely to evolve in the future.

Summary

These reporting trends will shape and influence sustainability reporting in the years ahead. The emergence of regulated sustainability reporting will likely be a significant driver in the future, though not likely in the near term. This leaves the field of play open to organizations seeking to use the sustainability report to build trust, enhance stakeholder relationships, improve management quality, strengthen risk management, and inform sustainability planning in ways that foster innovation and enable competitive differentiation. Leaders will continue to experiment with measures that achieve these goals and more – which will further drive sustainability reporting innovation and raise the bar for others to follow.

The next section provides a high level summary of these trends and their implications for best practice in sustainability reporting.


Implications for Best Practice Reporting

These trends and emergent practices in sustainability reporting are summarized below, with high level implications for companies seeking to have strong practices in sustainability reporting.

Reporting Standards

<table>
<thead>
<tr>
<th>Highlights</th>
<th>The overall trend is towards increased reporting, continued use of GRI, and greater disclosure in accordance with the GRI guidelines. Some companies will migrate to the International Integrated Report Framework.</th>
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<tbody>
<tr>
<td>Implications</td>
<td>Leading sustainability reporters will continue to use the GRI guidelines and will experiment with integrated reporting.</td>
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</table>

Materiality & Stakeholder Engagement

<table>
<thead>
<tr>
<th>Highlights</th>
<th>Increasingly materiality is driving reporting content, suggesting a need to ensure robust materiality practices and disclosures. Stakeholder engagement is increasing in importance, including the engagement of stakeholders in determining report content, along with disclosure of stakeholder engagement practices and results. An international standard for stakeholder engagement exists but is not widely used.</th>
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<tbody>
<tr>
<td>Implications</td>
<td>Best practice reporters will need to demonstrate good practices in materiality and stakeholder engagement.</td>
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</table>

Third Party Assurance

<table>
<thead>
<tr>
<th>Highlights</th>
<th>There is a documented trend towards increased third party external assurance to verify performance data and disclosures. There is no single global assurance standard and companies follow different approaches and protocols. There is no consistent approach to audit scope and coverage.</th>
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<tbody>
<tr>
<td>Implications</td>
<td>Best practice reporters may wish to further understand the opportunities and implications of different assurance options and consider a phased approach to move towards third party external verification. Internal auditors could pilot use of one or another assurance standard (e.g. AA1000 or ISAE 3000) in preparation for ultimate use of an external assurance provider.</td>
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</table>

Data Quality

<table>
<thead>
<tr>
<th>Highlights</th>
<th>Trends in this area point towards increasing sophistication of information systems and internal control processes to ensure data integrity and</th>
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reduce re-statements. Software tools specifically designed to gather and manage sustainability data are becoming more widely available.

**Implications**

Reporters who have not adopted an information platform for non-financial reporting may benefit from investigating options – from embedment into existing financial information systems, to stand-alone sustainability information systems.

### Reporting Frequency, Channels, Formats & Features

**Highlights**

There is a trend to using the company website to disclose increasing amounts of sustainability information. A few companies are experimenting with quarterly and real-time reporting. Additional website information includes sustainability news, case studies, opinions, and positions on issues, executive speeches or interviews, as well as information deemed to be less material and therefore not included in the sustainability report. Online sustainability reports are becoming more user-friendly, navigable, and customizable. Social media and web-based tools are increasingly being used to communicate a company’s social and environmental performance to appeal to a wide range of stakeholder groups and communication preferences.

**Implications**

Best practice reporters may wish to consider their sustainability report as part of a broader communication approach to enhance trust, transparency, accountability and engagement with different stakeholder groups. The online environment provides great opportunities for enhancing the stakeholder experience and communicating the company’s sustainability brand and impacts in a fresh and engaging way.

### Board Oversight

**Highlights**

About 10 – 15% of Boards play a role in providing input into, and approving, a sustainability report before its release; it is thus not a substantive trend. However, with more and more Boards adopting oversight over the firm’s sustainability performance in the coming years, this practice is likely to increase.

**Implications**

Leading organizations may wish to identify a role for the Board in this area, particularly with respect to disclosure of data on material sustainability impacts which have been externally verified by a third party, as with audited financial statements.

The foregoing has provided a high-level summary of some of the key trends and their implications for best practice reporters. To become – and remain – a best practice sustainability reporter it is important to keep abreast of trends and developments in sustainability reporting.