Finding Value in Corporate Responsibility

Results of the ERM 2015 Corporate Responsibility Reporting Survey

ERM

ERM 2015 Corporate Responsibility Reporting Survey: How Companies Are Finding New Value in a Mature Practice

Contents

Summary

As the reporting landscape continues to evolve, ERM's 2015 Corporate Responsibility Reporting Survey found that companies are finding new ways to leverage corporate responsibility reporting to benefit their business and advance their sustainability programs. Most strikingly, respondents felt that the process used to produce the report was as valuable, if not more valuable, than publishing the report itself. At the same time, many respondents indicated that there are still ample opportunities to increase the value extracted from the reporting process and to make the overall process more efficient. Below are key highlights:

1. Reporting benefits the business and drives sustainability performance

Respondents identified a number of value drivers from the reporting process, which fell into three primary categories:

- Improved relationships and reputation with key stakeholders, particularly employees, customers and the general public;

- Sustainability performance improvements through use of better quality data, increased transparency on key issues and improvements in business strategy; and

- Risk mitigation associated with shareholder inquiries and supply chain management.

Respondents also indicated what parts of the reporting process were most important for creating internal value to the company. Across the board, internal stakeholder engagement, including engagement with executive sponsors, cross-functional teams and subject matter experts, was seen as important or very important to driving value in the reporting process by more than 85% of respondents.

Beyond internal stakeholder engagement, respondents indicated the data collection and analysis and goal-setting processes are critical for driving value. Almost 70% of respondents also cited the materiality assessment process as important or very important in creating value for the organization, likely because it often serves as a foundation for both the CR strategy and report.

2. Substantial opportunities for process and efficiency improvements still exist

More than 80 percent of the respondents agreed or strongly agreed that their organizations can increase the value they get from the reporting process. Respondents specifically highlighted opportunities related to:

- Conducting a more thorough materiality assessment;

- Creating better stakeholder engagement processes;

- Improving metrics and data analysis on material sustainability issues; and

- More effectively leveraging the report content with stakeholders after publication.

They also noted opportunities to improve process efficiency. Over 60% of respondents identified data collection and quality assurance processes as an area for improvement, indicating the need for better data collection tools. Other highly ranked issues centered around better coordination with other departments and a streamlined process for reviewing, editing and approving the report. Interestingly, over 30% of respondents believe that a more focused, shorter report would be a key efficiency driver, emphasizing the value of having an effective materiality process to focus the report content.

3. Transition to GRI G4 is seen as relatively easy and uptake is expected to grow in FY16

Respondents confirmed that the GRI guidelines continue to serve as the primary framework guiding reporting efforts, with over 80% reporting in conformance with GRI G3.1 or G4 guidelines. GRI's latest version, G4, is gaining acceptance, and reporters do not appear to be having difficulties with the transition. In fact, more than 50% of respondents felt GRI G4 had a positive impact on their reporting efforts. Respondents appreciate the focus on material issues, as companies become more strategic in their approach to sustainability. For example, one respondent successfully cut their report length by nearly half by switching to G4. In FY16, over 60% of respondents plan to report in conformance with G4. The move toward integrated reporting, however, appears to be slower, with companies sticking with separate, complementary sustainability reporting processes for the foreseeable future.

Survey Overview

In April 2015, ERM surveyed select clients and other companies to collect feedback on their corporate responsibility (CR) reporting process. The survey focused on a narrow set of topics that our clients have asked about and where there is limited research to date:
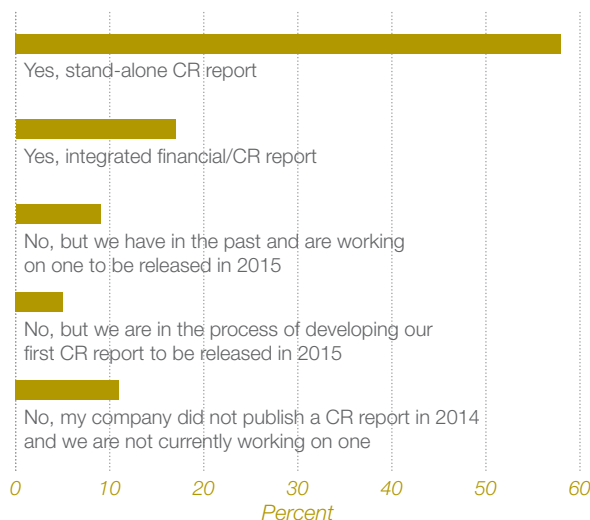
- The nature and extent of the business value derived from the CR reporting process

- Opportunities to make the reporting process more efficient

- Uptake and perspectives on the GRI G4 guidelines

The Respondents

Respondents represented a wide range of organizations, industries and experience in reporting. A profile of the 88 respondents is provided below:

- **Mostly public companies:** 72% are publicly traded, 22% are private, and 6% are NGOs and public sector or government organizations

- **Mostly US and European companies:** 49% of companies are headquartered in the US and 22% in Europe

- **Broad range of industries:** Respondents represent a wide array of sectors including chemicals, high tech and telecommunications, pharmaceuticals and healthcare, manufacturing, food and beverage, mining, power, retail and services

- **Experienced reporters:** 57% of respondents published at least five reports in the last 10 years and an additional 29% published an annual CR report for at least the last 10 years

Did your organization publish a CR report in 2014?

Yes, stand-alone CR report

Yes, integrated financial/CR report

No, but we have in the past and are working on one to be released in 2015

No, but we are in the process of developing our first CR report to be released in 2015

No, my company did not publish a CR report in 2014 and we are not currently working on one

Percent (0 10 20 30 40 50 60)

Who Owns The CR Reporting Process?

Approximately 50% of respondents indicated that their Sustainability or CR function leads the reporting effort.

Because of the integrated nature of sustainability, cross-functional teams are commonly formed to manage or support the process. These teams play a critical role in ensuring that the viewpoints of all relevant corporate functions, regions and business units can contribute to shaping the company's sustainability strategy and report. In fact, 89% of respondents view greater cross-functional coordination as a key driver of business value derived from the reporting process. And, increasingly, many evolving sustainability issues such as product stewardship and supplier sustainability performance can only be effectively addressed by harnessing the complementary experience, capacities and expertise that are represented in cross-functional and cross-regional teams. While these functions typically have long histories of providing discreet answers and services to one another, we find that collective action and ownership often leads to accelerated progress and more innovative and enduring outcomes.

What functional area leads the reporting effort in your organization?

Sustainability/CSR	**51%**
EHS/Sustainability	**13%**
Corporate Communications	**12%**
Public Affairs	**5%**
EHS	**5%**
Investor Relations	**3%**
Legal	**1%**
Other	**10%**

Value of Reporting to Companies

An important focus on the survey was on the nature of the CR reporting value proposition. The results show it is about much more than reputation; the reporting process drives improved data, decision-making, and performance.

Increasingly, company positions on and responses to CR issues can have tangible and significant impacts on a company being able to meet its business objectives and even defend its business model. There is significant research illustrating a correlation between good sustainability performance and good financial performance. In fact, Project ROI recently determined that from a marketing, sales and brand/reputation perspective, CR can increase revenue by up to 20 percent and can account for up to 11 percent of the total value of a company.[1]

For CR reporting in particular, respondents indicated that the value was two-fold:

- First, the publication of the report itself provides significant business value for the company, including reputational gains and improved relationships with key stakeholders.

- Second, the reporting process itself helps drive value within the organization to further advance its sustainability programs and performance.

The following explores the benefits of CR reporting as well as additional opportunities to extract greater value from the reporting process.

What The Data Show

Respondents identified a number of value drivers from the reporting process, which fell into three primary categories (see table on page 6):

- Improved relationships and reputation with key stakeholders, particularly employees, customers and the general public;

- Sustainability performance improvements through use of better quality data, increased transparency on key issues and improvements in business strategy; and

- Risk mitigation associated with shareholder inquiries and supply chain management.

ERM Observations

Much of the value associated with CR reporting is recognized by respondents as intangible value through improved reputation and relationships. Given that, it is particularly important for companies to understand and prioritize their key stakeholders and tailor their materiality assessment and reporting approach accordingly. As part of the report planning process, we always include discussions with our clients around identifying and addressing the needs of key stakeholders in their report.

Once the key audience(s) is identified, it is important to consider how to engage them during the report development process. Aside from the benefits of relationship-building, this helps the reporting team better understand the perspectives and needs of these key stakeholders, including how to best reach them with the resulting report content (e.g., through a printed report, web content, brochures, social media, in-person briefings, etc.).

Respondents also indicated that the reporting process leads to higher quality data and more informed decision-making. This is likely because companies more heavily scrutinize data destined for public reports. Additionally, increased transparency around the company's material issues translates into a heightened focus on performance, driving greater accountability for progress against sustainability goals (or the development of goals!).

On the other end of the spectrum, respondents found little to no value in the report's ability to contribute to improved access to capital and/or enhanced lending terms. With more than one in every six dollars under professional management in the US being invested according to socially responsible investment strategies[2], this ripple effect does not seem to be felt by responding companies.

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1. *Project ROI Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability.* IO Sustainability, 2015.

2. US SIF Foundation's *2014 Report on Sustainable and Responsible Investing Trends in the United States*

It may also be that the sustainability report is not seen as a lever for access to capital and is therefore not designed and developed to support or drive it. This viewpoint may change as sustainability leaders more effectively demonstrate clear and significant competitive advantages from sustainability programs. The continued transition to integrated reporting, which attempts to better connect sustainability performance and broader value creation, may also help create this linkage.

Rate the level of value created for your organization from the CR reporting process and resulting report.

	No value created	Little value created	Moderate value created	Significant value created
Enhances relationships with and morale of employees and enables attracting and recruiting new talent	4%	16%	52%	29%
Improved sustainability data leads to better accountability and decision-making	1%	18%	54%	27%
Transparency drives performance improvement in company-specific material areas	2%	18%	52%	27%
Enhances reputation and relationships with customers	7%	15%	43%	35%
Enhances reputation with the general public	6%	25%	46%	23%
Mitigates risks associated with shareholder inquiries/resolutions	9%	23%	43%	25%
Improves/enhances business strategy	5%	30%	47%	18%
Helps identify and mitigate supply chain risk	16%	34%	34%	16%
Enhances our ability to influence public policy	19%	35%	39%	7%
Supports product innovation	22%	42%	29%	7%
Gives us more flexibility with government agencies when negotiating permits or in the wake of incidents	32%	33%	29%	6%
Improves access to capital and/or enhances lending terms	38%	34%	26%	2%

Throughout this paper, total responses for some questions may not total 100% due to rounding.

What Underlies Value Creation?

The survey explored what aspects of CR reporting drive value creation for an organization.
Internal stakeholder engagement, data collection, and goal setting topped the list.

What The Data Show

Internal stakeholder engagement, including executive sponsorship, cross-functional team cooperation and engagement with internal subject matter experts were all seen as important to very important for over 85% of respondents. Data collection, analysis and goal-setting also scored high. Third-party assurance scored lowest, with almost half the respondents indicating it was not important in creating value, though the assurance results are somewhat mixed, as 44% of respondents indicated assurance was important or very important at 24% and 20% respectively.

ERM Observations

Internal Stakeholder Engagement

Respondents agree that internal stakeholder engagement is fundamental to the reporting process. First and foremost, they indicate that executive sponsorship is critical to driving value. Strong leadership and direction from the top lends credibility to the process and can help reporting teams navigate through issues that might arise. Seventy percent of respondents also indicated that the CEO letter was important, suggesting that reporting provides an important opportunity for engaging the head of the company on sustainability strategy.

The use of cross-functional teams was also highly ranked by respondents. The diverse range of topics covered in a CR report requires input from a broad range of corporate functions, business units, regional operations and organizational levels. In our experience, the cross-functional team:

- Helps build and strengthen bridges between internal stakeholders;

- Creates opportunities for stronger alignment and cross-functional learning;

- Leads to the identification of opportunities for more meaningful and collective impacts; and

- Helps ensure companies more objectively assess performance on material topics, allowing them to see the "full picture" of their CR risks and opportunities.

Beyond the cross-functional CR reporting team, engagement with internal subject matter experts is also critical for collecting detailed information on performance.

How important are each of the following aspects of CR reporting for creating value for your organization?

	Not Important	Somewhat Important	Important	Very Important
Executive sponsorship	4%	7%	37%	52%
Cross-functional team	2%	9%	37%	52%
Collection, analysis and publication of metrics	4%	9%	55%	33%
Engagement of internal subject matter experts/content owners	1%	14%	46%	40%
Goal-setting	4%	22%	30%	44%
CEO letter	9%	21%	53%	17%
Materiality process	4%	28%	35%	33%
Report themes and messaging	7%	28%	43%	22%
Engagement with external stakeholders	5%	38%	41%	16%
Assessing and reporting on upstream and downstream impacts	10%	38%	42%	10%
Report design/layout, photos, graphics, etc.	10%	40%	37%	14%
Report launch strategy	18%	46%	31%	5%
Third-party assurance	46%	10%	24%	20%

While broader internal engagement can lengthen the reporting process, it can make up for this by ensuring broader acceptance, removing obstacles to current and future progress, uncovering hidden or unlikely champions, and identifying new opportunities and future initiatives. Often the challenge is to make the process efficient and effective, and to respect the time of those whose input is needed. GRI G4's focus on material issues helps by not incentivizing reporters to collect what is often low-value data just to increase the number of disclosures.

External Stakeholder Engagement

External stakeholder engagement is also viewed as important to the CR reporting process by over half of the respondents. While slightly more complicated to coordinate than internal stakeholder engagement, it can result in valuable insights that may reveal new opportunities or risks. Some of the complicating factors in engaging externally include:

- Which stakeholders to engage?

- What's the most effective way to engage with them?

- What to do about those we know don't like us or are openly hostile to our business model?

- How do we deal with feedback we can't or won't address?

From our experience, offering a conversation that focuses on understanding the stakeholder's concerns, objectives and challenges is rarely poorly received and often greatly appreciated.

External stakeholders with valuable insight and wisdom on sustainability issues are not limited to sustainability advocates and activists. Conversations supporting CR reporting efforts can extend to customers, investors, suppliers, industry and professional associations, academics conducting relevant research, or community and civic leaders. In particular, we have seen an increased emphasis on engagement of key customers. We have learned to never underestimate the value that can be derived from a conversation with an important stakeholder on mutually important topics that are sometimes, oddly, not addressed in the course of normal business interactions.

Setting Goals

More than 70% of respondents believe that the report is valuable in helping the company set sustainability goals. Developing formal goals creates a focus and accountability for results that can be a powerful driver of innovation and progress. How goal-setting is done can significantly impact its ability to create value. A top-down only process can result in unreasonable goals that may be difficult to achieve and lack the buy-in critical to long-term success. A bottom-up only process can result in weak goals that don't drive innovation or step changes in performance and lack the top management support critical to ensuring allocation of required resources. A collaborative process that includes input from both corporate leadership and site-level leaders may result in the most meaningful and impactful goals. Multi-year goals are especially useful when tackling the more significant issues that require capital, culture change or coordination with supply chain or other partners.

In our experience, some companies are hesitant to formally commit to public CR goals. They may not yet be comfortable with the quality of their baseline data or concerned about making external commitments that may not be achieved. Overwhelmingly, our experience has shown that stakeholders would rather see a company set a goal and explain why it wasn't able to achieve it, than not set a goal at all. And, of course, setting an ambitious *internal* goal can still be an effective driver of change.

Materiality Assessment

Over 65% of respondents found value in the materiality assessment process associated with reporting. With the introduction of GRI G4, materiality assessments have gained a much more prominent role in the reporting process, and companies are adopting more rigorous approaches to define their material issues. The process is scalable, so we see significant differences in the amount of internal and external engagement companies conduct as part of the assessment. Some companies limit their engagement to internal stakeholders, using them as proxies for the external perspective. Examples include talking to sales managers to get the customer perspective, investor relations staff to get the views of investors, and HR

staff to get the views of employees. This can be an effective approach, as it avoids some of the complications and concerns of directly engaging external stakeholders as described earlier. However, other companies take a more rigorous approach, directly engaging with external stakeholders to gain first-hand information regarding their priorities and interests.

Assurance

Respondents scored third-party assurance lowest in terms of value creation, with 46 percent rating it as *not important*. Several factors may account for this:

- **About half the survey participants are from North America**. Statistics show that third-party assurance is much less prevalent in North America compared to other regions[3]. This may, in part, be related to the long history of reporting environmental and safety data to regulators and a high level of comfort with the data.

- **The experience of some companies with assurance has been negative**; they feel they did not gain anything of value from the process beside the assurance statement. For example, some companies have undergone assurance projects where site visits are done by relatively junior accountants with limited understanding of the data, who largely learn on the job.

- **Assurance can be expensive and time consuming**, depending on the number and nature of elements assured, type of assurance ("reasonable" vs. "limited"), and associated assurance fees.

Interestingly, a number of respondents felt assurance was very important in creating value, illustrating that the right partner in the right context can make a meaningful contribution.

3. Corporate Register 2014, www.corporateregister.com/livecharts, retrieved 29 September 2015

Strikingly, more than 80 percent of the respondents agreed or strongly agreed that their organizations can realize even more value from the reporting process. Respondents specifically highlighted opportunities related to the following topics:

- A more thorough materiality assessment – one that is scaled to the needs of the company

- Better stakeholder engagement processes – engaging the right people at the right time and in the right way

- Improved metrics on material sustainability issues

- Better analysis of data to identify improvements in programs that will drive performance

- More effectively leveraging the report content with stakeholders after the report is published

- An assurance process that is scaled to the company's needs, using service providers that are not only credible with external stakeholders, but are knowledgeable about the company's industry and can help drive improvements in data management
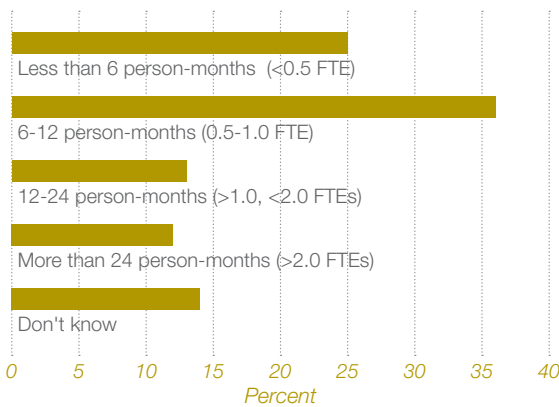
Reporting Process Efficiencies

Companies expend considerable effort developing their sustainability reports and believe there are ample opportunities to improve process efficiency. This section details how companies staff and structure their reporting efforts and where there is potential for process improvements within the reporting process.

LEVEL OF EFFORT

What the Data Show

Respondents were asked to estimate the level of effort that goes into producing their CR reports, including internal and external resources. The results form a loose bell curve, with the most common level of effort in the 0.5-1.0 FTE (full time equivalent) range. Of course this will vary by report size, maturity of the reporting processes and other factors. Interestingly, 14 percent of respondents indicated they "didn't know" the full level of effort required to produce their report.

What is the approximate level of effort to generate your organization's report (including both internal and external resources)?

Less than 6 person-months (<0.5 FTE)

6-12 person-months (0.5-1.0 FTE)

12-24 person-months (>1.0, <2.0 FTEs)

More than 24 person-months (>2.0 FTEs)
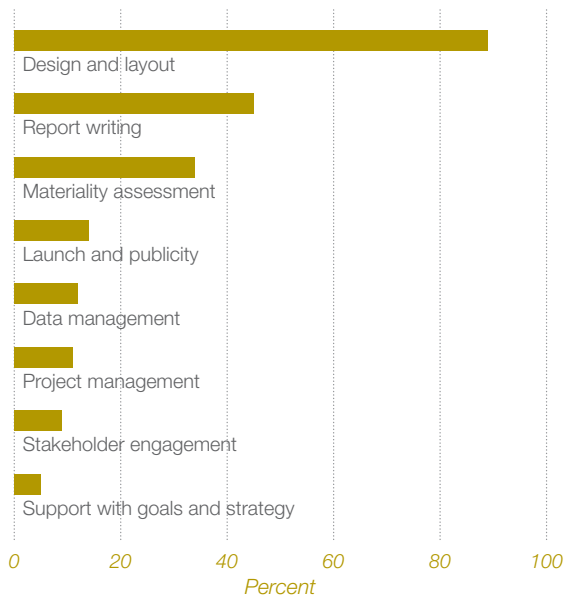
Don't know

Percent

ERM Observations

As all report developers can attest, the creation of a CR report involves a significant investment of time and resources. The estimates above are likely low, in that respondents may not be accounting for the many individuals providing data or anecdotes from the site level, those participating in the multiple review and comment cycles of the drafts, and various other small contributors. Nonetheless, it is clear that the investment is relatively small considering the various facets of value creation discussed earlier.

OUTSOURCING

What the Data Show

Nearly 90% of the respondents indicated that they outsource the design and layout of the report. Many companies also outsource the report writing (42%) and materiality assessment (33%).

What, if any, aspects of the reporting process does your organization outsource?

Design and layout

Report writing

Materiality assessment

Launch and publicity

Data management

Project management

Stakeholder engagement

Support with goals and strategy

Percent

ERM Observations

In our experience, clients typically engage consultants to access unique subject matter expertise not available in house, to supplement resources (when existing staff are not available), or to provide independence and credibility (e.g., for assurance or stakeholder engagement). For many companies, outsourcing aspects of the reporting process is an effective way to address this evolving business practice area. Using an objective third party to facilitate agreement on material issues, strategic approach and how to handle sensitive issues can help garner alignment across functional areas. Consultants can also manage the more labor-intensive effort of data collection, analysis, writing and shaping the report. This allows the internal reporting team to focus on the more strategic aspects of the process.

OPPORTUNITIES TO IMPROVE EFFICIENCY

What the Data Show

As shown in the figure to the right, data collection/quality assurance and internal coordination were most commonly identified as areas where efficiency or cost effectiveness could be improved.

ERM Observations

Data Management. Collecting, checking and analyzing data can consume a lot of staff time at various organizational levels. Regardless of the metric, the data need to be accurate. To work well, it is important to have the following:
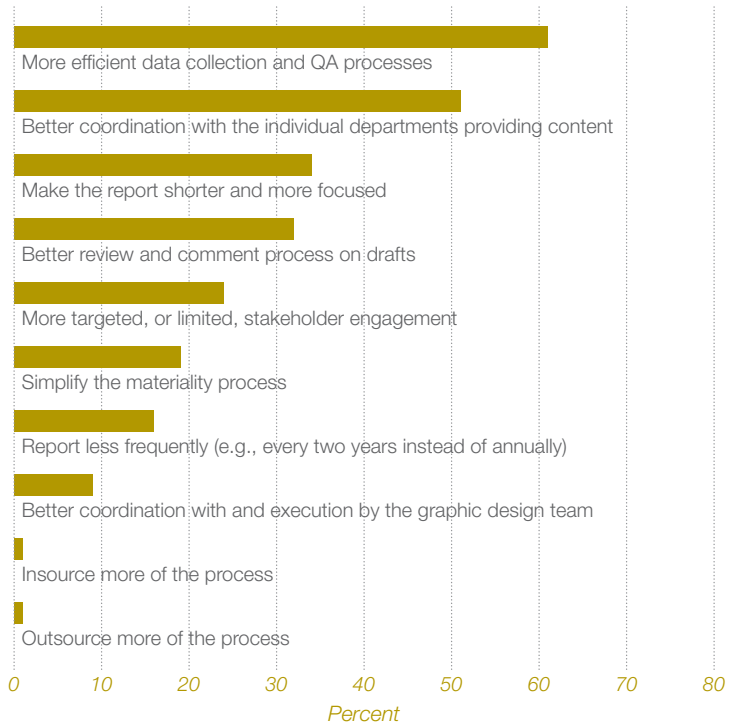
- Clearly stated and well understood data definitions and boundaries;

- Defined roles and responsibilities;

- Documented and mutually agreed upon processes for collecting or validating the data; and

- Efficient data management tools and software to make compiling data as fast and easy as possible.

Many companies invest in webinars and training for their extended teams to ensure the above issues are addressed.

In addition to saving time from manually compiling data from individual spreadsheets, good information technology (IT) tools can also help with some basic data quality reviews (e.g., *did a number go up or down by more than X% last year and does that make sense?*) and quick analyses of data trends that can identify information that might need to be explained in the report text. IT tools can also create an audit trail with supporting documentation. If the cost in terms of human capital associated with manual data collection and analysis were better quantified, we believe that many reporters would more seriously consider automated systems.

Coordination with Content Providers. Another opportunity centers around better coordination with individuals who provide content for the report. A large report could involve hundreds of contributors providing data, text, photographs, videos and non-digital information. A master data capture plan, clearly defined roles and a strong project manager can make a huge difference, as can a firmly and enthusiastically worded pre-communication from senior management. Coordination with content providers typically improves over time as they better understand purpose, expectations and process; Year 2 is always a lot better than Year 1!

The best opportunities to reduce costs or improve efficiency of the reporting process within my organization, without compromising the value derived, include:

More efficient data collection and QA processes

Better coordination with the individual departments providing content

Make the report shorter and more focused

Better review and comment process on drafts

More targeted, or limited, stakeholder engagement

Simplify the materiality process

Report less frequently (e.g., every two years instead of annually)

Better coordination with and execution by the graphic design team

Insource more of the process

Outsource more of the process

Percent

Another source of inefficiency is the review and comment process. Many companies underestimate the number of reviews and reviewers that will be needed to validate the content. Thoroughly thinking through and agreeing on the review process in advance can reduce delays. Early reviews of content by the many internal subject matter experts can help speed up later reviews by more senior managers. Reviews by expert grammarians and legal council should be conducted on near-final drafts, although every attempt should be made to assure that every draft is well-written. Poor writing or differing writing styles (where the report lacks a common voice) can significantly slow down review times and impact report quality.

Global Reporting Initiative Guidelines

We asked respondents which reporting frameworks they are using and to share their experiences with the new GRI G4 standard. Overall, respondents indicated that the transition was relatively easy and provided benefits over the G3 standard.

USE OF GRI
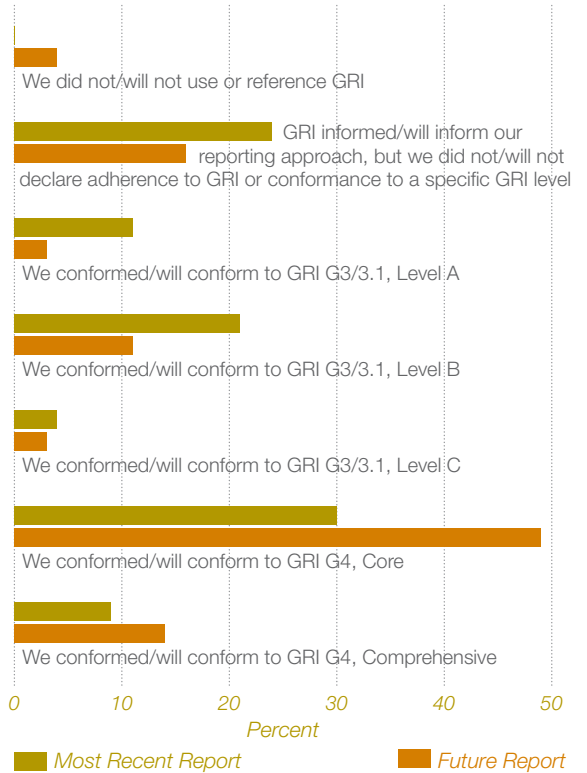
What the Data Show

With a number of different reporting frameworks to choose from, the GRI guidelines continue to be the standard reference for organizations that report. Relatively few companies are using other complementary frameworks such as those developed by the Sustainability Accounting Standards Board (SASB, a US-only initiative) and the International Integrated Reporting Council (IIRC).

Did your organization use any external guidelines or standards when preparing your most recent CR report?
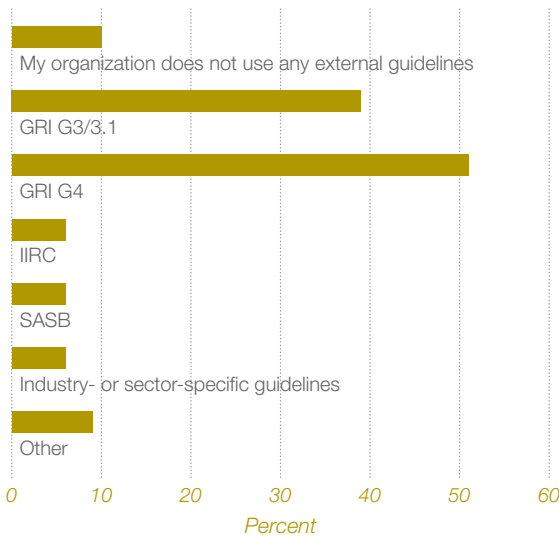
As this is a transition period from G3 to G4, use of the GRI guidelines varies. For those using GRI, nearly equal percentages used G3 and G4 in their most recent report (around 38% each), while the balance (24%) used GRI as a reference only. For companies that plan to use GRI for their next report, G4 use will increase significantly, with over 60% of the respondents developing a GRI G4 core or comprehensive report.

If your organization used/plans to use GRI guidelines for its most recent/upcoming report, how were they/will they be used?

We did not/will not use or reference GRI

GRI informed/will inform our reporting approach, but we did not/will not declare adherence to GRI or conformance to a specific GRI level

We conformed/will conform to GRI G3/3.1, Level A

We conformed/will conform to GRI G3/3.1, Level B

We conformed/will conform to GRI G3/3.1, Level C

We conformed/will conform to GRI G4, Core

We conformed/will conform to GRI G4, Comprehensive

Most Recent Report   *Future Report*

ERM Observations

As a GRI-certified Training Partner and Organizational Stakeholder, ERM is an advocate of the GRI guidelines. While companies vary in their use of the framework, most of our clients find the guidelines to be a useful foundation for their reporting efforts.

However, the guidelines are just that – guidelines. Companies should feel empowered to not limit themselves to the GRI disclosures or feel compelled to cover everything GRI suggests. For example, some companies employ multiple sustainability frameworks, such as the United Nations' Sustainable Development Goals, to highlight contributions to societal challenges such as hunger, inequity and quality of life. SASB provides industry-specific reporting standards to consider when reporting, including listings of potentially material issues and corresponding proposed metrics. At a minimum these frameworks are a useful input into the materiality assessment process.

What the Data Show

For organizations that transitioned to GRI G4, 45% agreed or strongly agreed that it was easy, while 25% disagreed and 30% were neutral on the question. Additionally, most respondents felt GRI G4 had a positive impact on their reporting efforts and the value of the reporting process.

The transition from G3 to G4 was easy.

Strongly Disagree 2%	Disagree 23%	Neutral 30%	Agree 36%	Strongly Agree 9%
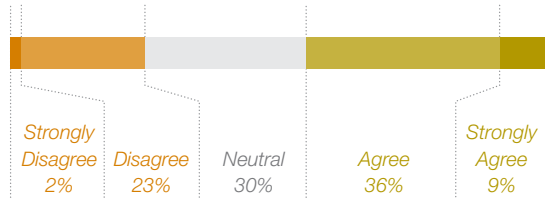
The transition to G4 has had a positive impact on my organization's CR reporting and the value we get from our reporting efforts.

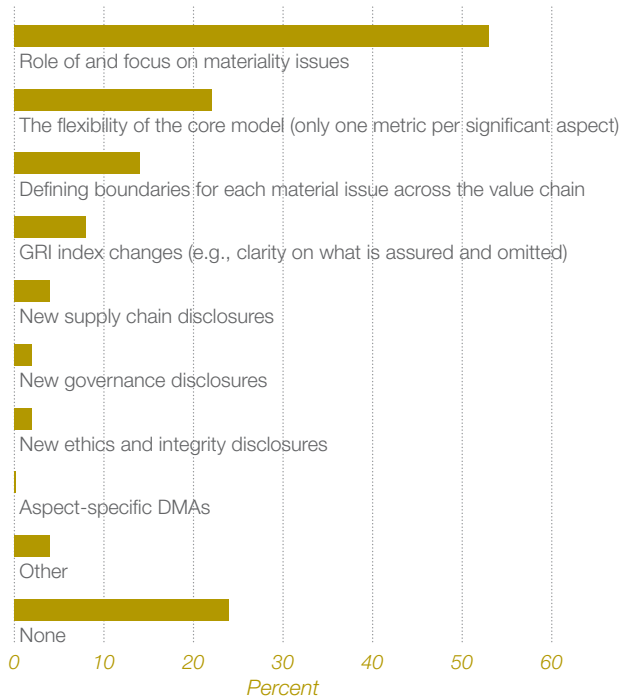| Strongly Disagree 2%	Disagree 12%	Neutral 33%	Agree 31%	Strongly Agree 21%
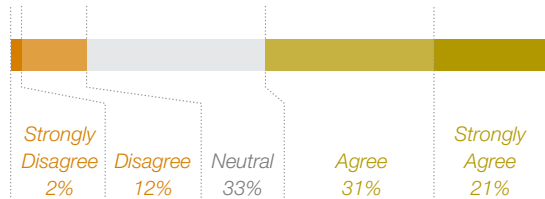
Specific benefits highlighted by the survey responses include:
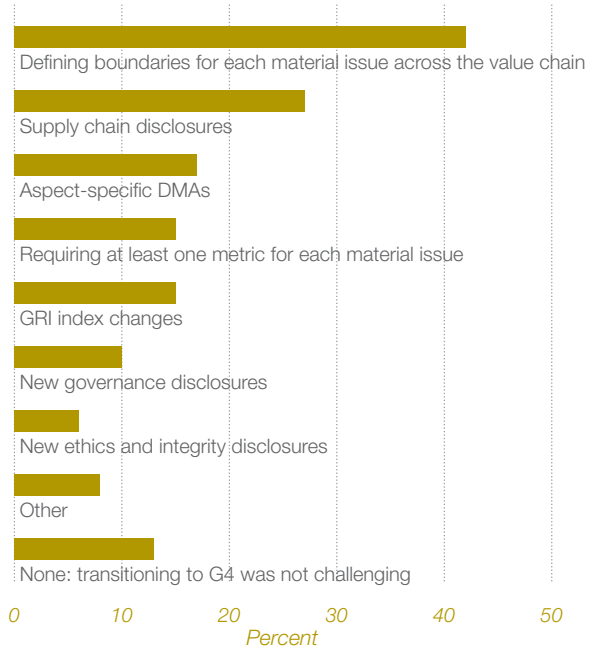
- Focusing on material issues and metrics (including systems to track those metrics);
- Engaging with more functions inside the company;
- Raising valuable issues and conversations; and
- Shortening the length of the report (though other recent benchmarking does not necessarily show reports are getting shorter – this is complicated by the trend of putting more content online).

The most challenging aspects of the transition were associated with defining boundaries for each material issue and how to deal with new and modified supply chain disclosures.

For my organization, the most valuable changes from G3.1 to G4 include:

Role of and focus on materiality issues

The flexibility of the core model (only one metric per significant aspect)

Defining boundaries for each material issue across the value chain

GRI index changes (e.g., clarity on what is assured and omitted)

New supply chain disclosures

New governance disclosures

New ethics and integrity disclosures

Aspect-specific DMAs

Other

None

Percent

If your organization uses G4, the most challenging aspects of the transition include:

Defining boundaries for each material issue across the value chain

Supply chain disclosures

Aspect-specific DMAs

Requiring at least one metric for each material issue

GRI index changes

New governance disclosures

New ethics and integrity disclosures

Other

None: transitioning to G4 was not challenging

Percent

ERM Observations

Based on comments received, the most valuable and challenging elements of G4 were around materiality. In our experience, some companies over-interpret the materiality assessment requirements. As mentioned earlier, materiality assessments are scalable and should be right-sized for a given company's needs. Two of the primary materiality assessment design variables are associated with the extent of and approach to stakeholder engagement (who and how) and the use and design of quantitative scoring and rating tools.

Given the additional focus on material issues in GRI G4, many companies are initiating or strengthening their materiality assessment processes. Interestingly, many companies are identifying material issues outside of or named differently than the GRI aspects. These unique issues present challenges associated with identifying appropriate metrics and developing the GRI Index. We think these deviations demonstrate that companies are taking the process seriously and are truly trying to identify their most significant

impacts, regardless of whether or not GRI has previously identified them. This type of innovation and improvisation is a good thing and totally within the spirit of G4.

At the same time, many companies struggle with defining the boundaries of the material issues, trying to take to heart GRI's expectation to define not just what is material, but where it is material in a company's operations and across its value chain. A recent benchmarking of new G4 reports shows a wide range of approaches to this, ranging from simple text descriptions of the boundaries to graphical depictions using company-specific value chains.

We've also seen a wide range of approaches to addressing the new G4-12 requirement to define the organization's supply chain. Some companies do it in a few sentences while others allocate several pages of their report to their supply chain. The bigger challenge, of course, is compiling relevant data to understand and assess the impacts associated with the supply chain (in addition to downstream product impacts).

INTEGRATED REPORTING

What the Data Show

Within the CR reporting community, integrated reporting has received lots of attention in the last few years. Our respondents were less enthusiastic: almost 40% indicated their organization was **not** planning to move to integrated reporting in the next three years and another 39% were neutral.

My organization anticipates moving towards integrated reporting in the next three years.

Strongly Disagree 3%	Disagree 36%	Neutral 39%	Agree 15%	Strongly Agree 7%

ERM Observations

Based on our conversations with clients, integrated reporting is likely to remain a slowly evolving area. We believe that companies will likely incorporate more CR-related content in their annual reports, but integrated reports that follow the IIRC framework are likely to remain a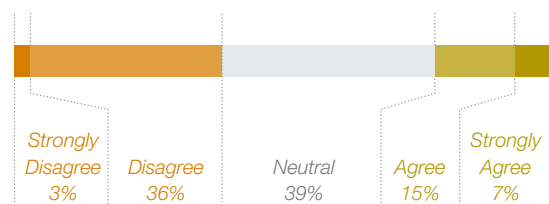 minority practice for the foreseeable future. It's important to remember that the IIRC framework is focused on material issues for providers of financial capital and not for the broader range of stakeholders that need to be considered using a GRI approach. In that sense, integrated reports are more narrowly focused. There are regional differences as well, with more interest in integrated reporting developing in Europe and specific countries where legislation is driving change (e.g., Brazil, South Africa).

We anticipate that there will continue to be value in the stand-alone CR report for some time, though its form, length and content will continue to evolve. Regardless of the pace of development in integrated reporting, there will continue to be a need and desire to share more sustainability information on CR programs and performance than would be typically be presented in an integrated report.

Looking Ahead

The reporting field will continue to advance as stakeholder expectations, individual companies' business strategies, technology and regulations continue to evolve. We anticipate the following developments:

- Continued efforts to focus on the most material issues and better processes for determining what the material issues are

- Greater inclusion and quantification of upstream and downstream impacts (e.g., suppliers and customers)

- Broader external stakeholder engagement including content tailored to specific stakeholders

- Increased dynamic web content to supplement annual PDF downloads

- Incremental evolution to integrated reporting

As reporting practices mature, we know companies will continue to find innovative ways to create value through the reporting process and positively influence the way they manage their business and its impact on society.

About ERM

ERM is a leading global provider of environmental, health, safety, risk, social and sustainability consulting services. ERM has more than 5,000 people in over 40 countries and territories working out of more than 150 offices. Over the past three years ERM has worked for more than 50 percent of the Global Fortune 500 delivering innovative solutions for business and selected government clients helping them understand and manage the sustainability challenges that the world is increasingly facing.

ERM is a GRI-certified training partner in the US.

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