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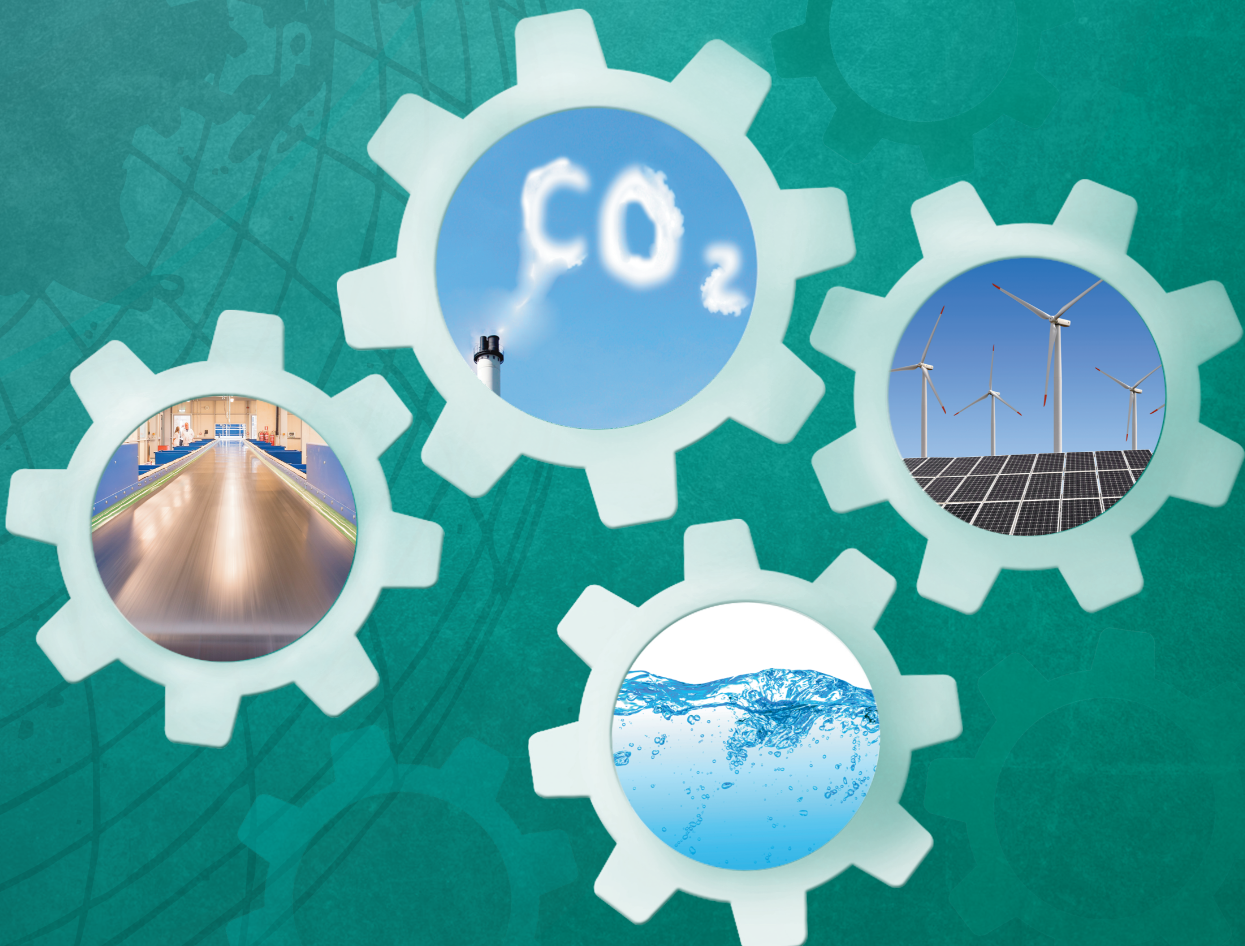
Raising the Bar – Advancing Environmental Disclosure in Sustainability Reporting



United Nations Environment Programme

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RAISING THE BAR – ADVANCING ENVIRONMENTAL DISCLOSURE IN SUSTAINABILITY REPORTING

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FOREWORD

Through their use of resources and production of waste and pollution, enterprises produce costs and impacts that are borne in the long term by human and environmental systems. A 2013 study from Trucost and the TEEB for Business Coalition estimates that the world's top 100 externalities are costing the economy US $4.7 billion in terms of environmental and social costs of lost ecosystem services and pollution. The sectors analysed for the report are estimated to have natural capital costs totalling US $ 7.3 trillion mainly from greenhouse gas emissions, water and land use. However, through the provision of employment, goods and services and investment in research and innovation, enterprises also support social and economic development and growth. Understanding and communicating to shareholders and stakeholders the positive and negative impacts of business activities is fundamental to fully appreciate their engagement and contribution to sustainable development. Sustainability reporting is an important tool for corporate transparency and accountability and has become a common practice in many industries. Research by KPMG estimates that two-thirds of large companies in 41 countries published sustainability reports in 2013, a figure that rises to 93% among the world's 250 largest companies. Recent years have seen an increasing number of policies and initiatives encouraging environmental disclosure, as well as the development of numerous guidance materials for reporting organizations.

However, less focus has been placed on the quality of reports. Raising the Bar – Advancing Environmental Disclosure in Sustainability Reporting, a report under the MERITAS initiative (Making Environmental Reporting Important to All Stakeholders), aims to assist companies and organizations to improve the quality of the environmental information they disclose. Many stakeholders still consider that current sustainability reports do not always reflect companies' environmental impacts accurately and therefore are not useful for decision-making purposes. For businesses, it is not always easy to address the concerns from all stakeholders in one document, or to rethink their approach to reporting in a way that is meaningful to their strategies.

This publication is a landmark in corporate sustainability reporting, providing a strategic approach by addressing issues that are material both for company operations and their stakeholders. It offers ready-to-use guidance for companies to identify the tools best suited to their needs as well as insights into audiences' expectations. It also incorporates emerging areas of research and innovative reporting practices. The publication advocates a collaborative approach, engaging all stakeholders and businesses in the value chain to develop a high-quality sustainability report. It also encourages placing the disclosed information within the context of environmental limitations identified by scientific evidence, enabling a more accurate reflection of the company's contribution to sustainable development.

Many businesses have found sustainability reporting to be a powerful decision-making tool, and the international community also recognized its importance for corporate transparency in the Outcome Document of the Rio+20 UN Conference on Sustainable Development, where it called for the UN system to support the integration of sustainability information into companies' reporting cycles. Enhanced transparency and responsibility will be instrumental to monitor global progress made towards the Sustainable Development Goals and to fostering their uptake and implementation. UNEP intends to advance this shared goal by Making Environmental Reporting Important to All Stakeholders – and chiefly to reporting organizations themselves.

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EXECUTIVE SUMMARY

Sustainability reporting is on the increase globally, in particular among large companies. Reasons for this increase include the pressing environmental and social challenges and a growing interest in sustainability reporting by governments, investors and stock exchanges (resulting in regulations and incentives for reporting). We are also seeing increased focus on value chain reporting, which may lead to a greater uptake of sustainability reporting by small- and medium-sized enterprises (SMEs).

Although it is remarkable to see that a considerable number of the world's largest public and private companies now voluntarily report on their sustainability activities, sustainability reporting faces a number of challenges. These challenges can broadly be divided into two categories:

- Challenges pertaining to **quantity** of reporting organizations, including the low share of SMEs that are reporting;[1]
- Challenges pertaining to **quality** such as lack of contextual information in sustainability reporting and the common criticism that sustainability reporting does not cover the most material issues and that it is difficult to compare and use for decision making.

This Report examines ways to improve the quality of sustainability reporting with a focus on its environmental dimension. The Report includes four key focus areas, which are outlined below, namely:

1. **the importance of materiality assessments**
2. **an overview of the most commonly reported environmental areas**
3. **the communication to and engagement with stakeholders, and**
4. **the importance of placing reported information into context and ensuring its credibility through assurance**

THE NEED FOR STRENGTHENING AND HARMONIZING THE MATERIALITY ASSESSMENT PROCESS

Materiality assessments are an essential tool for improving the quality of sustainability reporting and ensuring relevance of the reported information to stakeholders. The focus on the importance of materiality assessments in defining reporting content is growing if judging from the emphasis on the materiality principle in reporting frameworks. This is the case for the latest version of the well-established framework