Aligning Integrated Reporting with the UN's Sustainable Development Goals

This article aims to:

- Help companies adopting Integrated Reporting (IR) to align their value creation model with achievements of the Sustainable Development Goals.

Introduction

The world in which companies operate is changing. There is a growing awareness that the globe can offer limited resources for the continued existence of humankind. Businesses today are facing capital constraints from a broader range of resources than just finance. As a result, companies are dependent on and manage a broader range of capital such as intellectual, manufactured, social, human, and natural capitals.

A company's performance is no longer judged by merely the financial numbers and a traditional reporting model may not be able to bridge the gaps in demands for information by various stakeholders. A reporting model needs to include several other factors such as sustainability, good corporate governance and being a responsible corporate citizen.

Various laws, regulations, standards, codes, guidance and stock exchange listing requirements require a company to provide various pieces of information. Thus, more information is being provided by the companies and reports are getting longer because reporting has evolved in separate, disconnected strands, strands. Critical-interdependencies between strategy, governance, operations and financial and non-financial performance are not made clear.

In recent times, companies throughout the world are aiming to give a holistic view of the company to its various stakeholders. Social reporting requirements are largely driven by local regulatory bodies and stock exchanges. To provide for growing demand for a broader sustainability reporting, two significant developments have taken place globally as part of corporate responsibility reporting as given below:

I. **The Integrated Reporting (IR) framework:** The IR framework has been developed by the International Integrated Reporting Council (IIRC). The framework is expected to support the future development of reporting, reflecting the growing complexity in today's world. This framework expects to bring together the diverse but currently disconnected strands of reporting into a coherent, integrated whole, and demonstrate an organisation's ability to create value now and in the future. This framework is written primarily in the context of private sector, for-profit entities of any size but it can also be applied, adopted as necessary, by public sector and not-for-profit organisations.

II. **Reporting on the UN's Sustainable Development Goals:** In September 2015, the United Nations (UN) adopted the Sustainable Development Goals (SDGs), a set of 17 goals to end poverty, protect the planet, and ensure prosperity for all as part of a new global sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years.

Below is the snapshot of the 17 UN SDG goals:

(Source: http://www.un.org/sustainabledevelopment/sustainable-development-goals/))

It is also resolved to create conditions for sustainable, inclusive and sustained economic growth, shared prosperity and decent work for all, taking into account different levels of national development and capacities. Governments worldwide have already agreed to these goals.

IR and UN's SDGs aligned

International business and trade has a significant impact on sustainable development issues such as environment, natural resource consumption, food security, gender inequality, etc. The SDGs are inter-dependent and contributing to them involves trade-offs, just as an organisation's outcomes involve trade-offs between multiple capitals. With the growing popularity of the IR and SDGs as benchmarks for corporate reporting, in March 2017 the Institute of Chartered Accountants of Scotland (ICAS) and the IIRC collaborated with the Green Economy Coalition to work on a project to produce a report on IR and the SDGs[1]. The project is intended to help organisations adopting IR, to identify and demonstrate how their value creation models align with the achievements of the SDGs. The project was spearheaded by Professor Carol A Adams.

The final report 'The Sustainable Development Goals, integrated thinking and the integrated report' (the report) is a conceptual document for integrating SDGs into the business model and strategy of the organisation, aligned to the globally recognised IR framework. This report sets out a framework for contributing to the SDGs in alignment with the multi-capitals model. It recognises limitations to the availability of capital on which organisations rely and the potential to substitute between capitals consistent with the broad view of value creation in the IR framework.

This approach to integrating SDGs will assist organisations in understanding the relationships and dependencies between capitals and the inter-dependencies and potential conflicts between the SDGs.

1. Adams, CA (2017)' The Sustainable Development Goals, Integrated thinking and the integrated report; published by the IIRC and ICAS.

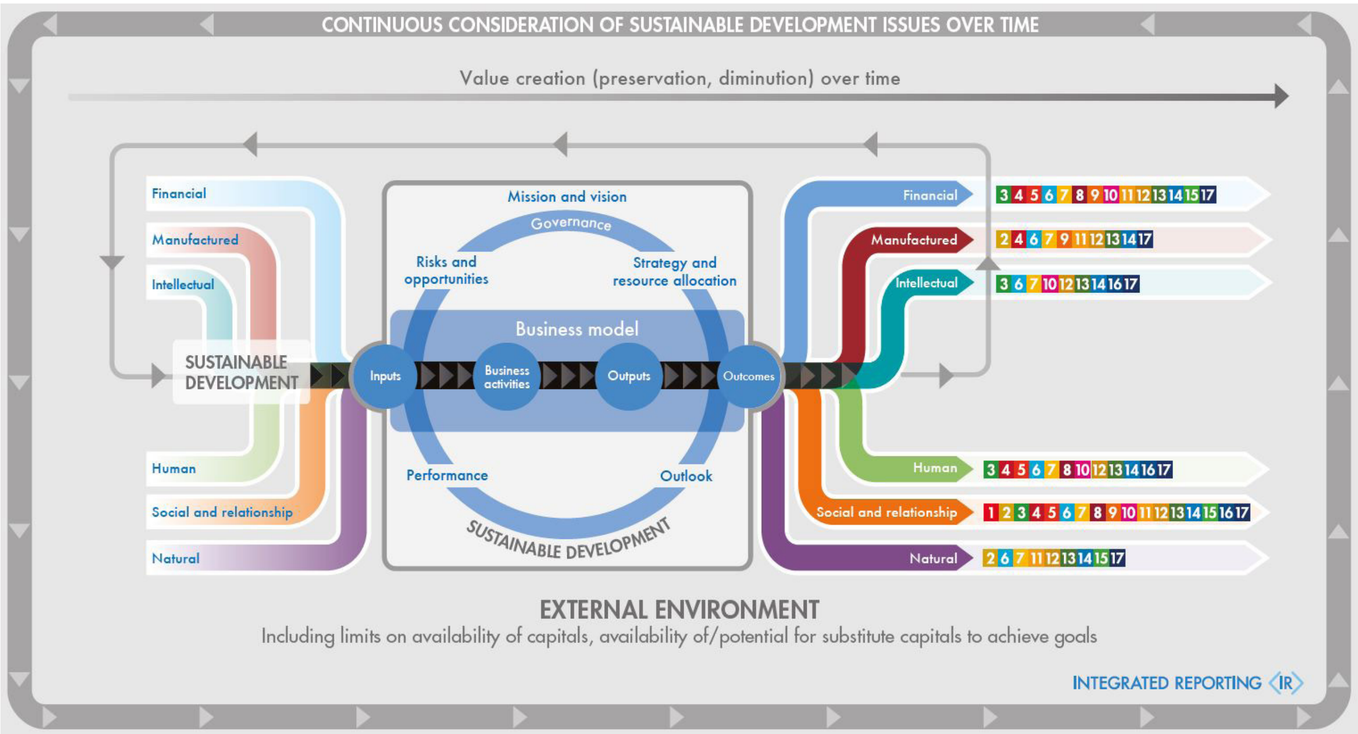
Overview of the report

Aligning SDGs with the value creation process

An organisation's business model is the vehicle through which it creates value. That value is embodied in the capitals that it uses and affects. Transformation of the capital will often relate to one or more SDGs. In contributing to the SDGs, companies and other organisations are likely to increase or decrease the availability of various capitals.

For example, increased reliance on renewable energy sources and improving diversity in the work force can enhance natural and human capital and may in turn contribute to the achievement of SDGs 5,7,10 and 13. The sustainable development issues which gave rise to SDGs may pose limitations on the availability of capitals on which businesses rely.

The diagram below depicts the alignment of the SDGs with the value creation process:



(Source: The sustainable development goals, integrated thinking and the integrated report by Carol A Adams)

The five step approach

The IR framework provides an opportunity for organisations seeking to respond to the SDGs to get a board level attention for integrating them into strategy and reporting. The report identifies five steps for contributing to the SDGs through IR value creation process. The report recognises that this is a continuous process and organisational responses to each step are expected to be clearer and insightful with each new cycle of corporate reporting. The five steps approach as discussed in the report are as follows:

1. *Understand sustainable development issues relevant to an organisation's external environment:* The first step towards integration is for an organisation to identify the relevant external environment factors such as human rights, health, poverty, education. The organisation would need to map these against the relevant SDGs to establish a link between the two. Generally, it is the responsibility of the board or persons responsible for governance in an organisation to create an oversight structure to support value creation in light of the external environment.

   Organisations should scan the external environment to identify short, medium and long-term risks and opportunities which need to be considered when developing strategy and evolving the business model. This process should include the identification of risks and opportunities associated with sustainable development. For example, inequality and poverty are a risk factor in some countries i.e. they limit the market for products and services.

Organisations should consider how they can contribute to the sustainable development issues that the SDGs address through their own operations. For example, organisations can contribute to SDG 5 on gender equality and SDG 13 on climate action by improving opportunities for women and reducing their carbon emissions respectively. This will have a positive impact on the future availability and quality of human and natural capital.

Integrated reporters should identify how transformations of the capitals impact on, or contribute to, SDG targets. The external environment should be considered in the value creation process such as environmental challenges, such as climate change, the loss of ecosystems and resource shortages can directly be linked to a number of SDGs.

2. *Identify material sustainable development issues that influence value creation:* Once an organisation has identified sustainable development issues relevant to the organisation's external environment in step 1, the next step in this approach is to shortlist 'material' sustainable development issues which influence value creation. Not all SDGs may be material to an organisation's value creation process. Organisations generally involve external and internal stakeholders when identifying appropriate sustainability and other disclosures.

   Sound governance is critical throughout this process in order to ensure completeness with respect to both positive and negative issues.

   As per the IR framework, the materiality determination process involves identifying, evaluating and prioritising matters based on their ability to affect value creation in the short, medium and long-term. Value is created for the organisation and for others through increases, decreases and transformation of the capitals.

   Therefore, when planning their approach to the SDGs, organisations seeking to reassess their mission and purpose and/or to reduce corporate risk and increase opportunities arising from sustainable development issues should identify, evaluate and prioritise which sustainable development issues maximise outcomes for the six capitals and hence, their contribution to the SDG targets.

3. *Develop a strategy to contribute to the SDGs through the business model:* Having identified sustainable development issues relevant to an organisation's external environment (step 1) and material issues that could affect value creation (step 2), the next step involves an organisation to develop a strategy that addresses how the business model contributes to the SDGs. This would involve aligning with the business model by identifying inputs and outcomes in terms of the capitals, and how outputs (in terms of products and/or services) and key activities of the organisation affect those capitals. Resource allocation plans can then be developed to ensure achievements of the strategic objectives, including outcomes for the SDGs.

4. *Develop integrated thinking, connectivity and governance:* Step 4 of this approach is to establish connectivity. Connectivity involves (amongst other things) 'linking the organisation's strategy and business model with changes in its external environment, such as increases or decreases in the pace of technological change, evolving societal expectations, and resource shortages as planetary limits are approached'. This step includes ensuring sound governance with respect to the processes set out in steps 1-3. It also includes embedding material SDG considerations (identified through steps 1 and 2) and resulting strategies and expected outcomes (Step 3) into the root of the organisation through integrated thinking. Governance processes should be able to deal with conflicting stakeholder needs, the interrelationship between capitals relied upon and the interdependency of the SDGs. This involves integrated thinking mechanisms (such as an appropriate culture, communication systems and training) leading to an enhanced understanding of the relationships.

5. *Prepare the integrated report:* The final step in this approach is the preparation of an IR. This step involves the preparation of an IR which discusses the process the organisation has followed with respect to the SDGs (i.e. how it has implemented steps 1-4 above). It should say how sustainable development issues limit the availability of one or more capitals, how they have been considered in the development of strategy and how they impact value creation. Transformation of the capital under the IR framework is complex with numerous interdependencies across the capitals, so is the process of contributing to the SDGs where organisations need to consider the interdependencies across the SDGs and the trade-offs between them.

   The IR should report on how the business model delivers outcomes (positive and negative) for multiple capitals and how this makes a contribution to the SDGs. That is, organisations are encouraged to report on material contributions to the SDGs, identifying which capitals are being increased, decreased or transformed in the process. For example, an organisation might:

   - Describe how it has contributed to SDG 17 (Partnerships for the Goals) and how this has increased social and relationship capital;
   - Report its gender pay gap and note how that has enhanced human capital and will lead to a medium- and/or long-term increase in financial capital.

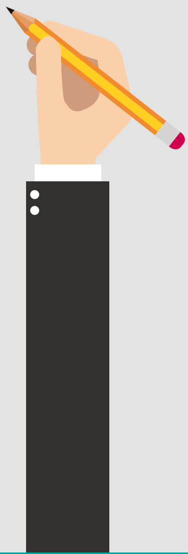
Way forward

This report provides guidance to organisations to be able to link their value creation process to the SDGs. There is a clear relationship between the SDGs and the business model under the IR framework. Aligning business approaches to the SDGs with IR can assist organisations in reducing risk, identifying opportunities and delivering long-term, innovative solutions and technologies for addressing sustainable development. Aligning the two approaches can redirect investment flows to maximise value creation and enhance knowledge of the impact of business activities on sustainable development. The SDGs cannot be achieved without collaboration between the governments, private and public sector organisations. Businesses are being called upon to contribute to the SDGs adopted in 2015 and have a sustainable development agenda for the world until 2030. This report will provide value to businesses as they move forward in corporate reporting to be able to incorporate into their proposals and outputs a more coherent form of reporting particularly in relation to the SDGs.

Adoption of IR in India

In India, the Securities and Exchange Board of India (SEBI) issued a circular dated 7 February 2017 that advises top 500 listed companies which are required to prepare Business Responsibility Report (BRR) to adopt IR on a voluntary basis from the financial year 2017-18. The information related to IR may be provided in the following ways:

- As part of annual report with a separate section on IR
- Incorporating in management discussion and analysis, or
- By preparing a separate report (annual report prepared as per IR framework).



In case the company has already provided the relevant information in any other report prepared in accordance with national/international requirement/framework, it may provide appropriate reference to the same in its integrated report so as to avoid duplication of information. Companies may host the integrated report on their website and provide appropriate reference to the same in their annual report.

Internationally, over 1,750 people have joined the IR network and are leading the way in adopting IR with transformational effects not just on the way they report, but on the way they think and act[2]. Despite the modest global growth, there have been significant increases in IR in four countries namely Japan, Brazil, Mexico and Spain[3].

2. Source: https://integratedreporting.org/ir-networks/
3. Source: The KPMG in India - Survey of Corporate Social Responsibility Reporting 2017


MARKET ANALYSIS
STATISTICAL DATA