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Making your Corporate Responsibility report relevant

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The reality for many companies is that environmental, social and governance issues are having an increasing impact on their ability to operate and generate a profit. As part of its overall objectives, Integrated Reporting recognizes that shareholders have a valid interest in understanding how these issues are being managed and the impact they have on the value and sustainability of the business.

Companies themselves have recognized this, and many can now tick the Corporate Responsibility reporting box. They can point to reports that illustrate the significant efforts they've made to limit their environmental footprint and benefit the societies in which they operate. So, it should be straightforward to incorporate Corporate Responsibility reporting into an Integrated Report?

Not quite. Integrated Reporting is about more than the physical integration of different corporate reporting components. As we've seen, the goals are deeper than this. Integrated Reporting requires the alignment of business reporting with business strategy, presenting an opportunity to demonstrate the linkage between sustainability performance and business value.

This is an area where many Corporate Responsibility reports have been lacking, giving the impression that the preparation of the report – and sometimes the underlying Corporate Responsibility activities – are conducted in isolation from the rest of the business. The scale of the challenge is reflected in a number of common frustrations for investors when they look to understand Corporate Responsibility risks and opportunities. The qualities they need in their Corporate Responsibility reporting are little different from any other business issues:

Focus on the issues that matter to the business

In today's environment, businesses are finding that a select number of Corporate Responsibility issues go right to the heart of their long-term viability. The particular issues may be to do with environmental impact, corporate ethics, employee safety, or others. Their potential impact may be remote but their scale is such that they have major consequences for business value - positive or negative. This does not mean that every sustainability issue or stakeholder interest should be reported to investors. Only some will have the potential to affect value in this way. Identifying these issues is the first challenge for producing a focused report.

The second challenge is recognizing the difference between reporting on Sustainability and reporting on the sustainability of the business. Investors want and need to understand that the business model they have bought into is sustainable in the long term – and managed in a way that secures long term value. This means focusing on those specific aspects of the issue that have a direct operational implication. For example, corporate ethics are relevant across the whole organization but investors' specific interest may lie in the ability of the business to compete in specific markets while also operating within an ethical framework.

Although a few leading organizations are addressing this, the distinction is lost in many Corporate Responsibility reports. As a result they risk being seen by investors as an irrelevance – a discussion of worthy causes with no apparent link to business value.

Provide a clear link between strategy, action, and value

Like any other business issue, investors will expect management to have a strategy for each Corporate Responsibility issue that preserves or enhances the value of the business. Each strategy should itself be an integral part of the core business strategy.

Within the business one would expect to see clear objectives with actions monitored against targets and expectations. Reports need to demonstrate this too – strategies should translate into actions and those actions will have measurable outcomes.

To reach this point, Corporate Responsibility reporting needs to move away from its specialist roots, and become like any other aspect of operational reporting. Reports written by operations directors with specialist support will reflect business objectives better than those written by Corporate Responsibility specialists.

…this is not a call for more Corporate Responsibility reporting - it's a call for more relevant Corporate Responsibility reporting…

Those remaining companies that simply provide a list of Corporate Responsibility achievements give the impression that they regard their Corporate Responsibility activity as charitable acts – philanthropic gestures paid for by shareholders rather than a routine investment in the viability of the business. Issues which can affect the long-term viability of the business are too important to be treated in this way.

Investors need to take judgements over the impact of each Corporate Responsibility issue on the business and the steps being taken to address it. This requires a balanced perspective with analysis that is comparable to past reporting and targets, and also wider industry practice. For some, this will mean a shift from thinking of Corporate Responsibility reporting as a public relations exercise, to recognizing the role it plays in investor decision-making and governance. The same standards of corporate reporting should apply here as to any other issue.

The underlying quality of information is a particular challenge for what is still a relatively new area of reporting. Developing systems, processes, and controls to ensure the accuracy and completeness of non-financial information streams are central to the effective reporting (and management) of the issues. This cannot be achieved immediately but there is a clear opportunity for companies to begin to address this.

We welcome the renewed focus that the International Integrated Reporting initiative can bring. After fifteen years of exploring and developing Corporate Responsibility Reporting the time has come to link it to the core business.

The current information gap is not helpful. It leads investors to price in risks that may well be adequately managed, and it leaves Corporate Responsibility issues that should be central to the business strategy on the management and reporting sidelines.

Ultimately though, this is not a reporting issue; it's a question of governance. Companies that have a clear view of how their Corporate Responsibility risks and opportunities affect their overall strategy will welcome the opportunity to explain what they are doing to investors. Others will need to take a hard look at how their Corporate Responsibility 'good deeds' relate to their business strategy.

In brief:

- Environmental, social and governance issues are having an increasing impact on companies' ability to operate and generate a profit
- Current Corporate Responsibility reports often fail to identify the clear link between sustainability performance and shareholder value
- A more focused approach is needed that identifies the issues that affect performance and value, and the actions that are being taken to address them
- In order to achieve this, Corporate Responsibility reporting needs to move away from its specialist roots and enter the mainstream
- Integrated Reporting will help organizations recognise the role Corporate Responsibility plays in investor decision-making and governance.

Key questions:

Do you have a full understanding of how each Corporate Responsibility programme contributes to performance and shareholder value, and links with overall corporate strategy?

Does the organization have the processes and controls in place to gather and assess the non-financial information required to effectively report and manage Corporate Responsibility issues?

Who has responsibility for Corporate Responsibility reporting? Is the issue under the sole control of Corporate Responsibility specialists, or is there more general business input?