The Global Reporters
2004 Survey of Corporate
Sustainability Reporting

Elkington & Kuszewski, 2004

# Risk & Opportunity
# Best Practice in Non-Financial Reporting

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**Risk & Opportunity** is The *Global Reporters* 2004 Survey of Corporate Sustainability Reporting. The *Global Reporters* research programme would not be possible without the financial support of companies dedicated to evolving the accountability and reporting agendas. For the 2004 round, we express our sincere thanks to our major sponsor Pfizer, and to the twelve other supporters ABN Amro, Credit Suisse, Co-operative Insurance Services, The Co-operative Bank, the US Environmental Protection Agency's, Climate Leaders Program, Ford Motor Company, Johnson & Johnson, Novo Nordisk, Rohm and Haas, Shell, Starbucks Coffee Company and Telecom Italia who ensured the project took wing. Sponsors were updated on progress but did not have any form of editorial control.

Of the 39 reports that provide some form of external assurance or review, 16 (41%) make use of one of the Big Four audit and consulting firms (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers); four (10%) of statements are provided by stakeholder organisations or experts; and 19 (49%) come from assurance professionals at smaller or boutique firms (such as ERM, JustAssurance and CSR Network).

But the most significant differences come to light when we look at the standards used by assurance providers. The two frameworks in common usage are:

- **Accounting Standards**
  Generally the International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board, but also the German IDW PS820 and Canadian CICA Standards for Assurance Engagements

- **AA1000 Assurance Standard**
  Specifically aimed at assurance of sustainability reports

While some assurance statements mention frameworks such as the GRI guidelines or SA8000 standard as a consideration for the review of reports, we do not consider them here, as these are not meant to be used as report assurance standards, and do not provide guidance on assurance of reports.

Things become interesting when we look at the relative scores (Figure 23). Users of the AA1000 Assurance Standard hold a distinct lead over those using the accounting standards, and an even bigger lead over the Top 50 on average. Clearly, AA1000 users are able to provide much more information in their assurance statements than others do, and this significantly raises the value of their statements for readers.

There are also examples of reports using both the AA1000 Assurance Standard and the International Standard on Assurance Engagements, and the result can be powerful: Novo Nordisk, for example, uses this approach (including the company's response posted on its website) and achieves a full 4-point score. Others using this combination of standards include RWE and Rabobank, although in their cases somewhat less effectively.

Given the effort that assurance entails for companies – and the faith many place in it to improve their processes or reputation – we would very much like to be able to evaluate more than assurance statements alone. In the future, it's vital that better information be developed on how different assurance approaches affect cost, and the impact on reputation or credibility. For this to happen, however, companies and their assurance providers will need to lift the lid on their processes.

## The Materiality Debate

Materiality has emerged as one of the biggest conceptual challenges for corporate reporters in recent years. And not before time. The pressures on companies to make their reports ever more complex have been growing: 2002, for example, saw the release of a new version of the GRI guidelines, with a considerably expanded indicators section; then there was the drafting of the AA1000 Assurance Standard; and, by no means finally, our own identification of the 'carpet bombing syndrome' struck a chord.

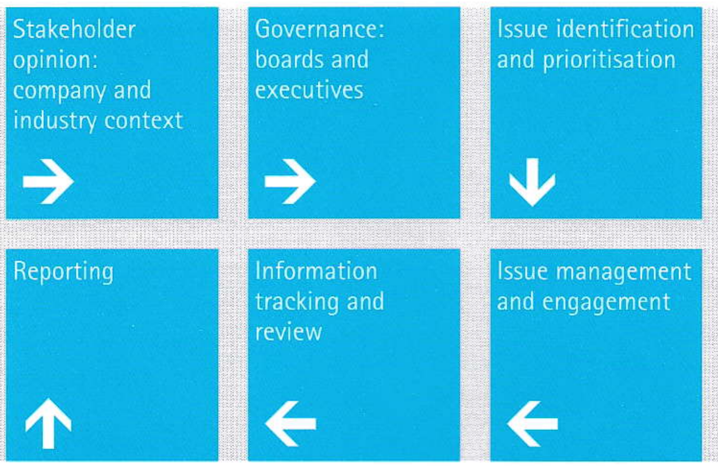
Reports risk becoming cluttered with information of little apparent use to readers, while missing out on the big picture risks and opportunities. Practitioners and readers alike need to find a way to assess what really matters most, and focus effort on those areas.

Like the term *sustainability* itself, *materiality* strikes many people as pretty nebulous, so it's perhaps a bit surprising that it has caught on as well as it has. The definition used nowadays by reporting practitioners comes out of the financial accounting tradition, and goes something like this: *Something is material if it has the potential to affect your perception of the company and any decisions you might take as a result.*[48]

In terms of understanding the basic concept, we've come a long way, but in reality we have made a few small steps in a long journey. As the concept has risen in prominence for sustainability reporters, there have been efforts to find new definitions for materiality that properly capture non-financial issues (see, for example, AccountAbility's report, *Redefining Materiality*,[49] and the *GRI Boundary Protocol* draft[50]). These efforts, however, will not result in anything quite so simple as a list of indicators a company should consider material. That is because materiality requires a process of decision-making in full knowledge of the company context – which is constantly changing.

Material issues are easy to spot in hindsight, especially when something goes wrong at a company. But this is a major problem for anyone wanting to assess future risks and opportunities at a company: you'd need a crystal ball to be able to predict the circumstances under which any particular bit of information becomes key to your assessment; the one thing that could have made the difference comes to light after the fact.

25 **Materiality is a journey**



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