WHITE PAPER | NOV 2014

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ALPHABET SOUP: SELECTING AND USING SUSTAINABILITY REPORTING FRAMEWORKS

Companies must now wade through acronyms and initials of sustainable organizations and their respective disclosure schemes in order to obtain a stronger grasp of their sustainability performance.

For decades, company executives directed their respective businesses while adhering to the adage that one can manage only what is actually measured. Until recently, equating business success in financial performance was enough — bigger sales, larger market shares and higher returns-on-investment (ROI) were enough to make company owners declare that their business was doing well.

During the last few years, however, environmental, climate change and other sustainability issues have placed additional pressure on the operations of businesses all over the world, disrupting supply chains, impacting corporate reputations, and ultimately affecting their bottom lines.

Environmental concerns such as water scarcity, deforestation, and extreme weather events linked to climate change, among many others, have disrupted business operations and spiked the prices of raw materials. In some regions of the world, businesses are faced with more stringent environmental regulations and programs such as cap-and-trade schemes, carbon taxes and variations of sustainable sourcing laws. Companies realize that business success transcends financial performance, and includes intangible or non-financial metrics, such as climate resiliency or corporate reputation, for example.

As a result, organizations around the world have been established to help companies benchmark and measure sustainability — assigning variables and utilizing standardized metrics to gauge how sustainability factors impact business success and longevity. Various organizations — from government to non-government, and profit-based to non-profit — have formulated diverse sustainability reporting frameworks and guidelines. Today, businesses choose to prepare and submit sustainability reports periodically, obtain sustainability certifications, participate in sustainability rankings, and adhere to sustainability standards.

The variety of ways in which companies disclose sustainability information is apparent in the numerous initials and acronyms that they must bear in mind and sift through, to find the reporting framework(s) that best suit(s) their needs — those that best help them achieve their business goals along with their sustainability goals. Aside from annual financial reports, companies must now wade through the proverbial alphabet soup of acronyms and initials of sustainable organizations and their respective disclosure schemes in order to obtain a stronger grasp of their sustainability performance.

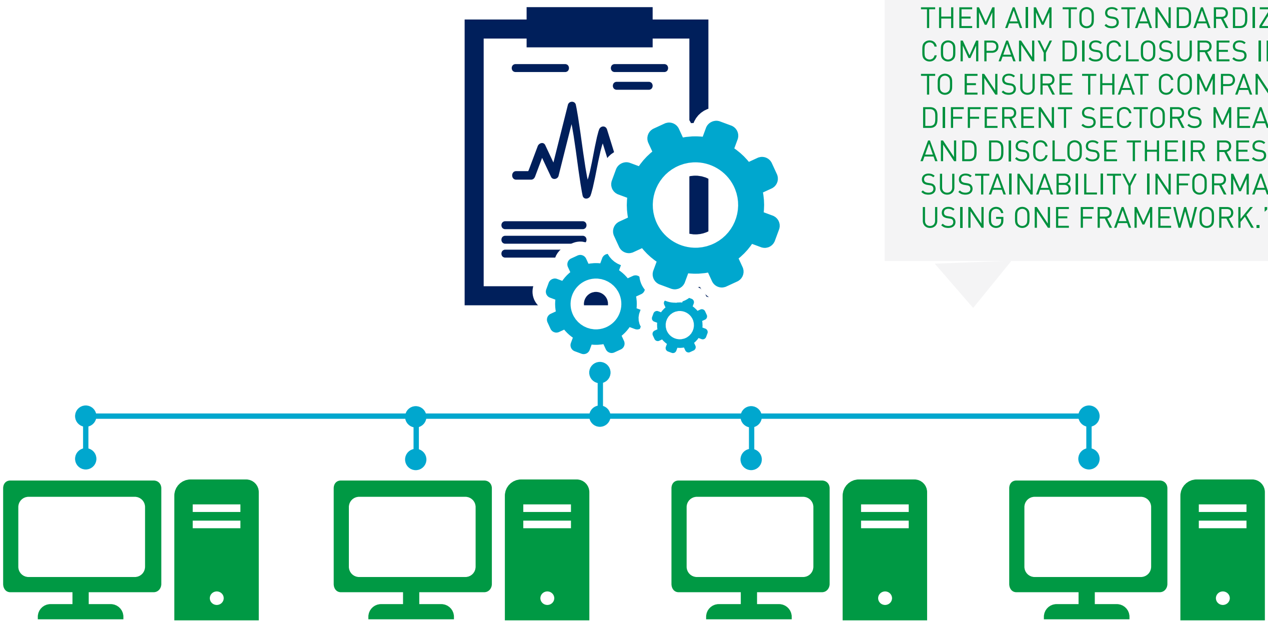
It is entirely understandable that some companies hesitate to embark on sustainability reporting because they cannot decipher the difference between them, due to the sheer number of schemes available. How can they possibly know for certain which ones cater only to specific environmental concerns, industries or geographic regions? Moreover, each sustainability reporting framework touts its own set of benefits for companies who select and use them. The challenge is knowing which to select and how to use it to their advantage.

As such, it makes sense to dissect and discuss these frameworks and the ways companies can report their sustainability performance to aid in their planning and deliberation for future sustainability actions.

VOLUNTARY REPORTING FRAMEWORKS

Voluntary sustainability reporting frameworks or disclosure schemes are guidelines, standards, and indexes that guide companies on which information they must gather to comprehensively discuss sustainability performance, and how to organize, analyze, and present their companies' sustainability information. Oftentimes, the organization that formulated the sustainability reporting framework also provides a repository for companies' sustainability disclosure submittals, and may also serve as a platform for businesses and their stakeholders to develop collaborative solutions and brainstorm innovations to advance sustainable business practices.

"VOLUNTARY SUSTAINABILITY REPORTING FRAMEWORKS AND THE ORGANIZATIONS THAT DEVELOPED THEM AIM TO STANDARDIZE COMPANY DISCLOSURES IN ORDER TO ENSURE THAT COMPANIES FROM DIFFERENT SECTORS MEASURE AND DISCLOSE THEIR RESPECTIVE SUSTAINABILITY INFORMATION USING ONE FRAMEWORK."



Voluntary sustainability reporting frameworks and the organizations that developed them aim to standardize company disclosures in order to ensure that companies from different sectors measure and disclose their respective sustainability information using one framework. By doing so, they are assured that they can draw conclusions, make projections and generalizations, and provide cross-industry comparisons of sustainability performance, which in turn serves as the groundwork for effectively planning prospective sustainable business practices and innovations for sustainable business models.

According to Deloitte's research, *Disclosure of Business Value: What Really Matters*, the era when companies release their own separate sustainability reports is likely to change, as most companies are challenged on which information to report and how to disclose it. Most companies do not have the tools and approaches that help both internal and external stakeholders deliberate on the proper course of action towards driving sustainable business practices.

Voluntary reporting turns sustainability vision into actionable elements. Voluntary reporting frameworks enable firms to objectively adjust their strategies according to emerging sustainability challenges. With a number of voluntary sustainability reporting frameworks and organizations that exist today, companies need to be mindful when choosing their appropriate voluntary reporting avenue — based on their needs and goals.

TYPES OF VOLUNTARY SUSTAINABILITY REPORTING FRAMEWORKS

The 2013 edition of Carrots and Sticks, a report jointly created by **Global Reporting Initiative (GRI), United Nations Environment Programme (UNEP)**, KPMG and the Center for Corporate Governance in Africa, compiles best practices in sustainability reporting from all over the world, and contains its own "inventory" of sustainability reporting policies and initiatives. The report shows that sustainability reporting frameworks gravitate toward one or more of four focal criteria:

1	Based on this criteria, sustainability reporting frameworks can stem from governments or markets. The use of some frameworks may be mandated by regulations. Other governments and markets offer reporting frameworks which companies can voluntarily use or participate in.
2	There are also **Corporate Social Responsibility (CSR)** or **Environmental, Social and Governance (ESG)** initiatives and organizations, which offer sustainability reporting or public disclosure guidelines. It is possible that companies participating in or joining such initiatives and organizations are required to use their respective frameworks. Other sustainability initiatives and organizations also offer their reporting frameworks for voluntary use.
3	Some sustainability reporting frameworks focus on specific topics and industries.
4	Certain sustainability reporting practices are part of adhering to sustainability standards.

Based on this criteria, sustainability reporting frameworks can be classified into the following types:

GOVERNMENT OR MARKET-BASED SUSTAINABILITY DISCLOSURE FRAMEWORKS

The growing interest in sustainable investments has given rise to market-based sustainability indexes. Market-based sustainability indexes are used to quantify how sustainable a company is, helping investors choose companies to invest in.

Market-based sustainability indexes, therefore, became an offshoot mostly of stock exchanges and companies providing financial information, using companies' financial performance information that they already have on-hand, supported by companies' disclosures and/or additional research from partner agencies.

Market-based sustainability indexes are usually aided by other agencies to conduct more research on businesses that they want to provide sustainability performance indexes for. For instance, **RobecoSAM (Sustainable Asset Management)** provides the **Corporate Sustainability Assessment (CSA)** to evaluate companies' performance on sustainability dimensions such as Economic, Social, and Environmental.

Market-based sustainability indexes originate from different regions around the world. Some market-based sustainability indexes are used to evaluate the sustainability performance of businesses in a particular country, continent or geographic region.

For example, the **Hang Seng Corporate Sustainability Index (HSI)** is primarily used for evaluating the sustainability performance of publicly-listed businesses in Mainland China and Hong Kong. Similarly, **FTSE4GOOD (Financial Times Stock Exchange) Index Series** has sustainability indexes specifically for Europe **(FTSE4GOOD Environmental Leaders Europe 40 Index)** and for sustainability ratings of companies around the world **(FTSE4GOOD ESG Ratings)**, while the **Dow Jones Sustainability Index (DJSI)** follows a best-in-class approach which measures the performance of the world's sustainability leaders through a comprehensive assessment of a company's long-term economic, environmental and social criteria in its industry-specific trends.

SUSTAINABILITY REPORTING GUIDANCE FROM ESG AND CSR INITIATIVES

Sustainability reporting frameworks from **ESG** and **CSR** initiatives and organizations are usually comprehensive and transcending, with guidelines, standards and metrics for use around the world, across various industries and covering different sustainability issues. Companies participating in one of these frameworks do so because of requests from stakeholders, including customers or investors, or because they have recognized that proactively providing transparency into the sustainability of their operations is important to the overall success of their organization.

The reporting frameworks of some organizations such as **GRI**'s **G4** are available for free and can be obtained or downloaded by anyone. The latest edition of **GRI**'s reporting framework, **G4**, has two components: the Reporting Principles and Standard Disclosures and the Implementation Manual. **G4** has disclosure standards for measuring businesses' sustainability performance on broad ranges of ESG topics. Businesses from all sectors and industries use the **G4** disclosure standards. On the other hand, there are industries (such as mining) with supplemental disclosure standards.

Other organizations, such as **CDP** (formerly the **Carbon Disclosure Project**), provide their disclosure guidelines free of charge and are mostly used by businesses that they have invited to participate in their sustainability programs. There are also some companies or governments that complete the **CDP** disclosure to proactively measure and benchmark their sustainability performance. In the case of **CDP**, sustainability programs include climate change, supply chain, carbon action, cities, water and forests.

A **Communication On Progress (COP)** is a sustainability report that members of the **United Nations Global Compact (UNGC)** submit annually to communicate the progress of their sustainable business practices to all their stakeholders. Although **UNGC** members submit **COP**s each year to maintain their active membership status, their membership to the coalition itself remains voluntary. Additionally, the **UNGC** encourages non-business participants of the global compact to prepare their own **COP**s.

SECTOR- OR TOPIC-SPECIFIC SUSTAINABILITY REPORTING FRAMEWORKS

Sustainability reporting frameworks which focus on a specific sustainability topic or industry are usually developed by organizations which advocate a focused set of sustainability areas. Sustainability frameworks for specific use on a topic or for an industry are usually in the forms of reporting protocols or certification guidelines.

Companies that want to obtain sustainability certifications must report pertinent sustainability information to the appropriate organizations; if they qualify, they can use their certifications as indicators of their sustainability performance of their products or services.

One such example is the **The Climate Registry (CR)** Reporting Protocol. The **CR** is a non-profit organization that aims to provide a consistent and transparent standard for businesses and governments to calculate, verify and report their carbon footprint in one unified registry. Similarly, **Forest Stewardship Council (FSC) Certification** aims to promote responsible forest management worldwide and enable both businesses and consumers to make informed choices in the forest products they consume.

The **Maplecroft Climate Innovation Index (CII)**, on the other hand, offers a unique portfolio to help global companies in identifying, monitoring and mitigating a range of financial risks in an organization's operations, investments and supply chains, while the **US Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED)** encompasses a green building certification program which recognizes the best-in-class building strategies and practices.

The **Fairtrade Labelling Organization's (FLO) International** mark appears in crop and agricultural products that were sustainably sourced or passed through sustainable supply chains. Sustainability-conscious consumers are thereby aided in their search for sustainable products by looking for the Fairtrade mark on their fruits, vegetables and other products. Farms of producers and trade organizations with the **FLO International** mark on their goods are inspected; inspectors, meanwhile, will be the ones to report the sustainability performance of businesses to Fairtrade's certification arm, **FLO-CERT**.

Building Research Establishment Environmental Assessment Methodology (BREEAM) sets the standards for best practice in sustainable building design, construction and operation as they evaluate a building's specifications, construction and usage.

In the electronics industry, on the other hand, the **Electronic Industry Citizenship Coalition (EICC)** is a coalition of electronics companies that are committed to support the well-being of the stakeholders affected by the global electronics supply chain worldwide. The organization uses a wide range of training and assessment tools to continuously improve the social, environmental and ethical responsibility of their supply chains.

The **Greenhouse Gas (GHG)** Protocol Accounting and Reporting Standards, followed by the **World Resources Institute (WRI)** and **World Business Council for Sustainable Development (WBCSD)**, for example, are the foundations of integrated and more comprehensive sustainability disclosures from companies all over the world. In fact, it is said to be the "most widely used international accounting tool" for understanding, quantifying and managing **GHG** emissions. On the other hand, by setting their own **GHG** disclosure standards, The **CR** is able to collect uniform **GHG** inventories from North American businesses and governments.

Since these frameworks are usually for reporting on one sustainability topic, or for use by one particular industry, they can typically be used globally or in various regions of the world. These sustainability reporting frameworks help to globally homogenize sustainability reports pertaining to specific sustainability concerns, or at the very least, enable the aggregation of specific sustainability disclosures for a particular geographic region.

> "THE CONTENTS OF THESE REPORTS, IN TURN, CAN BE USED BY YOUR ORGANIZATION TO MEASURE AND GAUGE THE EFFICACY OF YOUR SUSTAINABILITY PLANS AND THE ASSOCIATED EFFORT REQUIRED TO ACHIEVE SUSTAINABILITY GOALS."

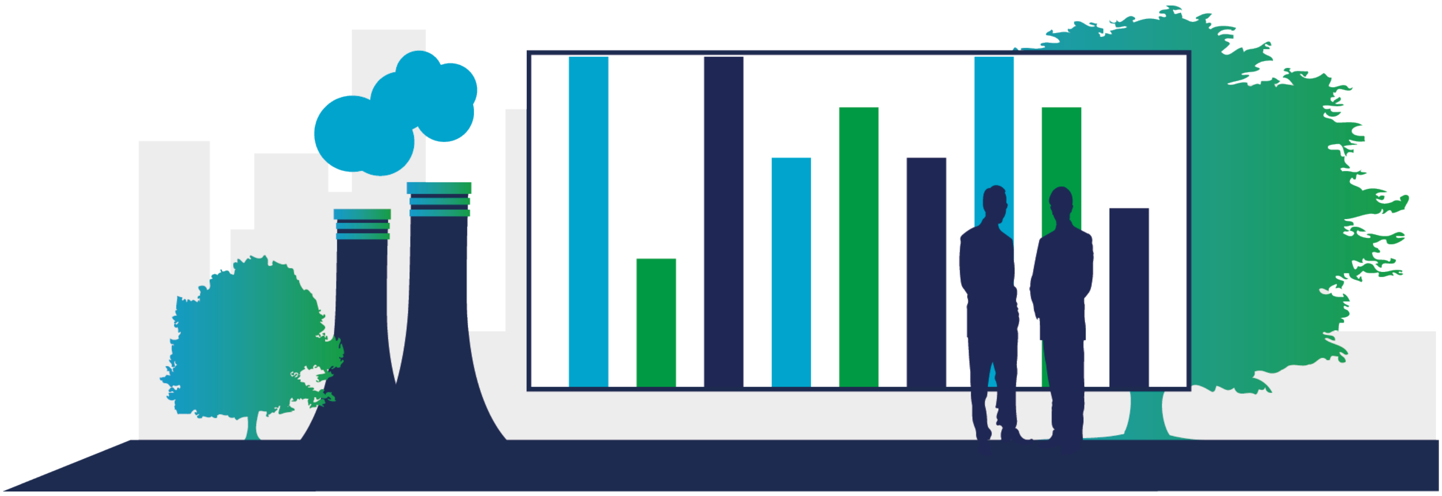
SUSTAINABILITY REPORTING FRAMEWORKS FROM SUSTAINABILITY STANDARDS

International standards serve as foundations of companies' sustainability reports. They are important in terms of strengthening the reliability, credibility and accuracy of other sustainability reporting frameworks.

There is a standard for every industry. Since 2003, for example, accounting firms referred to the **International Standards on Assurance Engagements (ISAE 3000)** standards in preparing assurance statements for sustainability disclosures. The **International Standards for Social Responsibility (ISO 26000)** provides guidelines which can help businesses operate while ensuring that they are socially responsible. Most companies that release separate sustainability reports refer to **ISO 26000** as the basis of their sustainability endeavors.

GHG measurement standards in **G4** and the **GHG** Protocol adhere to **International Standards for Greenhouse Gas Emissions Measurements (ISO 14064)** requirements in developing **GHG** management activities and emissions inventories**.** Companies can adhere to **GRI** sustainability reporting guidelines while complying with **ISO 26000** standards. Assurance for sustainability reports prepared using **GRI**'s **G4** framework can be provided by **ISAE 3000** standards.

What do all these numbers and initials mean for your organization? Simply put, these standards ensure that there is an unbiased review of the data given and a comprehensive report is produced that would meet the requirements expected of your organization. The contents of these reports, in turn, can be used by your organization to measure and gauge the efficacy of your sustainability plans and the associated effort required to achieve sustainability goals.



CHOOSING FRAMEWORKS BASED ON REPORT CONTENT

Sustainability reports primarily serve as your communication pieces and reference documents on sustainability performance. These reports are reviewed by internal and external stakeholders so they can understand more about your sustainable business practices. Business leaders, and in some cases certain stakeholders, must consider and weigh the following factors when choosing a sustainability reporting framework to adopt:

1. THE QUALITY OF THE REPORT OR DISCLOSURE TO BE PRODUCED

The completeness and comprehensiveness of the report and the accuracy of the data and information the disclosures contain are significant in the decision-making process. You can choose to adopt sustainability reporting frameworks depending on how broadly you want to discuss your sustainability endeavors, or whether you want to focus on creating reports regarding just one particular topic or intended for a specific audience.

2. CONTENT RELEVANCE FOR STAKEHOLDERS

In adopting sustainability reporting frameworks, businesses must choose to include information that your internal and external stakeholders will find relevant. In choosing reporting frameworks, you must make your stakeholders understand how certain sustainability initiatives would affect the company.

3. IMPACTS TO BUSINESS AND INPUTS TO CORPORATE DECISION-MAKING

You can choose reporting frameworks that will help measure, analyze and interpret how your sustainability endeavors affect your bottom line. Sustainability reports must contain useful information that will help you plan and implement sustainable business practices which, if aggregated, helps in the development of sustainable business models.

For example, members of the **EICC** adhere to their Code of Conduct to create a comprehensive assessment and monitoring system for better social, economic and environmental outcomes in the electronics supply chain. The **EICC** Code of Conduct provides guidelines for sustainable business practices in areas such as health and safety, labor, environment and management. In addition, the **EICC** also provides sustainability tools and resources to be used by their members and partners in the global electronics supply chain.

4. CONTRIBUTION TOWARDS CORPORATE TRANSPARENCY

Companies must choose sustainability reporting frameworks that will precisely illustrate where your company stands in terms of operating sustainably. It is becoming increasingly expected that companies provide full transparency into the sustainability of your business operations to provide stakeholders up and down the value chain with the information needed to make decisions.

5. PERCEPTION OF VERIFICATION

Sustainability reporting frameworks which provide for third-party verification and assurance based on international standards like **ISAE 3000** and **ISO 26000** can help assure stakeholders that they are not reviewing any misleading information about your sustainability performance.

COMBINING APPROACHES: INTEGRATING SUSTAINABILITY INTO BUSINESS GOALS

In terms of utilizing sustainability reports to create sustainable business practices, reporting frameworks are addressing information needs and bridging information gaps that will ultimately help your company achieve two fundamental business goals.

IMPROVE COMPANY VALUATION

The information in sustainability reports helps increase your value as a more sustainable company that is optimizing resource inputs and outputs, and is therefore more operationally streamlined and cost-efficient. Sustainability reports can be the basis for developing competitive advantages, budgeting and augmenting available capital, and improving brand reputation.

Sustainability information can serve to inspire innovative product design and business practices. For instance, a beverage company realized the large volume of water they have utilized due to participation in **CDP**'s Water Program. To improve their overall sustainability performance, the beverage company can choose to redesign their factories, reformulate their products, and/or reduce inefficiencies in their supply chains.

In another example, Walmart, together with **The Sustainability Consortium (TSC)**, started a Sustainable Product Index program to respond to the increasing demand by consumers to produce environmentally-responsible products. The program aims to develop a measurement and reporting system toward product sustainability. In 2011, Walmart integrated the Sustainable Product Index to six product categories in order to use the results to create category scorecards. It enabled consumers to evaluate supplier performance that will be incorporated into Walmart's core merchandising processes. The Index provided transparency to help consumers gain pertinent information on Walmart's products, which has helped them save money and live sustainably.

Companies who are scored with high **ESG** ratings by the **FTSE4GOOD** index can be more likely to gain capital from a broader set of investors. By preparing comprehensive sustainability reports based on **GRI**'s **G4**, companies can recognize sustainability concerns they should pay more attention to and allocate capital for.

Fair Trade Certified products are widely recognized as products that promote social equality, alleviate poverty and improve quality of life amongst their producers and consumers, raising Fair Trade Certified companies' "approval ratings" amongst consumers.

ADVANCING RISK MANAGEMENT AND OPPORTUNITY CREATION

Sustainability reports can also be a source of insight that helps companies manage physical and regulatory risks, and possibly carve opportunities that would otherwise be imperceptible.

Since **CDP** serves as a platform for dialogue with governments and policymakers, their programs are known for spotting sustainability "hot spots" or points for improvement across business operations, managing better resource use, and helping businesses keep abreast of environmental regulations.

Members use **EICC**'s tools and resources to improve the social and environmental conditions of their company's electronics supply chain. One such member is Applied Materials, a semiconductor and photovoltaic solar cells supplier. Applied Materials participated in **EICC**'s Carbon Reporting System as they engaged their suppliers on carbon accounting and the ability to collect data on sustainability reporting. By applying **EICC**'s Carbon Reporting System tool, the company designed a successful supplier engagement strategy that contributed to their use of efficient energy systems for the reduction of the company's environmental impact.

Each sustainability reporting framework offers unique benefits and helps bridge certain information needs among businesses and stakeholders. It is not uncommon for companies, especially those with large market values, to participate in several sustainability reporting initiatives. This ensures that they communicate their sustainability performance to as many stakeholders as they can reach — consumers, investors, policy makers from various parts of the world — and that they try to tackle, manage and discuss more sustainability concerns.

When it comes to wading through the sustainability reporting **alphabet soup**, you should be guided by your business and sustainability goals. To sort through the many different initials and acronyms, and select the best one or combinations thereof, your company must deliberate which sustainability reporting framework can help create value for your company, while helping manage risks, and identify opportunities from sustainable business practices.

As a leading sustainability solutions provider to a wide range of industries, ADEC Innovations helps decipher the sustainability reporting alphabet soup by giving expert environmental consultations to various industries and companies, which helps bolster profitability and ROI by measuring carbon footprints and achieving sustainability goals. In addition, ADEC's environmental specialists have developed solutions that support regulatory compliance efforts, environmental impact assessments and mitigation programs for sustainability across the entire organization.

ACRONYM INDEX

BREEAM	Building Research Establishment Environmental Assessment Methodology
CDP	(formerly) Carbon Disclosure Project
CII	Climate Innovation Index
COP	Communication On Progress
CR	Climate Registry
CSA	Corporate Sustainability Assessment
CSR	Corporate Social Responsibility
DSJI	Dow Jones Sustainability Index
EICC	Electronic Industry Citizenship Coalition
ESG	Environmental, Social and Governance
FLO	Fairtrade Labelling Organization
FLO-CERT	FLO's Certification Arm
FSC	Forest Stewardship Council
FTSE	Financial Times Stock Exchange
FTSE4GOOD	Index Series of the FTSE for lists like FTSE4GOOD ESG Ratings and the FTSE4GOOD Environmental Leaders Europe 40
G4	GRI's Reporting Framework
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
HSI	Hang Seng Corporate Sustainability Index
ISAE	International Standards on Assurance Engagements
ISAE 3000	Assurance Statements for Sustainability Disclosures
ISO	The International Standards for Social Responsibility
ISO 14064	International Standards for GHG Emissions Measurement
ISO 26000	International Standards for Social Responsibility
LEED	Leadership in Energy and Environmental Design
ROI	Returns-on-investment
SAM	Sustainable Asset Management
TSC	The Sustainability Consortium
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
USGBC	US Green Building Council
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

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