Sustainability (**11/04/17**)
Web Article
http://news.carbon-clear.com/news/the-value-of-reporting-on-non-financial-performance

Carbon Clear News

The value of reporting on non-financial performance

Posted by Sonya Likhtman on 11-Apr-2017 10:51:08

- Tweet
- inShare38

In today's complex business landscape, companies are expected to deliver more than profits and shareholder value: they are increasingly focusing on their non-financial performance.

One element of this Environmental, Social and Governance (ESG) approach is investing human and financial resources in developing, implementing and publicly reporting effective sustainability strategies.

Companies may choose to report through their annual and sustainability reports, through indices such as CDP, DJSI and GRI, or through their websites and other means of communication. What's more, it appears that such efforts ultimately drive better financial returns.

As we enter the season of annual reporting and companies begin to think about how to improve this year's CDP response, we outline three reasons why reporting on non-financial metrics is as relevant as balance sheet disclosures.

1. Sustainable companies perform better

A recent study by McKinsey found that companies make sustainability a key business consideration by embedding it in their operations, values and strategies. Taking climate change, energy efficiency and other aspects of sustainability seriously helps companies identify opportunities for cutting costs, keep on top of legislative requirements and uphold a positive reputation. Often, value is also created from developing new products and services in line with the global transition to a low-carbon economy.

Taking a shared value approach creates financial value whilst addressing social and environmental issues. A well-known example of this is Unilever's Sustainable Living Plan, which aims to double the company's revenue whilst halving the carbon footprint in the next decade. The plan also includes extensive initiatives for improving health, enhancing wellbeing, and empowering women and smallholder farmers. As Unilever operates in over 190 countries and reaches two billion consumers a day, it is not surprising that consumers value the company's positive contribution to individual livelihoods, communities and the planet. The company has recorded strong growth since the plan was introduced, whilst making progress towards their commitments. Unilever's approach is underpinned by an effective reporting and communication strategy, which informs investors, customers and other stakeholders of their progress, challenges and plans.

2. Expectations are rising

It is no secret that we face numerous global challenges: eradicating poverty, adapting to climate change, reducing gender inequality, securing food supplies and universalising access to clean water, alongside others. The Sustainable Development Goals (SDGs) laid out by the UN in September 2015 formalise these challenges into 17 global goals, with 169 sub-targets to be achieved by 2030. The SDGs strongly emphasise the role of the private sector in achieving their ambitions.

The importance of multi-stakeholder partnerships is also stressed. Collaboration with *and*involvement from the private sector is required, as governments and non-governmental organisations alone do not have sufficient resources to deliver solutions. Businesses will contribute through a combination of direct financial support, R&D into potential solutions and aligning core business activities with wider societal needs.

For institutional investors, the focus will be on shifting investment patterns accordingly. Some organisations have already taken these steps, either by explicitly stating their commitment to the SDGs or through their sustainability programmes. For instance, Coca Cola Company has launched an extensive SDG programme, while Danone has established a €100million Ecosystem Fund that contributes to tackling climate change. It does so in collaboration with 51 NGOs by planting millions of trees that sequester carbon dioxide, operating 62 projects across 28 countries.

In a survey of 511 sustainability experts across 74 countries, it was found that *Climate Action* is considered the most important SDG for society to focus on by 4 in 10 respondents. Experts also said that *Climate Action* is the SDGs which receives the most attention within their organisation. Given the private sector's central role in addressing global challenges, it is crucial that businesses are investing time, energy and financial resources into sustainability. This includes developing their capabilities in non-financial reporting.

3. Legislators and investors require non-financial information

In some cases, disclosing non-financial information is a legislative requirement. To complement existing Mandatory Greenhouse Gas Reporting in the UK, the most recent regulation is the EU Non-Financial Reporting Directive, which has been implemented into UK law as of January 1st 2017. By tracking their progress on non-financial matters, companies are more likely to meet current and emerging legislative requirements.

Investors are also taking non-financial and ESG metrics seriously. The CDP network of investors and purchasers, representing over $100 trillion, uses data from CDP disclosures to make better-informed investment decisions. Similarly, DJSI provides valuable information about companies' sustainability performance to investors. The trend towards sharing information about non-financial performance is also apparent through the Task Force on Climate-related Financial Disclosures(TCFD), chaired by Michael Bloomberg and with support from Mark Carney. The TCFD encourages organisations to disclose the impact climate change is likely to have on their business. This includes physical and transition risks, opportunities from the transition to a low-carbon economy and financial impacts. With time, the TCFD recommendations may be legislated in G20 countries and businesses that have already considered these matters will be well equipped to adapt.

Is your business prepared?

Forward-looking businesses are actively incorporating sustainability into their wider business strategy and emphasising non-financial performance. In doing so, they create long term value, in financial terms and beyond.