

how a business interact with its supply chain

Sustainability performance can be defined as a corporate focus on how a business interacts with its supply chain, the environment, and society at large in order to optimize resource allocation while creating long-term value. CSR reports (including sustainability reports) can be issued as stand-alone reports, as part of an annual report, or as an integrated portion of a company's website. They include disclosures of material social and environmental issues, such as a company's vulnerability to climate change; corporate governance structure; target-setting and tracking of emissions and waste management; number of environmental accidents; effective supply-chain management, such as environmental screenings of new suppliers; and the level of employee and community involvement in the company's CSR strategy.

CSR Trends on the Rise

The 2013 KPMG "Survey of Corporate Responsibility Reporting" showed that 93% of the 250 largest companies in the world (G250) report on corporate responsibility issues, as do 86% of the 100 largest companies in the United States and 71% of the 100 largest companies in each of 41 countries (N100). This survey provides a snapshot of global trends in CSR reporting; it was first published in 1993.

In certain countries, such as Australia, Denmark, Finland, South Africa, and the United Kingdom, these reporting actions are driven by regulatory requirements. In the United States, however, CSR reporting is voluntary. Third-party providers, such as KLD Research and Analytics Inc., independently rate the CSR performance of large companies. In light of the increased visibility of CSR reporting and third-party ratings, the percentage of U.S. companies reporting on social responsibility activities is on the rise; within the last decade, it has increased by 50%.

Moreover, public companies are not the only business entities issuing CSR reports. In its survey, KPMG reported that family-owned businesses, cooperatives, and companies owned by professional investors (e.g., private equity firms) are reporting as well.

According to a 2010 Ernst & Young survey, "Action Amid Uncertainty: The Business Response to Climate Change," there is a consensus across countries and industry sectors that equity analysts are increasingly incorporating climate change into their valuations, and institutional investors are incorporating

climate change into their overall investment decisions.

This upward trend in voluntary CSR reporting by U.S. companies raises a number of questions and presents opportunities for CPAs to become involved in this emerging niche. CPAs are in a unique position to understand a company's business and provide objective advice and reporting on sustainability issues; thus, they should remain abreast of the following practical topics:

- The lack of a single set of generally accepted CSR measures and reporting principles, which creates comparability issues across companies and within industry groups
- The response by management and governance bodies to sustainability issues within companies, including a discussion of the internal measurement and control systems necessary to successfully implement a CSR strategy for improvement or change
- The move toward integrated reporting, which involves a full integration of sustainability measures and disclosures into an organization's regular reporting framework so that CSR information is indistinguishable from other key business information
- The assistance that CPAs can provide by developing a knowledge base in sustainability services, such as risk and opportunity analyses, tax incentive and credit reviews, and attestation for CSR reports.

Global State of Sustainability Reporting

The KPMG survey gathered information from 4,100 companies across 41 countries and within 15 industry sectors. Its global results show that European countries (e.g., France, Germany, Italy, Portugal, Spain, the United Kingdom) are leading the way when it comes to both the maturation of internal processes and the quality of external communication of CSR activities to stakeholders. Some countries (e.g., Brazil, Canada, Japan, the United States) focus more on the external communication of CSR activities than on the development of internal processes. Other countries (e.g., Greece, Israel, Mexico, South Korea) show low levels of CSR reporting overall.

The results highlight that CSR reporting is no longer a mere nicety. Expanding multinationals find that CSR reports are quickly becoming a critical component of success in developed markets in Europe and the United States. As a result, companies in emerging markets, such as India, China, and Russia, are utilizing CSR

reports to increase transparency, credibility, and overall company value. Although public companies are the most prevalent reporters, some private equity firms are also placing an emphasis on the use of CSR reports to manage their portfolio of companies.

The survey also found that industry sectors with the greatest influence over the environment—mining, utilities, oil and gas, automotive—tended to show a greater commitment to CSR reporting. Other sectors—transport, pharmaceuticals, trade and retail—have shown significant growth since 2008. The transport industry has taken significant steps in recent years to incorporate low-emissions policies into its business, and retail consumers are becoming much more conscious of companies' environmental policies. It can also be noted that the number of companies reporting in the trade and retail industry was 36 percentage points higher than in 2008, while the number of companies reporting in the pharmaceuticals industry was 44 percentage points higher, showing a considerable increase.

Ernst & Young's survey polled 300 executives of global companies across 16 countries and within 18 industry sectors with more than \$1 billion in annual revenues. Survey respondents indicated that the complexity of climate change issues demands effective leadership and strong corporate governance. More than 90% of executives surveyed indicated that climate change governance is an important priority for them. The most senior person responsible and accountable for climate change issues tends to be a senior executive or a board member, with titles such as "head of sustainability" or "chief sustainability officer." According to the survey, 30% of respondents indicated that climate change initiatives constitute a full-time position; 79% of climate change executives who were not board members or CEOs reported to a board member or CEO.

Overall, companies reported that the number one driver of CSR reporting is improving their reputations through greater transparency. Other factors include ethical considerations, employee motivation, innovation and learning, risk reduction, increased access to capital, increased shareholder value, strengthened supplier relationships, improved market position,