Measuring Up: A Study on Corporate Sustainability Reporting in Canada

By the Certified General Accountants Association of Canada

Certified General Accountants
Comptables généraux accrédités

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Certified General
Accountants Association
of Canada

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Foreword

Increasingly, companies in Canada and internationally are incorporating economic, environmental, and social information into their public reports. Largely motivated by demands of shareholders and other stakeholders — including regulators, communities, customers, and employees — these reports are intended to help audiences make informed decisions about their association with particular companies.

Essentially, a corporate sustainability report is a means by which to communicate with stakeholders on a company's economic, environmental, and social performance. Ranging in breadth and intensity amongst practitioners, sustainability reporting attends to interactions between a company's operations and society. As such, sustainability reporting can demonstrate a company's responsiveness to societal issues and can likewise serve to signal that the company is eager to position itself within a broader community or societal perspective. Perhaps helpful in contextualizing the discussion contained within this paper, I would offer the following definitions of the various constituents of sustainability reporting, as they have been understood by the Certified General Accountants Association of Canada:

> **Economic performance** focuses on the impacts that an organization has on the economic circumstances of its stakeholders and on local, national, and global economic systems. Examples of economic performance areas include profit, earnings and income, investment in intellectual capital, workforce renewal, employee compensation and training, community development, and customer satisfaction.
>
> **Environmental performance** focuses on the impacts that an organization has on living and inert natural systems, including land, air, water, and ecosystems. Examples of environmental performance areas include energy inputs, air emissions, greenhouse gas emissions, land and ecosystem use, incidence reporting, and regulatory compliance.
>
> **Social performance** focuses on the impacts that an organization has on the social systems within which it operates, including impacts on its varied stakeholders and its own intangibles. Examples of social performance areas include health and safety, affirmative action and workplace diversity, labour rights and privileges, business ethics, and community involvement.

While a number of countries are establishing mandatory reporting requirements, sustainability reporting continues to be voluntary in Canada.

Nevertheless, a number of Canadian companies are producing these types of reports, either on a comprehensive or dedicated basis, and are expecting to realize benefits from making this information publicly accessible. Government interest, along with reporting guidelines from the Global Reporting Initiative (GRI) and new guidance for the Management Discussion and Analysis (MD&A), are supporting movement in favour of improved corporate sustainability reporting.

In an attempt to gain appreciation of the business community's reaction to these developments, the Certified General Accountants Association of Canada (CGA-Canada) commissioned a sustainability reporting survey in the fall of 2004. Intent upon sharing the results of that survey, CGA-Canada's purpose is to advance understanding of sustainability reporting, advocate for business value and transparency in reporting, and look to enjoin participation by all stakeholders.

Anthony Ariganello, FCGA, CPA (Delaware)
President and Chief Executive Officer
The Certified General Accountants Association of Canada

Introduction

Corporate sustainability reports can make available the information necessary for decision-making to a broad range of stakeholders. While aggregate information may well be beneficial to all the various stakeholders and tends to harmonize an overall business conscience, particular needs of the various stakeholders will logically vary. Below are examples of the types of non-financial information that will be of interest to dedicated stakeholder groups:

Regulators
- Environmental performance
- Environmental compliance
- Corporate governance

Investors
- Ethical performance
- Socially responsible policy
- Risk and opportunity factors

Communities
- Environmental performance
- Community development
- Economic opportunity
- Health and safety

Employees
- Workforce demographics
- Health and safety
- Compensation
- Employment security

Customers
- Customer satisfaction
- Ethical and responsible performance
- Product safety

Non-governmental Organizations
- Ethical performance
- Environmental and social performance
- Renewal

to be effective, a company's report should communicate the level of commitment to its economic, environmental and social engagements, and how the company is adapting that commitment into its core business activities

It should nevertheless be noted that the business value in sustainability reporting is not solely in the disclosure of information to external stakeholders. Internally, it serves also to assist management in establishing benchmarks and in measuring or assessing its own performance. Taken together and properly administered, a sustainability reporting regime can help a company to:

- Fortify external relationships by making available to the public relevant information on economic, environmental, and social performance
- Augment its public image and reputation by differentiating itself from the competition, thus creating a competitive advantage in attracting capital, labour, and market share
- Foster alignment, synergy, and capacities of employees
- Optimize performance through potential cost savings and more effective use of available resources

- Publicly promote its commitment to responsible governance, accountability, and transparency

Importantly, sustainability reporting can help companies to communicate their vision and principles, and the actions taken or otherwise contemplated in achieving their ideals. In 2003, Stratos Inc. reported that Canada is behind countries such as the U.K. and the U.S., but ahead of countries such as Australia and Germany when it comes to sustainability reporting. What is likely more important to recognize at this stage is that corporate sustainability reporting is a relatively global experience, having its proponents and sceptics. What is less debatable is that to be effective, a company's report should communicate the level of commitment to its economic, environmental, and social engagements, and expanding from there, how the company is adapting that commitment into its core business activities.

1 Executive Summary

In the fall of 2004, the Certified General Accountants Association of Canada, in partnership with the CGA-Canada Research Foundation, commissioned its first public survey. Seeking to obtain a representative Canadian view, the survey solicits the perspectives of approximately 3,000 companies listed on the Toronto Stock Exchange and TSX Venture Exchange. Specifically, the sustainability reporting survey examines external reporting practices, as well as the driving forces, key stakeholders, issues, and future expectations of these companies with respect to corporate sustainability reporting. The survey also solicits companies' views on existing sustainability reporting guidelines and inquires about the degree of support for mandatory sustainability reporting standards.

Section 2 of this report outlines the current corporate sustainability reporting environment and presents a number of initiatives currently under way, while Section 3 provides the results and reflections obtained from the more than 200 survey respondents. Section 4 provides insights into, and makes recommendations regarding, the future directions of sustainability reporting.

Corporate sustainability reporting is growing in Canada and throughout the world as the number of reporters and quality of reporting are both increasing. Corporations are recognizing the value of sustainability reporting as a means of improving reputation, while demonstrating to stakeholders a commitment to corporate social responsibility (CSR). The growth of sustainability reporting is likely to continue as stakeholder demands for corporate transparency and CSR are expected to intensify in response to increasing pressures on global environmental and social systems (through increasing global demand for finite resources) and enhanced societal awareness of sustainability issues (through advances in communications technologies).

The results of the survey have confirmed the growing trend towards sustainability reporting in Canada, as half (49.8%) of companies surveyed provide some coverage of their social or environmental performance. The extent of reporting is also significant, as 18.4% of all companies produce a dedicated sustainability report, while approximately 5.0% spend more than $100,000 annually to report on sustainability issues. In addition, there are signs that companies are recognizing a broader range of stakeholder interests when reporting, including governments, employees, customers, creditors, and communities. In fact, we have learned from respondents that stakeholders, rather than potential cost savings or productivity gains, are driving sustainability reporting. In particular, regulatory requirements (identified by 49.5% of respondents), stakeholder pressure (by 21.4% of respondents), and corporate image objectives (by 12.0% of respondents) most influence the decision to adopt a corporate sustainability reporting practice.

Despite the growth in sustainability reporting, many companies are still taking a traditional approach to reporting. Shareholders continue to rank as the most important stakeholders when reporting, with 99.0% of respondents ranking shareholders as one of their primary stakeholders. Further, on average, 68.8% of reporting budgets are devoted to reporting on financial performance, while only 4.0% is spent reporting on sustainability issues. In addition, future growth in sustainability reporting is expected to be moderate, as only 15.5% of respondents plan on increasing the amount spent on reporting sustainability performance, while a modest 16.0% of non-reporters plan to have some coverage of sustainability issues in the near future.

Respondents have also indicated a number of issues with sustainability reporting practices and guidelines. Added cost and potential information overload were two of the main reasons why organizations have not adopted a comprehensive sustainability reporting function. Further, both sustainability reporters and non-reporters have expressed concerns regarding the credibility and the vagueness of reporting practices and guidelines.

In the course of our analysis, we also found that larger companies, due to their greater corporate footprints and resources, are more likely to recognize a broader group of stakeholders and embrace sustainability reporting than are smaller ones. This is evident as over half (55.9%) of the companies with a market capitalization greater than $1 billion currently issue an integrated annual report or dedicated sustainability report, while 91.2% provide some coverage of their social or environmental performance. Smaller companies, on the other hand, are less likely to produce a dedicated sustainability report or provide coverage of their non-financial performance. These companies, as a result of their limited resources and greater sensitivity to regulatory pressures, are more likely to provide coverage of sustainability issues within the Management Discussion and Analysis (MD&A).

With respect to the Global Reporting Initiative (GRI) and its goal of developing Sustainability Reporting Guidelines (Guidelines), we have learned that only 24.8% of respondents are aware of the initiative. However, of those that are aware of the GRI, more than 75% support the initiative. In terms of support for full adoption of the Guidelines by accounting standards-setting bodies, 43.8% of those that are aware of the GRI support adoption. Although this figure is significant, support for adoption is much lower among larger companies and those more likely familiar with the Guidelines, suggesting that the market is not yet ready for mandatory sustainability reporting standards.

The diversity of reporting practices and views towards sustainability reporting, as well as the concerns expressed by respondents, reflect the fact that sustainability reporting is still in its infancy. In addition, unlike financial reporting, which has a clear unit of measure and a defined audience, sustainability issues tend to be more qualitative in nature and relate to a broader group of stakeholders. To accommodate the concerns with reporting and to deal with the complexity

of reporting non-financial information to a wider stakeholder audience, a number of recommendations are presented below:

- Globally-accepted sustainability reporting guidelines are necessary to maintain efficient capital markets and allow for comparable, consistent, and credible reporting.
- Reporting guidelines must be efficient to ensure reporting is not too costly or over-burdensome for stakeholders; flexible to accommodate the diverse needs of stakeholders and companies operating in various industries; and should remain voluntary, at least in the short term, to gain from the experiences of reporters and to allow companies to report to the extent market forces deem necessary.
- The GRI's Guidelines represent the best approach for achieving the goal of standardized sustainability reporting. Support for this initiative is confirmed by the more than 650 companies that currently report using these Guidelines.
- Companies must take steps to improve the credibility of their reports and avoid problems of "greenwashing" associated with sustainability reporting. Third-party verification or assurance offers the best method for improving credibility.
- Current regulatory requirements, especially with new guidance for the MD&A, serve as a positive minimum standard for disclosure of sustainability issues for reporting issuers, especially smaller companies.
- For those companies that go beyond the regulatory minimum, to improve comparability, GRI Guidelines should become a mandatory requirement for sustainability reporting.
- In addition to business, governments, and regulators, society has a role to play in driving corporate social responsibility and corporate sustainability reporting.

Given the current corporate environment and the increasing pressure placed on companies for improved accountability and corporate governance, CGA-Canada believes a review of opinions and practices with respect to corporate sustainability reporting is both timely and illustrative of Canadian sentiment. As the public appetite for increased transparency and accountability continues to gain momentum, companies will be challenged to find new ways of demonstrating and communicating that they are successfully managing all corporate risks, including those prompted by social and environmental concerns. Intuitively or forcibly motivated, companies are ascribing to the heightened level of transparency commanded by the markets as they gravitate to the renewed standard that is required to gain the requisite and interdependent confidence of investors, governments, regulators, and the public.

CSR: The Current Environment

2

I. Sustainable Development and Corporate Social Responsibility

The Sustainable Development Movement

Sustainability can be defined as "the ability of a system of any kind to endure and be healthy over the long term."[1] Although this definition implies that the concept of sustainability has many applications, its use has become popularized only recently in the context of sustainable development.

In 1987, the United Nations (UN) established the World Commission on the Environment and Development (the Brundtland Commission) to review the state of the world's environment. In the conduct of its work, the Commission discerned that the issues facing society — inclusive of living conditions, education, health, trade, population pressures, and access to resources — exhibited broader social and economic dimensions while being directly linked to the state of the environment. At the conclusion of its study, the Commission issued a report entitled *Our Common Future*, which defines sustainable development as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

healthy social and environmental systems are required to support sustained economic growth

The Brundtland Commission's effort represents the first major international effort to raise awareness of the harmful impacts that economic development can have on the world's social and natural capital. Among its findings, the Commission established a linkage between the economy, society, and the environment, and revealed to world leaders that healthy social and environmental systems are required to support sustained economic growth.

Since the Brundtland Commission initiative, sustainability issues continue to demonstrate currency as pressures on social and environmental systems have intensified due to increased globalization and population growth. Recent examples of this trend include the anti-globalization protests at World Trade summits, the increasing debate seen today over climate change, and the release of alarming reports such as the recent UN report titled *The Millennium Assessment*, which contends that almost two-thirds of the world's ecosystems are in decline.

Furthermore, society has become more informed and more inclined to engage in sustainability issues due to rapid improvements in communications technologies that now allow for almost instantaneous transfer of information on a global platform. As a result of these manifestations, the past 15-year period has witnessed the establishment of a number of global initiatives related to sustainable development, including the World Sustainable Development

1 Sustainable Nantucket, cited May 5, 2005. Available at http://indicators.sustainablenantucket.org/glossary.cfm.

Summits in 1992 and 2002, and the Millennium Development Goals in 2000. A number of the most significant initiatives, as well as the leading organizations supporting the initiatives and sustainable development, are presented in Table 1.

Table 1: Significant International Sustainable Development Initiatives and Engaged Participants

International Initiatives

Rio Earth Summit (1992)
The 1992 United Nations Conference on Environment and Development (UNCED), which took place in Rio de Janeiro, had over 20,000 participants from 178 countries representing governments, non-governmental organizations (NGOs), and the media. In addition to looking at solutions for global problems such as poverty and the growing gap between developed and developing countries, the summit also considered solutions for achieving sustainable development. At its conclusion, six conventions emerged from the summit, including the Rio Declaration, a set of 27 principles committing governments to environmental protection and responsible development; and Agenda 21, which provides a global plan of action for sustainable development and forms the basis of national sustainable development strategies.

UN Global Compact (2000)
Launched in 2000, the Global Compact brings companies together with UN agencies, labour, and the general public to support 10 principles in the areas of human rights, labour, the environment, and anti-corruption. As a voluntary initiative, the Global Compact relies on public accountability, transparency, and the enlightened self-interest of companies, labour, and the public to initiate and share substantive action in pursuing the principles upon which the Global Compact is based.

Millennium Development Goals (2000)
Signed by all UN Member States in 2000, the Millennium Development Goals commit the international community to a new vision of development that sees human development as key to sustaining social and economic progress in all countries. The eight goals establish national targets for poverty, education, gender equality, and environmental sustainability. The targets set for each goal are to be achieved by 2015.

Organisation for Economic Co-operation and Development (OECD)
Guidelines for Multinational Enterprises (2000)
The Guidelines constitute a set of voluntary recommendations to multinational enterprises in the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. They are part of a greater program that seeks to improve the fit between business and society by clarifying the rights and responsibilities of governments and enterprises in the area of international business. Adhering governments have committed to promote them among multinational enterprises operating in or from their territories.

World Summit on Sustainable Development (2002)
As a 10-year follow-up to the Rio Summit in 1992, the 2002 World Summit in Johannesburg brought various interest groups together, including heads of state and government, NGOs, businesses, and other major groups to focus the world's attention and direct action towards meeting challenges associated with sustainable development. Although there were mixed reviews on the success of the summit, it did produce two documents: the *Johannesburg Declaration on Sustainable Development,* which expresses commitments and direction for implementing sustainable development, and the *Johannesburg Plan of Implementation* that will guide government activities.

UN Norms on Human Rights Responsibilities of Companies (2003)
Interpreted from the Universal Declaration of Human Rights (1948), the UN Norms on Human Rights Responsibilities of Companies provide the first set of comprehensive international human rights norms specifically applicable to transnational corporations and other businesses.

Continued on next page

Table 1 : *Continued*

Engaged Participants
United Nations Commission on Sustainable Development (CSD) The CSD was created at the 1992 Rio Summit to monitor and report on implementation of the Rio Summit agreements (i.e. Agenda 21 and the Rio Declaration) at the national, regional, and international level. In addition to reviewing progress of these initiatives, the CSD has a mandate to elaborate on policy guidance and options for future activities related to the *Johannesburg Plan of Implementation* aimed at achieving sustainable development.
United Nations Development Program (UNDP) The UNDP is the United Nations' global development network that aims to assist in finding solutions to democratic governance, poverty reduction, crisis prevention and recovery, energy and environment, information and communications technology, and HIV/AIDS. UNDP's network helps link and coordinate global and national efforts to reach the Millennium Development Goals.
International Labour Organization (ILO) The ILO is a UN agency that "seeks the promotion of social justice and internationally recognized human and labour rights."[2] The ILO formulates international labour standards in the form of recommendations and conventions, setting minimum standards on basic labour rights such as the right to organize, collective bargaining, freedom of association, abolition of forced labour, and equality of opportunity and treatment.
United Nations Environment Programme (UNEP) The UNEP works with other UN entities, international organizations, national governments, non-governmental organizations, the private sector, and the public to "promote the wise use and sustainable development of the global environment."[3]

These initiatives and their advocates demonstrate that there is significant international interest in promoting sustainable development and in ensuring that social responsibility continues to be embodied in planning the world's future development. They also signify that, in addition to governments, NGOs, and private citizens, business will have a significant and pivotal role in encouraging sustainable development.

Business and Sustainability

Initiatives such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises indicate that business has a key role to play in achieving sustainable development. The importance of business in sustainable development is particularly true given that the private sector has been the main driving force of the world economy and global development. As markets have become increasingly global, businesses have become transnational organizations with operations in multiple countries. This expansion has bestowed onto companies greater resources and influence to the point that the revenues of some transnational corporations have surpassed those of independent nations.[4]

business will have a significant and pivotal role in encouraging sustainable development

2 International Labour Organization, cited May 9, 2005. Available at http://www.ilo.org/public/english/about/.
3 United Nations Environmental Program, cited May 9, 2005. Available at http://www.unep.org.
4 Wesley Cragg, "Ethics and Business in the New Age of Globalization: Enhancing business ethics research; building ethically responsible business cultures." Material provided at the Social Sciences and Humanities Research Council of Canada conference: *The Knowledge Project,* February 2005.

Although this growth has created new opportunities and raised the standard of living of many people throughout the world, it also confers onto the private sector a greater responsibility to support the economic, social, and environmental conditions experienced in communities and nations throughout the world. As a result, the private sector must play a significant role in achieving the goals of sustainable development. In fact, it is believed that without the active participation of the private sector, the goals of sustainable development are unlikely to come to fruition.

Corporate Social Responsibility

Corporate social responsibility (CSR) describes sustainable development at the corporate level. Although there are many definitions for CSR, Canadian Business for Social Responsibility (CBSR) defines CSR as a "company's commitment to operating in an economically, socially, and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment, and society at large."[5]

The impetus for an organization to adopt a CSR approach can essentially come from one of two sources: the company adhering to sustainability values due to the morals, ethics, or convictions of a CEO or founder; or pressures exerted by its stakeholders. Although there are a number of examples of companies that have acted responsibly due to the values of a particular leader, it is felt that stakeholders, responding to adverse economic, social, or environmental conditions, have the greatest influence on companies with respect to their corporate social responsibility.

A company's stakeholders typically include governments, regulators, creditors, suppliers, customers, employees and their bargaining units, communities, NGOs, and investors. Each group has its own unique relationship with, and expectations of, an organization and the manner in which it conducts itself. With respect to sustainability, each group has its own impact and influence on an organization's approach to corporate social responsibility, as can be inferred from Table 2.

5 Canadian Business for Social Responsibility, cited May 4, 2005. Available at http://www.cbsr.ca/about/whatis.htm.

Table 2: Key Stakeholders and Their Potential Influence on Corporate Social Responsibility

Stakeholder	Influence or Impact
Governments and Regulators	Set social or environmental laws or require disclosures on environmental or social policies and/or practices based on pressures of society. Also develop voluntary initiatives or guidelines that encourage companies to adopt sustainable practices.
Suppliers	A relatively large or important supplier may require customers to have similar corporate social responsibility values, practices, and policies. These demands could limit a company's ability to acquire desirable services and goods.
Creditors	Concern over potential environment and social risks may impact the serviceability of loans and may hamper a company's ability to obtain favourable credit.
Customers	Consumers (e.g. ethical or "green" consumers) may only purchase products or services that are environmentally or socially friendly and/or are from an organization with environmentally or socially responsible policies and practices.
Employees	Some employees will only work for a company that shares similar values with respect to social and environmental responsibility. This may make it difficult for companies to attract and retain talent.
Communities	Are impacted by negative corporate performance in terms of environmental damage (i.e. pollution) or poor social responsibility (e.g. poor working conditions). Community groups may vocalize issues with the media, damaging reputation and viability.
NGOs	As corporate watchdogs, NGOs will publicize negative social or environmental performance and will lobby governments or regulators for laws or regulations related to social or environmental responsibility.
Investors and Shareholders	Concerned with the impact poor social or environmental policies, practices, or performance may have on any or all of the other stakeholder groups and the value of their investments.

Companies have responded to the demands of these stakeholders by developing CSR policies and management systems. As previously revealed, the extent to which a CSR methodology becomes entrenched in the corporate culture depends, in large part, on the strength of stakeholder pressures and the proclivity of the organization to respond.

In the interest of supporting companies in their development and implementation of CSR policy and to assist stakeholders/society with the pursuit of responsible corporate behaviour, a number of CSR initiatives have evolved throughout the world.

CSR Initiatives

An entire international CSR industry now exists to encourage companies to help meet the needs of society while simultaneously optimizing returns for their owners. These initiatives range from socially responsible investment (SRI) rating agencies, research organizations, mutual funds, and associations, to sustainability indices (Dow Jones Sustainability Index, FTSE4Good), standards (ISO 14000, Social Accountability 8000, AA1000), and principles (Sullivan Principles, CERES Principles), as well as corporate social responsibility consultancies, think tanks, networks, and research firms (Business for Social Responsibility, SustainAbility, World Business Council for Sustainable Development).

> in order to benefit from responsible policies and practices, it is not enough to just act responsibly — companies must effectively communicate their economic, social, and environmental performance to their stakeholders

The proliferation of initiatives and organizations involved in CSR reporting is impressive and escalating. This trend is expected to continue as mainstream players continue to migrate to the CSR philosophy. In keeping with this movement, the International Organization for Standardization (ISO) has recently resolved to develop ISO Corporate Responsibility Management System Standards.

As businesses adopt the tools now available to develop management systems that address social and environmental issues and the interests of their stakeholders, they will move beyond environmental adherence and philanthropy towards a broader organizational-wide adoption of CSR principles that ensure their performance and outcomes reflect the values of society. However, in order for an organization to benefit from organizational-wide CSR philosophy, it is not enough for a company to just have CSR policies or practices. In this era of corporate governance and accountability, heightened by the recently-reported corporate scandals and irregularities, it is increasingly important that companies be transparent to preserve the trust of stakeholders and society.

Towards this end, organizations must effectively communicate their economic, social, and environmental performance and develop a practice of corporate sustainability reporting.

II. Corporate Sustainability Reporting

What is Corporate Sustainability Reporting?

Corporate sustainability reporting is a method of communicating to all stakeholders an organization's contribution to sustainable development. It is the process by which a company reports its economic, social, and environmental practices, policies, and performance.

Although there is debate as to the term that best describes an organization's reporting on sustainability issues (other terminology includes triple-bottom-line reporting, corporate responsibility reporting, environmental or social reporting, non-financial reporting, and extra-financial reporting), it is contended that corporate sustainability reporting is the best definition, given its consistency

with the original vision of sustainable development. Furthermore, as companies continue to embrace CSR and realize the integrated nature of their economic, social, and environmental performance, corporate sustainability reporting will serve well in communicating the private sector's contribution to society, sustainable development, and renewal.

The Evolution of Corporate Sustainability Reporting

The current corporate sustainability reporting movement first started in the U.S. in the late 1980s, with external reports seeking primarily to address environmental issues. This was consistent with heightened public awareness of such environmental concerns as acid rain, ozone layer depletion, and the use and release of PCBs and other environmental contaminants. The "right to know" legislation, which increased the volume of emissions data available to the U.S. public, is considered to be the first major initiative having compelled organizations to report on their environmental impacts.[6]

The first true CSR report is regarded as having been issued in 1989 by Ben & Jerry's ice cream.[7] This report, which accentuated an augmented social nature, reflected a growing public interest in social issues in a time of intensified prevalence and consciousness of poor working conditions and reliance on child labour in the overseas manufacturing facilities of some multinationals. Through the 1990s, corporate sustainability reporting gathered momentum with the Association of Chartered Certified Accountants (ACCA)'s launch of the first environmental reporting awards in 1990; the release of Agenda 21, which encouraged companies to report annually, in 1992; the creation of the first international surveys to evaluate and recognize sustainability reports in 1993; and the development of specific environmental reporting requirements in Denmark, Norway, and the Netherlands starting in 1996.[8]

During this period, a number of initiatives were launched to provide guidance to organizations in preparing sustainability reports. Of these initiatives, the most comprehensive recognized and referenced framework currently in use today is provided by the Global Reporting Initiative (GRI). The GRI, started in 1997, is now in the process of developing its third iteration of its Sustainability Reporting Guidelines and counts over 650 organizations from around the world that apply its guidelines in the publication of sustainability reports.[9] A major goal of the GRI is to improve the comparability, verifiability, and consistency of the growing numbers of social and environmental reports produced today through the development of a generally accepted sustainability reporting framework. For details on the Global Reporting Initiative and its Sustainability Reporting Guidelines, Appendix 2 of this paper may be consulted.

a major goal of the GRI is to improve the comparability, verifiability, and consistency of social and environment reports

6 William Baue, "A Brief History of Sustainability Reporting." SocialFunds.com, July 2004.
7 Steve Brearton, Rob Gross, and Kevin Ranney, "2nd Annual Corporate Social Responsibility Ranking." *Report on Business*, (March 2005), p. 40.
8 Stratos Inc., *Stepping Forward: Corporate Sustainability Reporting in Canada* (Ottawa: Stratos Inc., 2001), p. 3.
9 According to the Global Reporting Initiative, as of May 4, 2005, 659 organizations have published reports that adopt part or all of its Guidelines. Available at http://www.globalreporting.org/about/faq2.asp#Q1.

As the practice of corporate sustainability reporting has advanced, so too has the number of reporters, the quality of reporting, and the form of reporting. The number of worldwide sustainability reporters has grown from fewer than 100 in 1993 to over 1,500 documented reports produced annually in 2003. Of these, nearly 40% include some form of external assurance, as compared to only 17% in 1993. Over this same time, reporting methods have also evolved from a strictly hard-copy format to the increased use of Web-based reporting.[10]

Despite these advancements, sustainability reporting is still in its infancy. Companies are still familiarizing themselves with reporting guidelines and are developing the know-how and internal management information systems to measure and report on non-financial performance. These organizations are also wrestling with issues of user definition and report content, size, frequency, medium, as well as the cost/benefit considerations of reporting on sustainability issues. Users of sustainability reports are also still becoming familiar with sustainability reports and are dealing with questions of credibility, comparability, and consistency of reports. As guidelines, practices, and stakeholder demands continue to emerge, the quality and usefulness of sustainability reports are also expected to evolve.

Regional Differences

While sustainability reporting has increased throughout the world, growth has not occurred at the same pace or to the same extent in all regions. Europe is considered the most active reporting region, producing over half of the world's reports (54%) between 2001 and 2003. European reports are also considered to have the broadest coverage of non-financial issues and the highest proportion of reports placing reliance on external assurance. In regions outside of Europe, the lead reporting nations in their respective regions include the U.S. and Canada (Americas – 19%), Japan and Australia (Asia and Australasia – 25%), and South Africa (Africa and Middle East – 2%).[11]

These differences reflect the extent to which each region's citizens, representing various stakeholder groups, have placed demands on government, industry associations, regulators, and investment managers to require greater corporate social responsibility. Table 3 outlines some of the major initiatives that have led to both the regional differences and the increased volume of sustainability reporting seen in the world today.

10 The Association of the Chartered Certified Accountants, *Towards transparency: progress on global sustainability reporting 2004* (London: Certified Accountants Educational Trust, 2004).
11 See note 10.

Table 3: Selected International Initiatives Driving Corporate Sustainability Reporting

Country and Regional-specific Initiatives

- The **new economic regulations** made France the first country to require publicly-traded companies to publish information on their financial, social, and environmental performance. Social reporting requirements include information on employment equity and diversity, community impacts, and adherence to international conventions on labour standards. Environmental reporting includes requirements for reporting on energy, water, and raw materials consumption, as well as air, water, and ground emissions release.
- In the U.K., the new **Operating and Financial Review** (OFR) guidelines call for reporting of environmental and social issues by U.K.-quoted companies, beginning April 1, 2005.
- The U.K., Belgium, Germany, Sweden, and France all have requirements for **pension plans** to disclose how they take into account social, environmental, and ethical factors into their investment decisions.
- **Mandatory environmental reporting** exists for organizations with significant environmental impacts in Denmark, Netherlands, Norway, and Hong Kong.
- In 2000, the U.K. government appointed a **Minister of Corporate Social Responsibility** to provide a strategic focus and leadership on CSR issues across departments of the government.
- In the U.K., the **Association of British Insurers** has issued guidelines for companies to disclose how social and environmental risks are being managed.
- In 2001, the **European Commission Green Paper** put forward a European framework for corporate social responsibility.
- Australia's **Financial Services Reform Act** compels providers of investment products to disclose "the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention, or realisation of the investment."[12]
- The **King Committee Report on Corporate Governance** has recommended that all companies listed on Johannesburg Stock Exchange (JSE) incorporate sustainability reporting.

Other Initiatives

- **Sustainability indices,** such as the Johannesburg Stock Exchange JSE SRI Index, the Dow Jones Sustainability Index (DJSI), and the FTSE4Good Index are increasingly used to recognize companies that are socially and environmentally responsible.
- **Credit-rating agencies** are factoring CSR into their assessment of a company's credit-worthiness. For example, Standard and Poor's, under its Corporate Governance Analytical Framework, states that a "strong analytical profile consists of ... [the] maintenance of good public reporting on key areas of employee, community, and environmental activities that address concerns of non-financial stakeholders and maintains an active policy of engagement with diverse investor and stakeholder interests."[13]
- In 1998, the **Greenhouse Gas Protocol Initiative** was established to develop internationally-accepted accounting and reporting standards for greenhouse gas emissions from companies.
- The **Carbon Disclosure Project**: In February 2005, a letter signed by 143 institutional investors with assets of $20 trillion was sent to the FT500 largest companies in the world, asking them how they are addressing climate change. This is the third version of the letter, with the first having been signed by 35 institutional investors representing $4.5 trillion in assets.
- The **Equator Principles** have been adopted by 30 of the largest international banks (as of May 10, 2005).[14] The Principles represent an industry approach used by financial institutions in determining, assessing, and managing environmental and social risk in project financing. Banks must apply these principles to all project financing with a capital cost of $50 million or more.

12 William Baue, "Australia To Require Investment Firms to Disclose How They Take SRI into Account." SRI-advisor.com, January 2003.
13 The Conference Board of Canada, *The National Corporate Social Responsibility Report: Managing Risks, Leveraging Opportunities* (Canada: The Conference Board of Canada, 2004), p. 21.
14 The Equator Principles, cited May 10, 2005. Available at http://www.equator-principles.com.

III. Corporate Sustainability Reporting in Canada

Trends in corporate sustainability reporting are similar in Canada as they are in the rest of the world. The number of sustainability reports is increasing and the quality of these reports is improving, both driven by the same stakeholder pressures seen in other regions. This section provides an overview of the current corporate sustainability reporting environment in Canada, including a description of the major governmental, regulatory, and organizational initiatives that are helping drive corporate sustainability reporting in Canada.

The Canadian Reporting Environment

Similar to the U.S., the first Canadian reports appeared in the late 1980s and sought to address environmental concerns. In 1993, the first survey on environmental reporting in Canada was conducted and found that less than 1% of large Canadian corporation were committed to environmental reporting.[15]

the number of sustainability reports is increasing and the quality of these reports is improving

Over the past decade, the corporate sustainability reporting picture has changed dramatically. This is confirmed by a report released by Stratos Inc. in 2003, which revealed that 60% of the companies included in the Toronto Stock Exchange Composite Index (220 companies in total) reported some information on their sustainability performance, while 22% were producing either a sustainability or integrated annual report in 2001 or 2002. In addition, the Stratos report found that the quality of reports was improving, based on experience and experimentation, and that the leading reporters in Canada compared with the best in the world.[16]

The rise in sustainability reporting in Canada can be attributed to a number of legislative, regulatory, and organizational initiatives. The following summary discusses some of the major initiatives found in each of these sectors.

Federal Government Initiatives

In 1995, to implement its sustainable development strategy based on Agenda 21 of the Rio Summit, the government of Canada amended the *Auditor General Act.* By way of this amendment, federal departments and selected agencies are required to prepare Sustainable Development Strategies at least every three years. These strategies, which outline a department's objectives and action plan for integrating sustainable development into its policies, programs, and operations, are monitored by the Commissioner of the Environment and Sustainable Development. The Commissioner then reports annually to Parliament on the extent to which departments and agencies are meeting the objectives set out in their Sustainable Development Strategies. The federal government also reports to the United Nations Commission on Sustainable Development on its progress in achieving the commitments set out in Agenda 21.[17]

15 See note 8.
16 Stratos Inc., *Building Confidence: Corporate Sustainability Reporting in Canada* (Ottawa: Stratos Inc., 2003).
17 Government of Canada, "Sdinfo," cited May 5, 2005. Available at http://www.sdinfo.gc.ca/federal_sd_resources/index_e.cfm.

In addition to implementing a sustainable development strategy based on Agenda 21, Canada is a signatory to a number of the international initiatives discussed above, including the "United Nations, International Labour Organization and Organization for Economic Cooperation and Development instruments on human rights; on environmental, labour, and consumer protection; and on anti-corruption," and has also agreed with the *Johannesburg Plan of Implementation* to "promote corporate social responsibility and accountability, and the exchange of best practices in the context of sustainable development."[18]

In 1994, the federal government established the National Round Table on the Environment and the Economy (NRTEE). This independent advisory body, appointed by the Prime Minister, was created to promote sustainable development and to conduct analyses of pertinent issues and recommend changes to public policy. An example of an NRTEE initiative includes the development of Environment and Sustainable Development Indicators (ESDI) aimed to augment traditional economic indicators such as Gross Domestic Product (GDP) and the Consumer Price Index (CPI), with indicators for natural and human capital.

governmental, regulatory, and organizational initiatives are helping drive corporate sustainability reporting in Canada

These initiatives are examples of a broader commitment by the government of Canada towards sustainable development. In order to compel and encourage business to participate in this commitment, the federal government has enacted legislation and developed a number of voluntary initiatives related to corporate social responsibility and corporate sustainability reporting as depicted in Table 4.

18 From the report *Corporate Responsibility and Accountability in the Global Marketplace: A Canadian Vision and Next-steps National Agenda*. This report was based on a dialogue convened by Dr. Wesley Cragg of York University. The dialogue, entitled "A High-level Canadian Dialogue on Corporate, Government and Civil Society Roles in Achieving International Standards of Performance by Canadian Corporations," involved national and international leaders from business, government, NGO, and academic sectors, and took place from June 19 to 22, 2003.

Table 4: Recent Government of Canada Initiatives Related to CSR and Corporate Sustainability Reporting

Legislative Initiatives

Although there are no mandatory requirements for Canadian companies to publish sustainability reports, recent legislative actions have encouraged companies to consider and report on their non-financial performance. Some of these initiatives include:

***Canadian Environmental Protection Act* (September 1999)**
This Act requires companies to supply information on certain pollutant emissions to the National Pollutant Release Inventory (NPRI).

***Canada Business Corporations Act* (June 2001)**
The Act was revised to make it easier for shareholders to file shareholder proposals and eliminated a clause that permitted corporate management to reject resolutions "primarily for the purpose of promoting general economic, political, racial, religious, social, or similar causes."[19] With this revision, it is now easier for investors to bring forward proposals on social and environmental issues.

***Bank Act* (June 2001)**
Financial institutions with equity in excess of $1 billion must publish annual Public Accountability Statements describing their contribution to the Canadian economy and society. This includes the reporting of an organization's community development activities and its contribution to the social, cultural, economic, or environmental enrichment of a community.

Workplace Safety (November 2003)
The *Westray Bill* amended the Criminal Code of Canada and clarified the existence of a legal duty to those who are responsible for directing the work of others to take reasonable steps to prevent bodily harm to any person arising from such work.

Voluntary Initiatives

The following is a selection of federal government voluntary initiatives that are aimed to encourage corporate social responsibility practices, performance, and reporting.

International Code of Ethics for Canadian Business (1997)
The Code, created by a coalition of Canadian companies and endorsed by the Department of Foreign Affairs and International Trade (DFAIT), promotes human rights with respect to worker health and safety, anti-child labour practices, community involvement in corporate activities, protection of the environment, and anti-bribery and corruption practices.

Sustainability Reporting Toolkit
Developed by Stratos Inc. in consultation with Environment Canada, DFAIT, and Industry Canada, the toolkit provides Canadian businesses with practical guidance on how to improve their sustainability reporting. Its goal is to increase the number of Canadian reporters that disclose sustainability information, while encouraging compatibility with international reporting efforts.

Voluntary Challenge Registry
This registry allows companies to make public their performance with respect to greenhouse gas emissions. This program was transitioned to the Canadian Standards Association (CSA) effective January 1, 2005, and is now a part of the CSA Climate Change registries.

Accelerated Reduction/Elimination of Toxics Program
Developed by industry representatives and environmental NGOs and supported by Environment Canada, this program challenges industry to voluntarily reduce its release of toxic substances. The program's long-term goals include virtual elimination of the release of 30 persistent, bioaccumulative, and toxic substances, and the reduction of another 87 toxic substances to levels insufficient to cause harm.

Industry Canada
As part of its Sustainable Development Strategy, and in addition to providing support to other government initiatives listed above, Industry Canada has undertaken a number of other sustainability initiatives, including the development of a CSR Implementation Guide for Canadian Business; participation in the development of ISO standards on corporate social responsibility; and the development of an online Voluntary Codes Research Forum to encourage discussion about human rights, consumer business ethics, and environmental issues.

19 Industry Canada news release, "Federal Government Re-Introduces Amendments to Corporate Statutes," cited May 9, 2005. February 6, 2001. Available at http://www.ic.gc.ca/cmb/welcomeic.nsf/englisharchives.

Securities Regulators

Corporations in Canada that have issued and outstanding securities held by the public (i.e. publicly-traded companies or reporting issuers) are subject to the corporate governance and continuous disclosure requirements of securities regulators. As these requirements impact the governance structures of reporting issuers as well as the nature of the information that they must disclose to the public, they have the potential to influence companies' policies and practices related to social and environmental issues. In fact, a number of recently proposed policies and instruments tabled by Canadian securities regulators have implications for the social and environmental practices and public disclosures of publicly-traded companies in Canada, as outlined in Table 5.

Table 5: Recent Regulatory Policies and Instruments Related to Governance and Corporate Disclosure in Canada

Securities Regulators

Investment Fund Continuous Disclosure Obligations (Proposed National Instrument 81-106)
This regulation, proposed in March 2005, sets out the obligations of investment funds with respect to various disclosures, including financial statements, management reports of fund performance, proxy voting, and annual information forms. The most important change relates to proxy voting, as mutual funds will have to disclose their proxy voting policies as well as their records on proxy voting in companies in their portfolios. This change will allow investors to obtain information on how their holdings are being voted on with respect to important corporate issues, including social or environmental issues.

Effective Corporate Governance (Proposed Multilateral Policy 58-201)
Current corporate governance guidelines were adopted in 1995 by the Toronto Stock Exchange (TSX). They are based on the 14 recommendations of best practice guidelines contained in the 1994 Dey Report and require listed companies to disclose annually their approach to corporate governance. Multilateral Policy 58-201, proposed in early 2004, intends on updating corporate governance guidelines to bring them in line with the current business environment and public expectations of reporting issuers. The policy provides guidelines for all reporting issuers, except investment funds, and makes recommendations related to board independence, development of board mandates and a Code of Business Conduct and Ethics, and the independence of nominations and compensations committees. This policy is to work in tandem with Proposed National Instrument 58-101 on required Disclosure of Corporate Governance Practices.

Continuous Disclosure Obligations (National Instrument 51-102)
Released in March 2004, this instrument sets new filing deadlines and requirements with respect to interim and annual filings (i.e. financial statements, Management Discussion and Analysis (MD&A) and the Annual Information Form (AIF)). Important changes include required board approval for both annual and interim financial statements and MD&A, and new disclosure requirements for the AIF with respect to social and environmental policies and contracts.

Certification of Disclosure in Issuers' Annual and Interim Filings (Proposed Multilateral Instrument 52-109)
This regulation is consistent with a similar requirement in the U.S. that will, require Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certification of a reporting issuer's annual and interim financial statements and MD&A, as well as the annual information form.

Reporting issuers in Canada are required to file annual and interim financial statements and Management Discussion and Analysis (MD&A). In addition, companies with securities listed on the TSX, a senior U.S. marketplace, or a marketplace outside of Canada and the U.S., must also file an Annual Information Form (AIF). With the recent changes to continuous disclosure requirements outlined in the table above and new guidance for the MD&A from the Canadian Institute of Chartered Accountants (CICA), we see the following implications for the disclosure of social and environmental issues by reporting issuers in Canada:

Financial Statements

Financial statements, prepared under Generally Accepted Accounting Principles (GAAP), continue to require companies to reflect in the statements the effects of environmental exposures that materially impair the value of assets or create material obligations or contingent liabilities. With respect to social issues, political and charitable contributions and the costs and funding of pension plans continue to require recognition and disclosure in the financial statements. Other transactions that give rise to material assets or liabilities, such as transactions related to greenhouse gas emissions, must also be accounted for in a company's financial statements.

Management Discussion and Analysis

The MD&A is a document prepared by management to complement the financial statements. It provides an overview of factors contributing to financial performance of the current period, as well as an outlook of prospects for future performance. In filing the MD&A, companies are expected to discuss "commitments, events, risks, or uncertainties" that could materially affect future performance. CICA Guidance for the MD&A implies that social and environmental issues are examples of risks that could materially affect a company's future performance. In addition, recently proposed guidance by CICA with respect to environmental issues goes further, suggesting to MD&A preparers that "climate change and other environmental issues should be disclosed and discussed if they either have, or are reasonably likely to have, a current or future effect, direct or indirect, on the entity's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources that is material to investors. In considering what might be material to investors, management should consider potential impacts of environmental issues on intangibles such as corporate reputation, brand loyalty and key stakeholder relationships."[20]

Annual Information Form

The AIF is required for reporting issuers listed on major exchanges such as the TSX. It provides material information about a company at a particular

20 From March 2005 CICA Interpretative Release, "Disclosing the Financial Impact of Climate Change and Other Environmental Issues." Available at http://www.cica.ca/index.cfm/ci_id/622/la_id/1.htm.

point in time in the context of its historical and possible future development. In filing an AIF, companies are required to describe the "financial and operational effects of environmental protection requirements on capital expenditures, earnings and competitive position," the social or environmental policies that are fundamental to company operations, and risk factors (i.e. environmental and health risks) that would have a potential impact on "an investor's decision to purchase securities" in the company.[21]

The importance of these disclosures is further enhanced by recent requirements (Table 5) for board approval of financial statements and the MD&A. Moreover, proposed regulations for CEO and CFO certification of financial statements, the MD&A, and AIF will further underscore the reach and importance of these disclosures. In the context of the new policies and requirements for greater transparency and corporate accountability, reporting issuers and their boards and senior management will be duty-bound to pay greater attention to the social and environmental issues and risks facing their companies.

reporting issuers, their boards, and senior management will be duty-bound to pay greater attention to the social and environmental issues and risks

Public Policy Initiatives

Organizations such as consumer and community groups and NGOs, as well as associations, institutes, and research companies encourage, support, lobby, and contribute to the growth of socially responsible companies and corporate sustainability reporting in Canada. Government and regulatory developments are, to a large extent, motivated by pressure from these groups for corporate accountability and transparency. Table 6 outlines some of the key organizational initiatives driving corporate social responsibility and corporate sustainability reporting.

Table 6: Selected Organizations Contributing to Corporate Social Responsibility and Corporate Sustainability Reporting in Canada

Organizational Initiatives
Industry Associations • A number of industry associations have developed approaches for their industry sector members to advance CSR and sustainable development. These initiatives are voluntary in nature and generally focus on one area of CSR, such as environmental protection. Program examples include the Canadian Association of Petroleum Producers' Environmental, Health and Safety Stewardship Program, the Sustainable Mining Initiative of the Mining Association of Canada, and the Responsible Care Program of the Canadian Chemical Producers' Association. **Socially Responsible Investment** • **Social Investment Organization (SIO)** is a national network committed to integrating social responsibility

Continued on next page

21 See note 20.

Table 6: *Continued*

and environmental sustainability with investment through screening, shareholder advocacy, and community investment activities. SIO has over 400 members that serve over half a million Canadian depositors.

- **Michael Jantzi Research Associates (MJRA)** is one of a number of companies that provide SRI research and support services. In 2000, MJRA launched the Jantzi Social Index, a market capitalization-weighted common stock index consisting of 60 Canadian companies that satisfy a number of broadly-based social and environmental screens. The company also contributes to the *Report on Business*' "Corporate Social Responsibility Rankings," which were released for the second time in March 2005.

- The **Ethical Funds Company** is one of many companies in Canada that provide socially responsible mutual funds. The Ethical Growth Fund, launched in 1986, was the first socially responsible mutual fund in Canada.

- The **Canadian Coalition for Good Governance**, established in 2002, is a group of large institutional investors that manage over $500 billion in assets. The purpose of the group is to achieve improvements in the corporate governance of companies in which they invest.

Research and Advocacy

- The **International Institute for Sustainable Development (IISD)**, founded in 1990, is a research institute aimed at promoting change towards sustainable development. A recent Globescan survey of international sustainability experts voted the IISD the most effective sustainable development research group in the world.[22]

- The **Canadian Business for Social Responsibility (CBSR)**, founded in 1995, is a non-profit, business-led, national membership organization of innovative Canadian companies working to improve their social, environmental, and financial performance.

- The **Conference Board of Canada** conducts research and analysis on governance and CSR issues. The Conference Board hosts an annual Corporate Social Responsibility Conference and has published a report on CSR titled *The National Corporate Social Responsibility Report — Managing Risks, Leveraging Opportunities.*

- ***Corporate Knights*** is a magazine focusing on corporate social responsibility. It provides CSR resources such as the list of "Canada's Best 50 Corporate Citizens" and a list of the best Canadian business schools with respect to how well each school's curriculum addresses social and environmental issues.

Corporate Sustainability Reporting

- **Stratos Inc.,** in collaboration with **Alan Willis & Associates**, produced a report entitled *Building Confidence* as part of its ongoing program to benchmark sustainability reporting in Canada. *Building Confidence*, along with the first benchmarking publication, *Stepping Forward*, was produced with the goal of improving the extent and quality of corporate sustainability reporting in Canada.

Accounting Organizations

- The **Certified General Accountants Association of Canada**, in addition to releasing this report, helped fund the Public Policy Forum report Institutional Investor Activism and Market Confidence. A key finding of the report is that institutional investor activism in Canada is growing and is an "important mechanism to monitor corporate behaviour and to raise corporate governance and accountability standards."[23]

- The **Canadian Institute of Chartered Accountants** issued MD&A Guidance in 2002 (revised in 2004) that identifies environmental and social responsibility as key performance drivers that should be disclosed in a reporting issuer's MD&A. CICA recently distributed an interpretive release titled "Disclosing the Financial Impact of Climate Change and Other Environmental Issues" and is the host of the annual CICA Corporate Reporting Awards, which includes a category for Sustainable Development Reporting.

- The **Association of Chartered Certified Accountants**, an accountancy body with 320,000 members and students in 160 countries including Canada, hosts the North American Awards for Sustainability Reporting, in collaboration with the **Coalition for Environmentally Responsible Economies** (CERES).

How these organizational initiatives, along with the other government, regulatory, and stakeholder initiatives discussed above are impacting Canadian corporations, is the focus of the next section.

22 Helen Fallding, "City-based institute deemed world's best." *Winnipeg Free Press*, February 10, 2005, p. A4.
23 Public Policy Forum, *Institutional Investor Activism and Market Confidence: A Greater Role for Public Policy?* (Ottawa: Public Policy Forum, March 2005).

CGA-Canada Survey of Corporate Sustainability Reporting

3

I. The Survey

Purpose

Over the past 15 years, we have witnessed the emergence of a number of corporate social responsibility (CSR) participants and initiatives. Inherent to this growth in CSR interest, we have also seen the development of a number of codes, principles, guidelines, and standards related to corporate sustainability reporting. To ensure that this movement aligns with the goals of sustainable development while maintaining the efficiency of capital markets, it will be increasingly important to understand how organizations are responding to these initiatives. With this understanding, companies, policy-makers, regulators, accounting organizations, and other stakeholders interested in corporate sustainability will have the information required to make informed decisions about the future directions of corporate sustainability reporting.

Intent on advancing this understanding, the Certified General Accountants Association of Canada, in partnership with the CGA-Canada Research Foundation, commissioned its first public survey in October 2004. Seeking to obtain a representative Canadian view, the survey solicits the perspectives of companies listed on the Toronto Stock Exchange and the TSX Venture Exchange. Specifically, the corporate sustainability reporting survey (as replicated in Appendix 3) examines current annual and sustainability reporting practices, as well as the driving forces, key stakeholders, issues, and future expectations of these companies with respect to corporate sustainability reporting. The survey also solicits companies' views on existing sustainability reporting guidelines and inquires about the degree of support for future mandatory sustainability reporting standards.

companies will be challenged to find new ways of demonstrating and communicating that they are successfully managing all corporate risks

CGA-Canada believes that the launch of this survey is both timely and illustrative of Canadian sentiment. As the public appetite for increased transparency and accountability continues to gain momentum, companies will be challenged to find new ways of demonstrating and communicating that they are successfully managing all corporate risks, including social and environmental risks. In this vein, some organizations have begun to include social and environmental performance indicators in existing annual reports, or alternatively, in stand-alone or complementary sustainability report issuances. Intuitively or compulsorily motivated, companies are ascribing to the heightened level of transparency commanded by the markets as they gravitate to the renewed standard that is required to gain the requisite confidence of investors, governments, regulators, and the public.

companies are ascribing to the heightened level of transparency commanded by the markets

Approach

Much of the current impetus and literature on corporate sustainability reporting focuses on larger companies or existing sustainability reporters. In the spirit of obtaining a broader Canadian perspective on corporate sustainability reporting, CGA-Canada has elected to solicit data from across the business environment. As such, the survey was sent to all companies listed on the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V). Relying on the information provided by this heterogeneous population, findings around larger companies and current sustainability reporters can be renewed, while allowing also for an amplified understanding of the experiences of non-reporters and smaller companies. These reflections are important if we are to understand the reasons why some companies have not opted to report on sustainability issues. Intuitively, it will also assist in determining whether or not the issues faced by smaller companies are consistent with those of the larger ones and whether an alternative regime may be more suitable in some instances.

The TSX and TSX-V population was selected on the premise that it effectively represents a majority of publicly-traded companies in Canada. These exchanges also provide a defined population that has representation from all major industries and regions in Canada. And although there are a number of private companies reporting on sustainability issues, publicly-traded companies, by definition of being public, are more likely to have a greater number of interested stakeholders, making transparency and corporate reporting relatively more important. Finally, publicly-traded companies are all subject to the regulations and guidelines of securities regulators, making comparable analysis between entities more meaningful.

Methodology and Participation

The survey population includes all TSX and TSX-V companies (except those with head offices outside of Canada) listed in the TSX and TSX Venture Listed Contact Databases on September 17, 2004, as provided by TSX Datalinx Services. Relying on this list, two survey mailings were commissioned, with the first solicitation in November 2004 and the second in December 2004. Upon isolation of non-resident respondents, lapsed contact information of addressees, or other irregularities, the total population for the survey comprises 3,176 companies. Based on over 200 responses to the survey, the results are considered to be accurate within +/- 5.5 percentage points, 9 times out of 10.

The analysis of the survey results is presented as a percentage of all respondents for each topic covered. In addition, the results are further divided by market capitalization, based on the following segments:

- Micro cap – Less than $100 million
- Small cap – $100 million to $1 billion
- Large cap – Greater than $1 billion

Although there is no accepted standard for segregating companies by market capitalization boundaries, the ranges chosen here are based on current practice in Canada.[24]

Where applicable, results have been presented also for those that currently report on sustainability issues and those that do not, denoted as Sustainability Reporters and Other Reporters, respectively.[25]

It should be noted that throughout the analysis, sustainability issues generally refer to social and/or environmental issues or performance. And although sustainability reporting includes economic performance, which differs from financial performance, sustainability issues herein will refer primarily to social and/or environmental issues. "Corporate sustainability reporting" or "sustainability reporting" are general terms used throughout the analysis to refer to the reporting on sustainability issues, while it is recognized that a sustainability report is the generic name lent by companies for reports covering economic, social and/or environmental performance. Social, environmental, or environmental, health, and safety (EHS) reports are simply stand-alone reports that cover the issues implied by their respective label.

Of all respondents participating in the survey, 52.0% are listed with the TSX Venture Exchange, and 48.0% with the Toronto Stock Exchange (as of September 2004). Table 7 reveals that a majority of the respondents fall into the micro cap categorization and that nearly two-thirds of those companies with significant coverage of sustainability issues (Sustainability Reporters by definition) are large-cap companies.

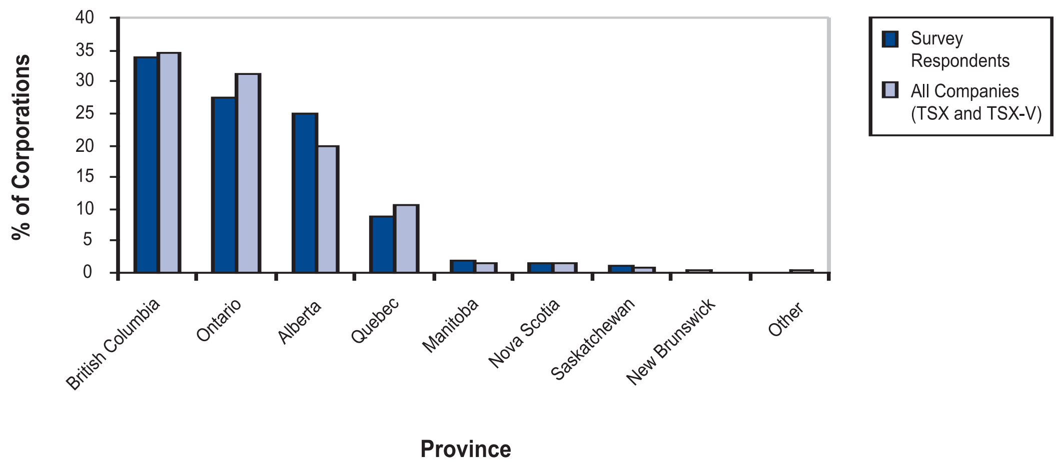
Table 7: Percentage of Respondents by Size, Percentage of Sustainability Reporters by Size

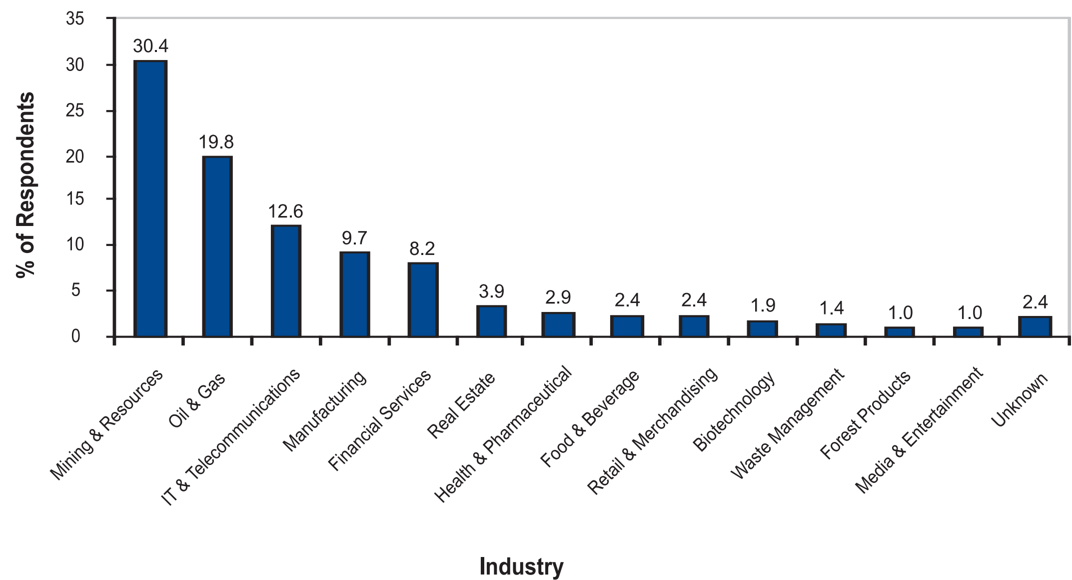
Market Capitalization	All Respondents	Sustainability Reporters
Micro Cap	65.0%	15.8%
Small Cap	18.0%	21.1%
Large Cap	17.0%	63.1%

24 The Bank of Montreal refers to large-cap companies as those that have a market capitalization greater than $1 billion, while small cap are those companies with a market capitalization of less than $1 billion (http://corporate.bmo.com/equityresearch/about/default.asp). Definitions for micro cap were observed to vary between $50 million and $250 million; therefore, a midpoint figure ($100 million) was selected for the purpose of this report.

25 The division between Sustainability Reporters and Other Reporters is based on the 18.4% of companies that were found to produce a stand-alone social, environmental, sustainability, and/or EHS report. Although organizations can provide comprehensive coverage of sustainability issues through an integrated annual report or another means, this division is the most accurate method of capturing data from those organizations that have some significant coverage of social and/or environmental issues. With this breakdown, a comparison can be made between sustainability reporters and non-reporters to determine differences in their opinions on sustainability reporting.

Figures 1 and 2 illustrate how the respondents break down by region and industry.





II. Survey Results by Topic

Annual Reporting Forms and Media

How are companies communicating with their stakeholders? What types of reports are they using to disclose their policies, risks, strategies, and performance, and what mediums are used?

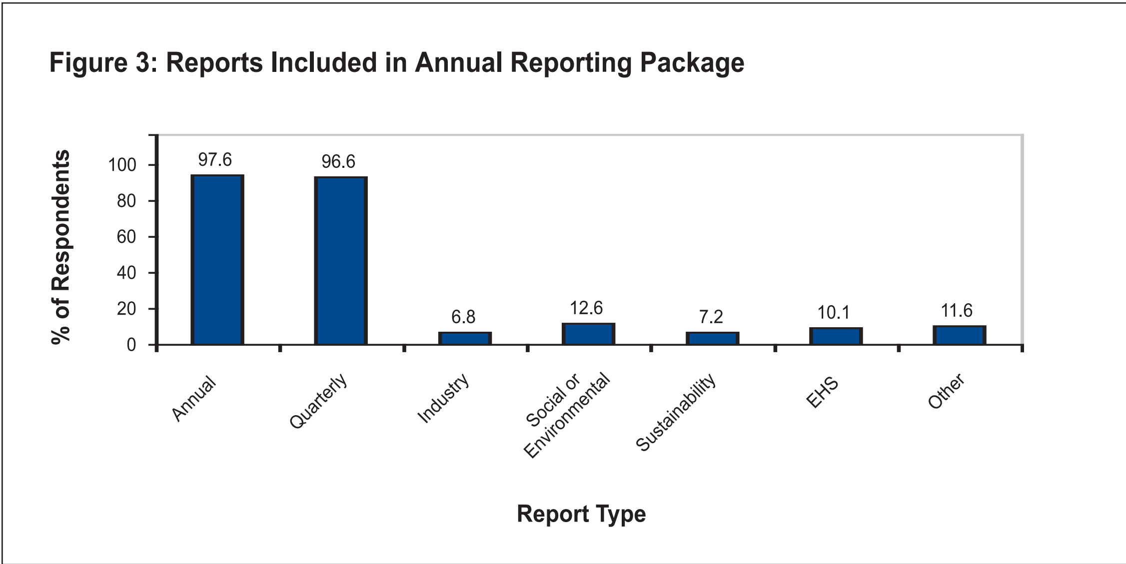
Key Findings

- 18.4% of all companies produce a stand-alone report covering social and/or environmental issues
- Larger companies are more likely to produce a stand-alone report addressing sustainability issues
- Hard copy is the most common medium for all report types; however, electronic formats, including Web-based reporting for sustainability issues, are widely used
- Almost all companies issue annual (97.6%) and quarterly (96.6%) reports

Annual Reporting Forms — All Respondents

As depicted in Figure 3, almost all companies issue annual (97.6%) and quarterly (96.6%) reports. With respect to reports covering sustainability issues, 12.6% issue a stand-alone social or environmental report, 7.2% issue a sustainability report, and 10.1% produce EHS reports. As some companies produce more than one form of report covering sustainability issues, further analysis of the results finds that 18.4% of all respondents produce at least one type of corporate sustainability report (i.e. social, environmental, sustainability, or EHS report). “Other” reports, which were produced by 11.6% of respondents, include other regulatory filings and issue-specific reports such as greenhouse gas emissions (under the Voluntary Challenge Registry) and climate change reports.

Figure 3: Reports Included in Annual Reporting Package



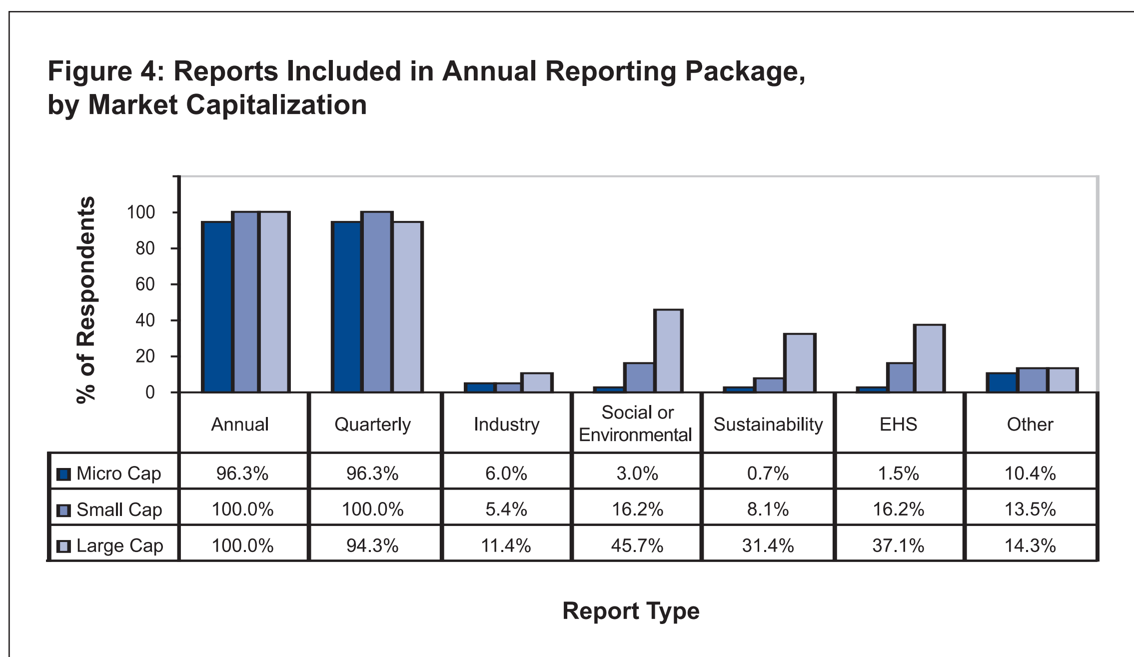
the substantial reporting difference between large and small companies is influenced by the availability of resources

Annual Reporting Forms, by Market Capitalization

Figure 4 reveals that almost all companies produce annual and quarterly reports, regardless of size. Larger companies are, however, more likely to produce a stand-alone report covering sustainability issues. For example, 45.7% of the large-cap companies produce a social/environmental report, compared to only 3.0% of micro-cap companies.

The substantial reporting difference between the large and small companies is, to a significant extent, influenced by the availability of resources required to produce stand-alone sustainability reports. Also, given their relatively larger corporate footprints (defined as the amount of resource use, both natural and labour), larger companies are considered more likely to attract attention regarding social and environmental issues.

Figure 4: Reports Included in Annual Reporting Package, by Market Capitalization



	Annual	Quarterly	Industry	Social or Environmental	Sustainability	EHS	Other
Micro Cap	96.3%	96.3%	6.0%	3.0%	0.7%	1.5%	10.4%
Small Cap	100.0%	100.0%	5.4%	16.2%	8.1%	16.2%	13.5%
Large Cap	100.0%	94.3%	11.4%	45.7%	31.4%	37.1%	14.3%

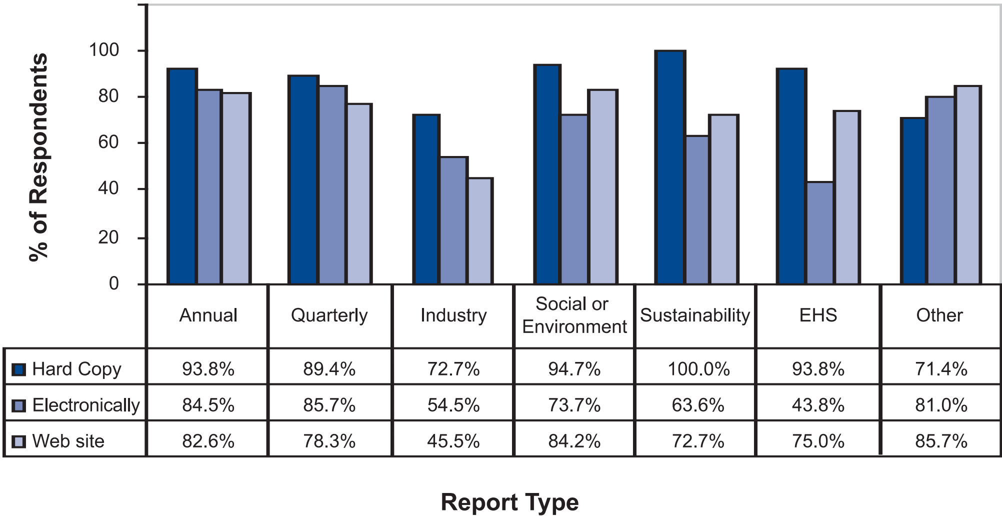
Annual Reporting Media — All Respondents

With improvements in information technology and widespread adoption of the Internet, companies have many options available to communicate to their stakeholders. Figure 5 portrays the breakdown of media used by companies to make their reports available to the public. A hard-copy or paper report is still the most commonly used format for both financial and corporate sustainability-type reports. The use of hard-copy reports is especially common for covering sustainability issues, where 100% of sustainability, 94.7% of social or environmental, and 93.8% of EHS reports are available in paper format.

Electronic (i.e. PDF or CD-ROM) and Web-based reporting has widespread use in all reporting types (Figure 5). In the case of reports covering social or environmental issues, Web-based reporting is even more prevalent than electronic reporting, as 84.2% of social or environmental reports, 72.7% of

sustainability reports, and 75.0% EHS reports are made available on companies' Web sites. The use of hard-copy and Web-based reports for sustainability issues is consistent with a growing trend witnessed today where companies are producing a summary paper-based report, with the main sustainability report provided on the Web.

Figure 5: Reporting Media Deployed in External Reporting



	Annual	Quarterly	Industry	Social or Environment	Sustainability	EHS	Other
Hard Copy	93.8%	89.4%	72.7%	94.7%	100.0%	93.8%	71.4%
Electronically	84.5%	85.7%	54.5%	73.7%	63.6%	43.8%	81.0%
Web site	82.6%	78.3%	45.5%	84.2%	72.7%	75.0%	85.7%

Reporting Coverage

How well do companies report on their financial performance, policies, strategies, business risks, and governance issues? How does this coverage compare to their coverage of sustainability issues such as social performance, environmental performance, and community interests?

Key Findings

- Based on relative rankings, sustainability issues (especially social issues) receive the poorest coverage of any topic, while financial performance receives the greatest coverage
- Although larger companies are the most likely to provide better coverage of their social and environmental performance, this coverage still ranked lowest of all areas reported

Reporting Coverage — All Companies

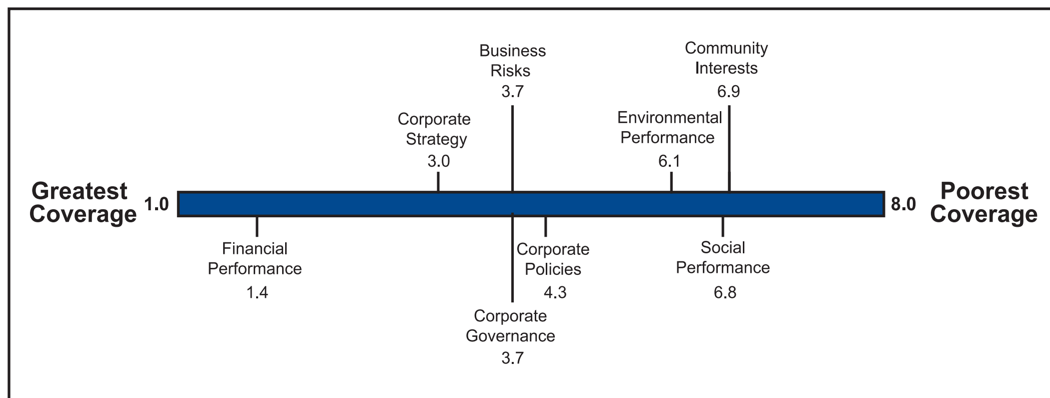
When companies were asked to rank how well their organization reports on business risks, strategy, policies, corporate governance, financial performance, social performance, environmental performance, and community interests,

the greater importance paid to environmental issues is consistent with Canada's resource-based economy

financial performance consistently received the highest ranking. In fact, 84.9% of companies surveyed ranked financial performance as the area best covered in their external reports, leading to an overall average rating of 1.4 on a scale from 1.0 to 8.0, with 1.0 representing the greatest coverage and 8.0 representing the poorest (Figure 6). This result, taken in conjunction with the relatively high self-ratings for corporate strategy, governance, and business risks, is considered to be influenced by regulatory requirements for filing of financial statements and the Management Discussion and Analysis (MD&A).

With respect to sustainability issues, environmental and social performance and community interests were ranked lowest, indicating that companies are, in aggregate, devoting less attention to the coverage of these issues. Within this grouping, environmental performance, which received an average rank of 6.1, rated more positively than both social performance (6.8) and community interests (6.9). The greater importance paid to environmental issues is consistent with Canada's resource-based economy and the view that, historically, Canada has witnessed greater legislative and public interest in these issues.

Figure 6: Average Ranking of External Reporting Coverage



Reporting Coverage, by Market Capitalization

As shown in Figure 7, there is little change in the relative rankings when broken down by company size. Sustainability issues still receive the least coverage and financial performance the greatest coverage, for all company sizes. The results do show, however, that larger companies provide relatively better coverage of sustainability issues, as large-cap companies conferred an average aggregate ranking of 5.3 to environmental performance (micro cap — 6.3), and an average aggregate ranking of 6.1 to social performance (micro cap — 7.0). This difference between large and small companies can again be attributable to the relatively greater resources and corporate footprints of larger companies.

Figure 7: Average Ranking of External Reporting Coverage, by Market Capitalization

Average Rank	Financial Performance	Corporate Strategy	Business Risks	Corporate Governance	Corporate Policies	Environmental Performance	Social Performance	Community Interests
	Topic							
Micro Cap	1.4	3.0	3.6	3.6	4.1	6.3	7.0	7.0
Small Cap	1.3	2.7	3.1	4.2	4.6	6.2	6.9	7.1
Large Cap	1.5	3.5	4.8	3.5	4.8	5.3	6.1	6.6

Reporting Coverage, by Type of Reporter

Surprisingly, as shown in Figure 8, there is no significant difference in how Sustainability Reporters and Other Reporters rank their coverage of the various elements found in external corporate reports.

As a result, the rankings of Sustainability and Other Reporters mirror the overall rankings found in Figure 6. This result highlights the notion that companies are not providing the same attention or coverage of sustainability issues as they do to financial performance, corporate strategy, policies, business risks, and corporate governance.

Figure 8: Average Ranking of External Reporting Coverage — Sustainability and Other Reporters

Average Rank	Financial Performance	Corporate Strategy	Business Risks	Corporate Governance	Corporate Policies	Environmental Performance	Social Performance	Community Interests
	Topic							
Sustainability Reporters	1.0	2.7	4.0	3.8	4.1	6.0	6.7	7.8
Other Reporters	1.4	3.1	3.7	3.7	4.3	6.2	6.8	6.9

companies are not providing the same attention or coverage of sustainability issues as they do to financial performance, corporate strategy, policies, business risks, and corporate governance

Coverage of Sustainability Issues

To what extent are companies reporting on their environmental and social performance? For companies that currently have no coverage, do they plan to cover their social and environmental performance in the near future?

Key Findings

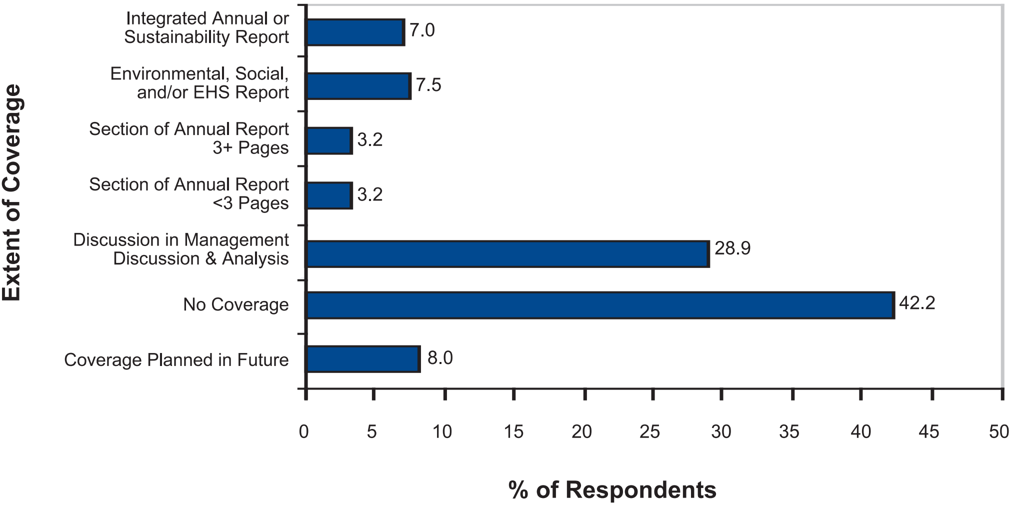
- Half (49.8%) of companies surveyed have some coverage of their social or environmental performance — this figure increases with company size (micro cap — 36.7%, small cap — 54.5%, large cap — 91.2%)
- The MD&A is by far the most common location for disclosure by smaller companies, with 88.6% of micro-cap companies that provide some coverage of their social or environmental performance doing so in the MD&A
- Larger companies are more likely to prepare an integrated annual report or stand-alone report covering sustainability issues (55.9% of large-cap companies)
- Of the companies that currently have no coverage, 16.0% plan to have coverage in the near future (33.3% of large-cap companies)

Sustainability Coverage — All Companies

Almost half (49.8%) of the companies surveyed have some social or environmental coverage, with 14.5%[26] issuing either an integrated annual report or a stand-alone sustainability, social, environmental, or EHS report (Figure 9). The most common location for disclosing performance relative to sustainability issues is in the MD&A (28.9%). Of those respondents who provide some coverage of their social or environmental performance, 58.1% report doing so in the MD&A.

Of the 50.2% of respondents that currently have no coverage of their social or environmental performance, 16.0% plan to have coverage in the near future.

26 This figure varies from the 18.4% reported earlier and used to identify Sustainability Reporters. Although one would expect the figure of 14.5% to be higher with the addition of integrated annual reports, a number of Sustainability Reporters stated that the discussion in the MD&A best describes their organization’s external coverage of environmental and social performance.



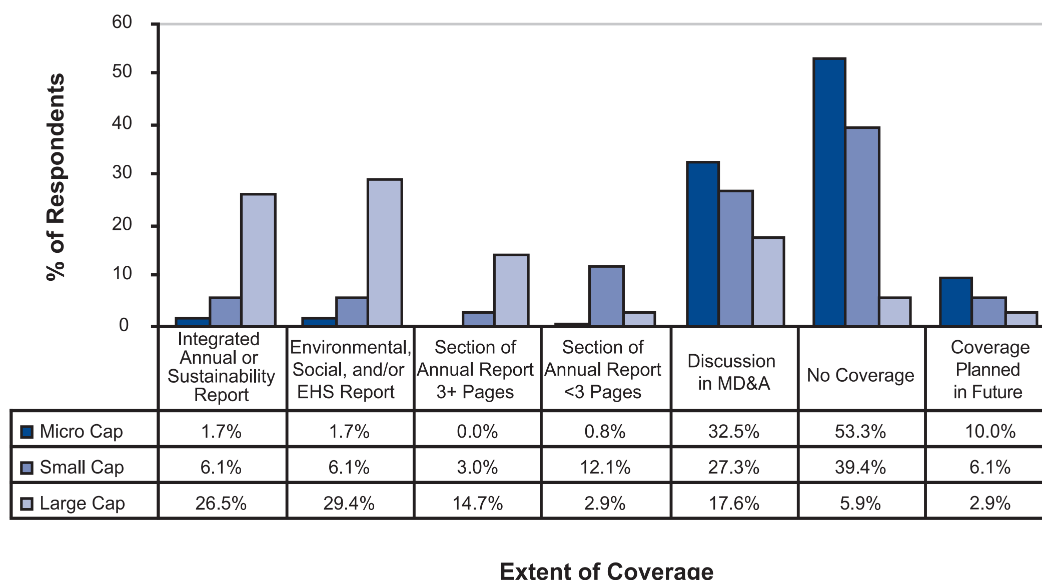
Sustainability Coverage, by Market Capitalization

A company's size has a dramatic impact on how it reports on its social and environmental performance. As illustrated in Figure 10, almost all of the large-cap companies (91.2%) report on their social and environmental performance through an annual report, the MD&A, or a stand-alone corporate sustainability report. The extent of coverage for large-cap companies is also quite significant, as 55.9% of these companies produce an integrated annual report, or a dedicated sustainability, social, environmental, or EHS report.

Smaller companies are less likely to provide coverage of their social or environmental performance (micro cap — 36.7%, small cap — 54.5%). For those that do provide some coverage, the MD&A is by far the most common location for disclosure, with 88.6% of micro-cap companies using the MD&A to disclose their social or environmental performance.

With respect to the companies that currently have no coverage of social or environmental performance, one-third (33.3%) of large-cap companies plan on having coverage in the near future, while the figure is only 15.8% for micro-cap companies.

Figure 10: Form of Disclosure for Environmental and Social Performance, by Market Capitalization



	Integrated Annual or Sustainability Report	Environmental, Social, and/or EHS Report	Section of Annual Report 3+ Pages	Section of Annual Report <3 Pages	Discussion in MD&A	No Coverage	Coverage Planned in Future
Micro Cap	1.7%	1.7%	0.0%	0.8%	32.5%	53.3%	10.0%
Small Cap	6.1%	6.1%	3.0%	12.1%	27.3%	39.4%	6.1%
Large Cap	26.5%	29.4%	14.7%	2.9%	17.6%	5.9%	2.9%

Sustainability Coverage, by Type of Reporter

A breakdown between Sustainability Reporters and Other Reporters is not considered necessary in this instance as Sustainability Reporters are essentially those companies in the first two categories (i.e. "Integrated Annual or Sustainability Report" or "Environmental, Social, and/or EHS report"), while the Other Reporters represent those in the remaining categories.

Principal Stakeholders

Which stakeholders do companies consider most important when preparing their external reports? Are companies expanding their reporting functions to consider concerns of all their stakeholders rather than just shareholders and regulators?

Key Findings

- Shareholders continue to be the most important stakeholder group (99.0% of respondents)
- There are signs that companies are recognizing a broader range of stakeholder interests
- Smaller companies and Other Reporters are relatively more concerned with government regulations and creditors, while larger companies and Sustainability Reporters are more likely to consider employees and communities when reporting

Principal Stakeholders — All Companies

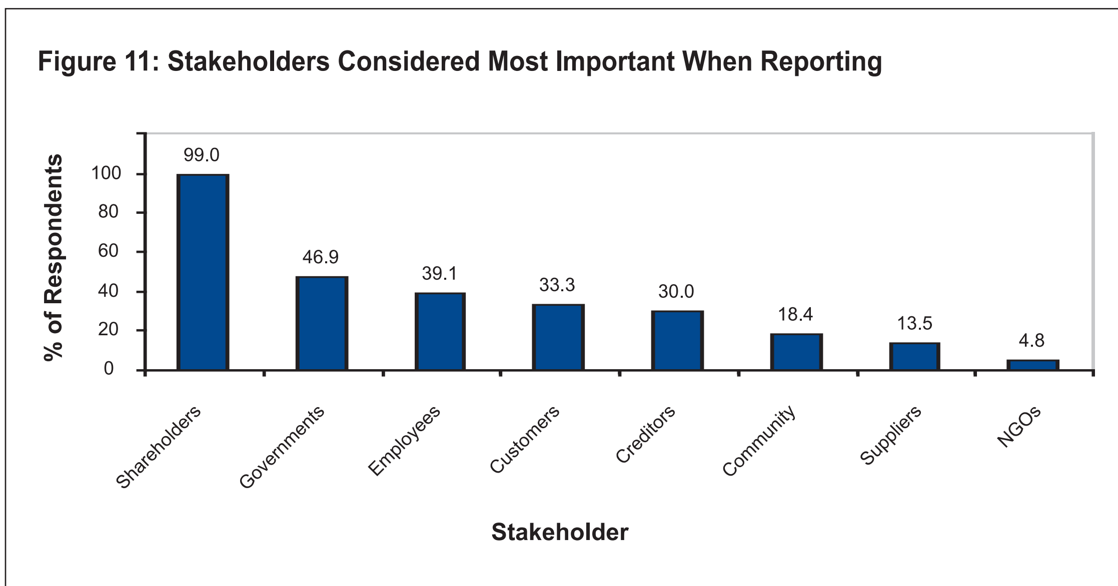
When companies were asked to identify the three most important stakeholders taken into consideration when reporting, almost all companies (99.0%) cite shareholders (Figure 11). Only two respondents do not identify shareholders as one of their three most important stakeholders.

After shareholders, governments (46.9%) were considered the second most important group taken into consideration when reporting, followed by employees (39.1%), and customers (33.3%). The relatively even distribution among these groups and the fairly high percentages for creditors (30.0%) and communities (18.4%) demonstrates that companies are recognizing a broad range of stakeholder interests. This expanded view is consistent with a corporate social responsibility approach to management and reporting, and suggests that companies are beginning to embrace this philosophy, willingly or otherwise.

companies are beginning to embrace a corporate social responsibility, willingly or otherwise

The relatively low recognition of non-governmental organizations (NGOs) demonstrates that although NGOs may indirectly influence a company's actions through the media and lobbying efforts, they are not considered by most companies when preparing external reports. Similarly, the relatively low score for suppliers suggests that this group holds relatively less power than most other groups when it comes to influencing companies' external reporting.

Figure 11: Stakeholders Considered Most Important When Reporting

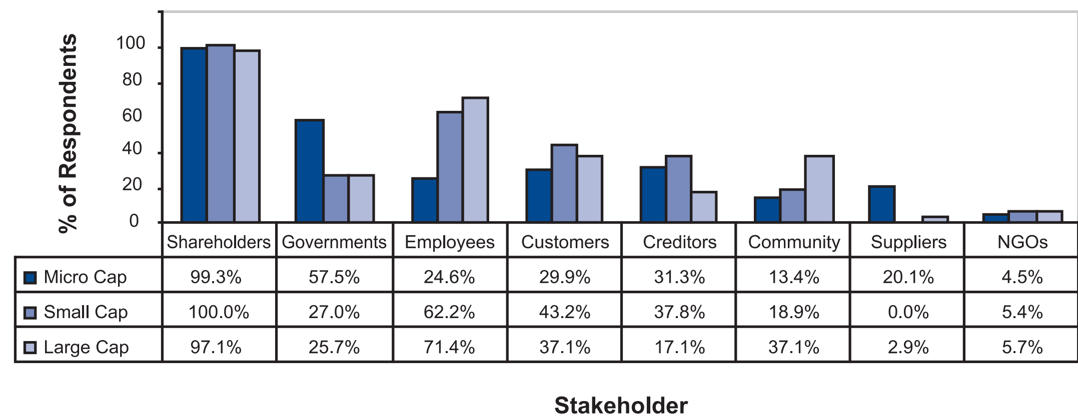


Principal Stakeholders, by Market Capitalization

The relative perceived importance of various stakeholder groups is largely influenced by company size, as illustrated in Figure 12. For example, after shareholders, micro-cap companies consider governments (57.5%) and creditors (31.3%) as their second and third most important stakeholders, while large-cap companies consider theirs to be employees (71.4%) and communities (37.1%).

This departure demonstrates how a company's stage of development impacts the relative influence of the various stakeholder interests. The results suggest that smaller companies, with limited resources and reach, are more concerned with satisfying regulatory requirements and obtaining necessary financing to grow, while larger companies, which are more established, have greater resources, operate in multiple locations, and have greater social and environmental impacts, must be relatively more concerned about their employees and the communities in which they operate.

Figure 12: Stakeholders Considered Most Important When Reporting, by Market Capitalization



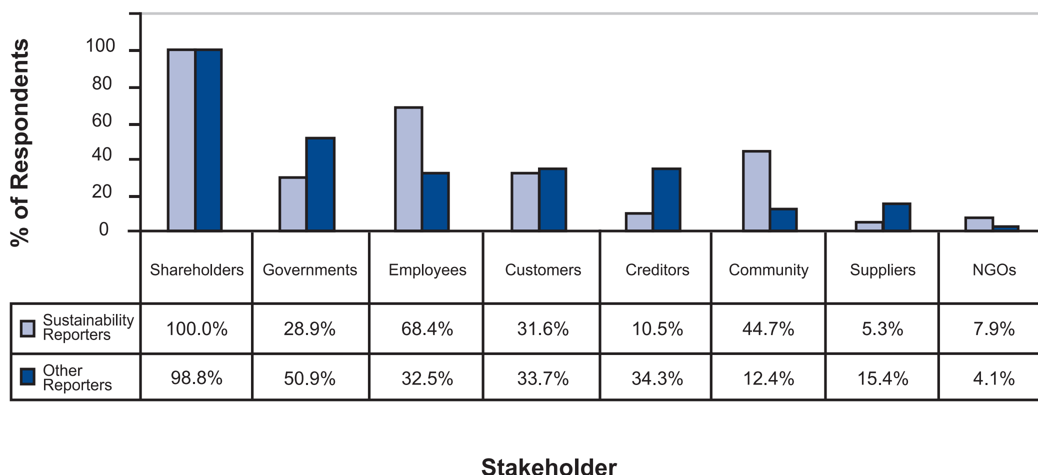
	Shareholders	Governments	Employees	Customers	Creditors	Community	Suppliers	NGOs
Micro Cap	99.3%	57.5%	24.6%	29.9%	31.3%	13.4%	20.1%	4.5%
Small Cap	100.0%	27.0%	62.2%	43.2%	37.8%	18.9%	0.0%	5.4%
Large Cap	97.1%	25.7%	71.4%	37.1%	17.1%	37.1%	2.9%	5.7%

Principal Stakeholders, by Type of Reporter

Companies that have significant coverage of sustainability issues are more likely to consider employees and communities and less likely to consider governments and creditors when reporting, as can be gleaned from Figure 13. This finding is consistent with the results in Figure 12, and is in keeping also with the earlier findings exemplified by Table 7, where a majority (63.1%) of Sustainability Reporters are large-cap companies.

larger companies have to be more concerned about their employees and the communities in which they operate

Figure 13: Stakeholders Considered Most Important When Reporting — Sustainability and Other Reporters



	Shareholders	Governments	Employees	Customers	Creditors	Community	Suppliers	NGOs
Sustainability Reporters	100.0%	28.9%	68.4%	31.6%	10.5%	44.7%	5.3%	7.9%
Other Reporters	98.8%	50.9%	32.5%	33.7%	34.3%	12.4%	15.4%	4.1%

Sustainability Reporting — Driving Forces

What factors do companies consider most important in moving to sustainability reporting? Are companies influenced by the claimed benefits of sustainability reporting?

Key Findings

- Regulatory requirements (selected by 49.5% of all respondents) are considered the most important factor driving corporate sustainability reporting, followed by broader stakeholder pressures (21.4%) and corporate image objectives (12.0%)
- Smaller companies are more influenced by regulatory requirements, while larger companies tend more to be influenced by stakeholder pressures and corporate image considerations
- Of those companies that currently report on sustainability issues, stakeholder pressures (39.4%) were reported as the most important factor driving their reporting initiatives
- Overall, stakeholder influence, and not potential cost savings or productivity gains, is driving sustainability reporting

regulatory requirements are the most important factor driving the reporting of sustainability issues

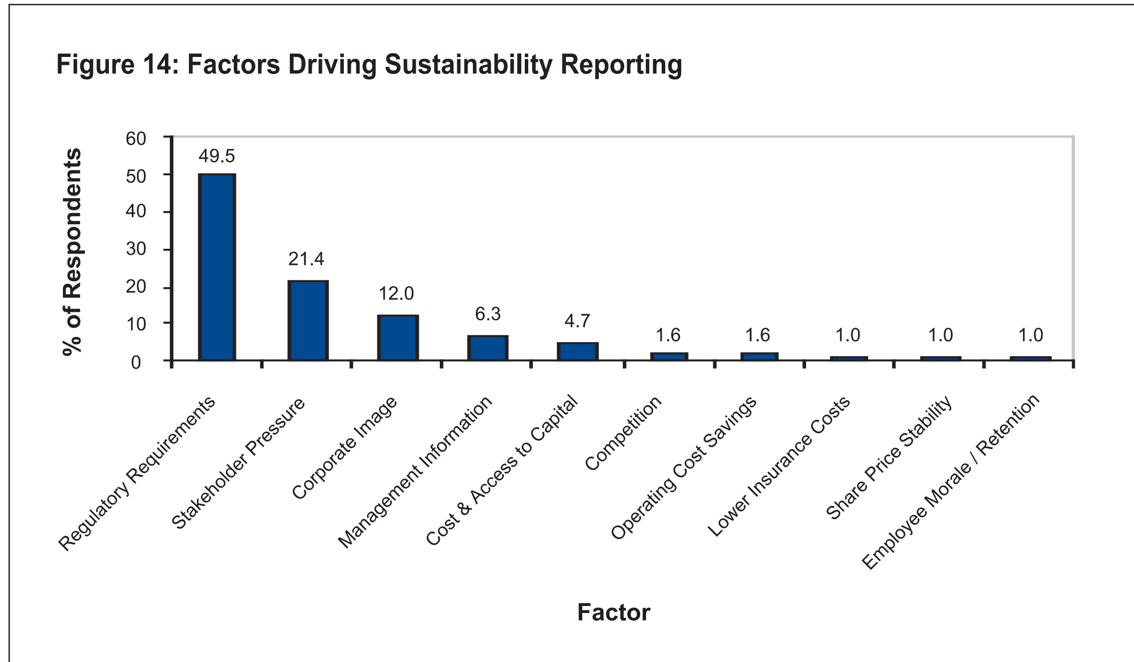
Driving Forces — All Companies

Regulatory requirements are the most important factor driving the reporting of sustainability issues. Almost half of those companies surveyed (49.5%) stated that regulatory requirements were the most important factor in adopting sustainability reporting (Figure 14). Following that, stakeholder pressures (21.4%) and corporate image (12.0%) were the next most important factors. Issues such as cost of capital, operating cost savings, lower insurance costs,

employee motivation and retention, or share price stability do not appear to be influencing companies' decisions to move to corporate sustainability reporting.

The high level of response for regulatory requirements, stakeholder pressures, and corporate image considerations confirms the view that stakeholder groups are driving companies to report on sustainability issues. This result, combined with the relative importance of governments, shareholders, customers, and employees when reporting (Figure 11), suggests that these stakeholder groups will play a key role in driving corporate sustainability reporting in the future.

Figure 14: Factors Driving Sustainability Reporting



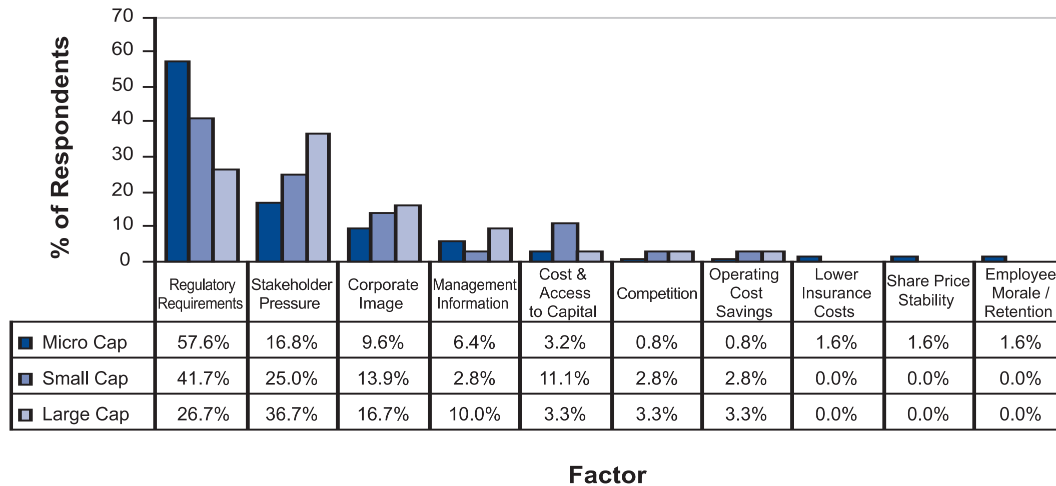
Driving Forces, by Market Capitalization

The factor most important in moving to sustainability reporting for smaller companies is regulatory requirements, as depicted in Figure 15. 57.6% of micro cap and 41.7% of small-cap companies see existing or prospective regulatory requirements as the most dominant consideration driving corporate sustainability reporting. However, as the size of the company increases, regulatory requirements become relatively less important. For large-cap companies, regulatory requirements (26.7%) are second to stakeholder pressures (36.7%). Furthermore, as size increases, so too does the importance of corporate image. 16.7% of large-cap companies see corporate image as the most important factor driving the move towards corporate sustainability reporting, compared to only 9.6% of micro-cap companies.

These results are likely due to differences in ownership between smaller and larger companies. Since larger organizations are generally more widely held, they are more cognizant of shareholder influences as well as their corporate image and how this may affect their ability to attract capital, customers, and

employees. In comparison, smaller companies are generally more narrowly held, elevating the importance of regulatory requirements in comparison to other considerations.

Figure 15: Factors Driving Sustainability Reporting, by Market Capitalization



	Regulatory Requirements	Stakeholder Pressure	Corporate Image	Management Information	Cost & Access to Capital	Competition	Operating Cost Savings	Lower Insurance Costs	Share Price Stability	Employee Morale / Retention
Micro Cap	57.6%	16.8%	9.6%	6.4%	3.2%	0.8%	0.8%	1.6%	1.6%	1.6%
Small Cap	41.7%	25.0%	13.9%	2.8%	11.1%	2.8%	2.8%	0.0%	0.0%	0.0%
Large Cap	26.7%	36.7%	16.7%	10.0%	3.3%	3.3%	3.3%	0.0%	0.0%	0.0%

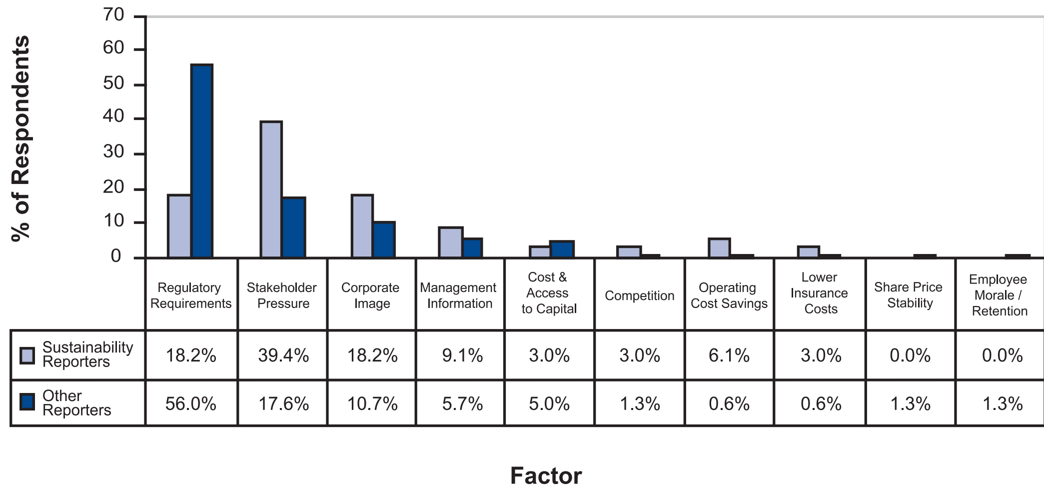
Driving Forces, by Type of Reporter

Of those companies already reporting significant coverage of sustainability issues, stakeholder pressure (39.4%) was by far the most important factor influencing these companies (Figure 16). Corporate image and regulatory requirements were seen as the next most important factors, both at 18.2%. This result, although reflective of the relatively high number of large companies that make up this group, shows that stakeholders have had a significant role in driving companies to adopt a practice of corporate sustainability reporting.

stakeholders have had a significant role in driving companies to adopt corporate sustainability reporting

Although, as Figure 16 shows, factors such as operating cost savings, management information, and lower insurance costs all ranked relatively higher for Sustainability Reporters than the average for all companies, the overall percentages were still significantly low compared to stakeholder, regulatory, and corporate image considerations.

Figure 16: Factors Driving Sustainability Reporting — Sustainability and Other Reporters



	Regulatory Requirements	Stakeholder Pressure	Corporate Image	Management Information	Cost & Access to Capital	Competition	Operating Cost Savings	Lower Insurance Costs	Share Price Stability	Employee Morale / Retention
Sustainability Reporters	18.2%	39.4%	18.2%	9.1%	3.0%	3.0%	6.1%	3.0%	0.0%	0.0%
Other Reporters	56.0%	17.6%	10.7%	5.7%	5.0%	1.3%	0.6%	0.6%	1.3%	1.3%

Sustainability Reporting — The Issues

What factors are preventing companies from adopting a comprehensive corporate sustainability reporting program? For those companies that are reporting on their social or environmental performance, what are some of the issues they are facing?

Key Findings

- Over one-third (39.3%) of all companies have not adopted a comprehensive sustainability reporting function because they are not required to by stakeholders
- Cost considerations (32.7%) and stakeholder information overload (31.1%) were the second and third most stated reasons for not reporting on sustainability issues
- Although almost half (48.6%) of Sustainability Reporters have adopted a comprehensive sustainability reporting program, credibility of reporting (31.4%) is the biggest issue for members of this group, followed by cost issues (22.9%) and the vagueness of existing reporting practices and guidelines (20.0%)

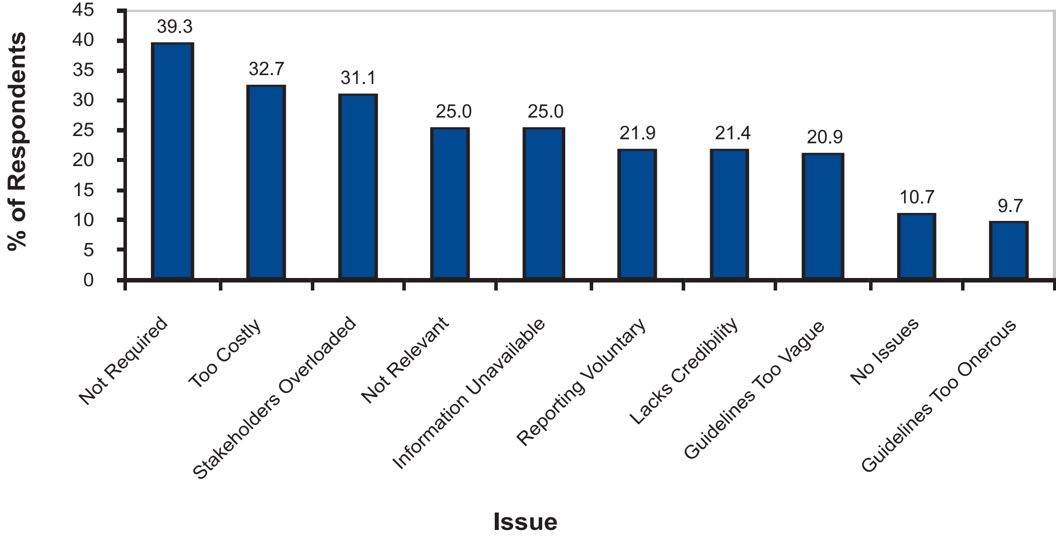
The Issues — All Companies

Figure 17 provides an overview of the predominant reasons that companies cite for not having adopted a comprehensive sustainability reporting program. Although the distribution of responses is fairly even, with no common issue resonating amongst the majority of respondents, 39.3% did state that they have not adopted a full approach to sustainability reporting because they are

not required to by their stakeholders. This outcome is consistent with an earlier result (Figure 14), where regulatory requirements, or the lack thereof, were found to play an important role in determining whether a company reports on sustainability issues.

Almost one-third of the respondents report that costs of reporting on sustainability issues outweigh the benefits (32.7%), while a significant percentage (31.1%) believe stakeholders are already overloaded with information. This finding is reinforced by a number of narrative comments provided by respondents (micro-cap and TSX Venture companies in particular), which expressed that, given the increased disclosure requirements emanating from the Enron and WorldCom era, any additional requirements to report on sustainability issues would result in mounting costs and increased information overload. Undoubtedly, it is ineffective to incur additional costs to simply overwhelm a major segment of the stakeholder audience.

Figure 17: Reasons for Opposing Adoption of Comprehensive Sustainability Reporting Function



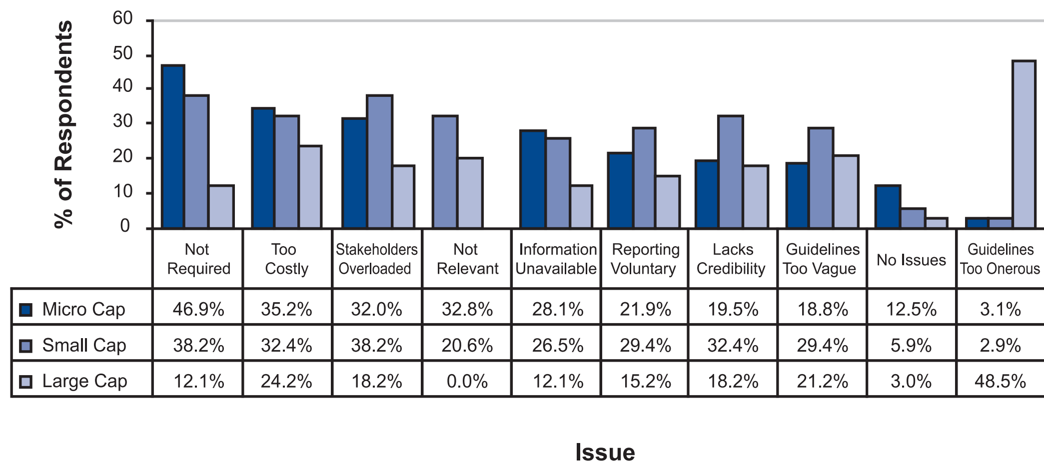
The Issues, by Market Capitalization

As can be seen from Figure 18, larger companies do not share the same issues as smaller companies when it comes to sustainability reporting. This conclusion is made particularly evident when we consider that 48.5% of large-cap companies recounted that they have “no issues” with corporate sustainability reporting, while only 3% of their smaller counterparts share that view.

The leading reason smaller companies cite for not reporting on sustainability issues is that they are not compelled to by stakeholders. As shown in Figure 18, 46.9% of micro cap and 38.2% of small-cap companies state “not

required" as a reason for not adopting a comprehensive reporting program, compared to only 12.1% of the large-cap companies. The results of the survey also reveal that more concerned about the costs and potential information overload for stakeholders created by reporting on sustainability issues. As previously affirmed, these smaller companies believe themselves to be too small, already over-regulated, and accordingly, unable to justify providing information on their non-financial performance.

Figure 18: Reasons for Opposing Adoption of Comprehensive Sustainability Reporting Function, by Market Capitalization



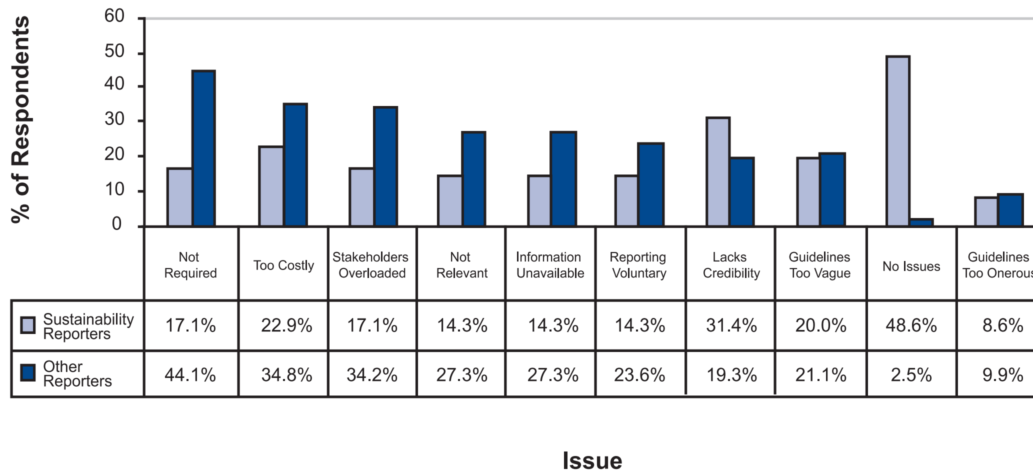
	Not Required	Too Costly	Stakeholders Overloaded	Not Relevant	Information Unavailable	Reporting Voluntary	Lacks Credibility	Guidelines Too Vague	No Issues	Guidelines Too Onerous
Micro Cap	46.9%	35.2%	32.0%	32.8%	28.1%	21.9%	19.5%	18.8%	12.5%	3.1%
Small Cap	38.2%	32.4%	38.2%	20.6%	26.5%	29.4%	32.4%	29.4%	5.9%	2.9%
Large Cap	12.1%	24.2%	18.2%	0.0%	12.1%	15.2%	18.2%	21.2%	3.0%	48.5%

The Issues, by Type of Reporter

Examination of the results for companies that do have experience reporting on sustainability issues has revealed that credibility is the biggest issue, with almost one-third (31.4%) of Sustainability Reporters identifying this limitation (Figure 19). After credibility of reporting, the next most important issues for this group are that reporting costs outweigh benefits (22.9%) and existing reporting practices and guidelines are "too vague" (20.0%). Although almost half (48.6%) of Sustainability Reporters have "no issues" with sustainability reporting, these results suggest that to continue to improve sustainability reporting practices, issues of credibility, cost, and improvements in the clarity of existing guidelines need to be addressed.

smaller companies are relatively more concerned about the costs and potential information overload for stakeholders

Figure 19: Reasons for Opposing Adoption of Comprehensive Sustainability Reporting Function — Sustainability and Other Reporters



	Not Required	Too Costly	Stakeholders Overloaded	Not Relevant	Information Unavailable	Reporting Voluntary	Lacks Credibility	Guidelines Too Vague	No Issues	Guidelines Too Onerous
Sustainability Reporters	17.1%	22.9%	17.1%	14.3%	14.3%	14.3%	31.4%	20.0%	48.6%	8.6%
Other Reporters	44.1%	34.8%	34.2%	27.3%	27.3%	23.6%	19.3%	21.1%	2.5%	9.9%

Views on the Global Reporting Initiative

Are companies aware of the Global Reporting Initiative? If so, do they support the initiative or support full adoption of GRI by the appropriate accounting standards-setting bodies in the future? For those that are aware of GRI, what are their general concerns about corporate sustainability reporting?

Key Findings

- A quarter of companies (24.8%) are aware of the GRI
- Large-cap companies (61.1%) and Sustainability Reporters (63.2%) are more likely to be aware of the GRI
- There is strong support for the Global Reporting Initiative, with over three-quarters (77.1%) of the companies that are aware of the GRI supporting the initiative
- Of the companies that are aware, there is significant support for future full adoption of the GRI's Guidelines by accounting standards-setting bodies (43.8%)
- Support for adoption of the Guidelines is lower for larger companies (36.8% of large cap) and Sustainability Reporters (33.3%)
- Of the companies that are aware of the GRI, credibility of sustainability reports and vagueness of existing guidelines are the main disincentives from adopting a comprehensive sustainability reporting program

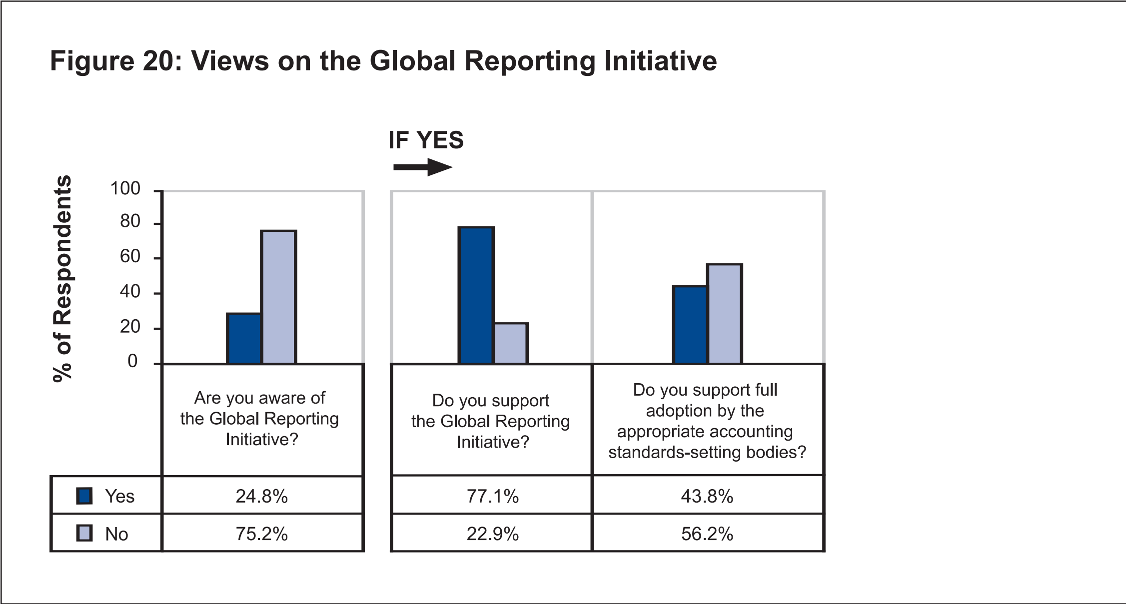
sustainability reporters and large companies believe the guidelines are not ready for mandatory implementation

Views on the GRI — All Companies

Although only one-quarter (24.8%) of all companies surveyed were aware of the Global Reporting Initiative (GRI), 77.1% of those that are aware of the GRI support the initiative (Figure 20). This outcome demonstrates that the Global Reporting Initiative is still relatively unknown amongst a majority of publicly-traded companies in Canada. However, due to the strong support for the initiative amongst those that are aware of its purpose, there does seem to be broad support of corporate sustainability reporting, and in particular, for GRI-developed sustainability reporting guidelines.

Figure 20 also shows that there is significant support (43.8%) for the full adoption of the GRI Guidelines by accounting standards-setting bodies in the future. This finding demonstrates confidence in the GRI and that a number of companies are receptive to making sustainability reporting mandatory. This latter point is further supported by comments provided by companies, where it is contended that adoption by accounting standards setters "would increase the credibility of the GRI and improve standard application of guidelines."

Figure 20: Views on the Global Reporting Initiative



	Are you aware of the Global Reporting Initiative?	Do you support the Global Reporting Initiative?	Do you support full adoption by the appropriate accounting standards-setting bodies?
Yes	24.8%	77.1%	43.8%
No	75.2%	22.9%	56.2%

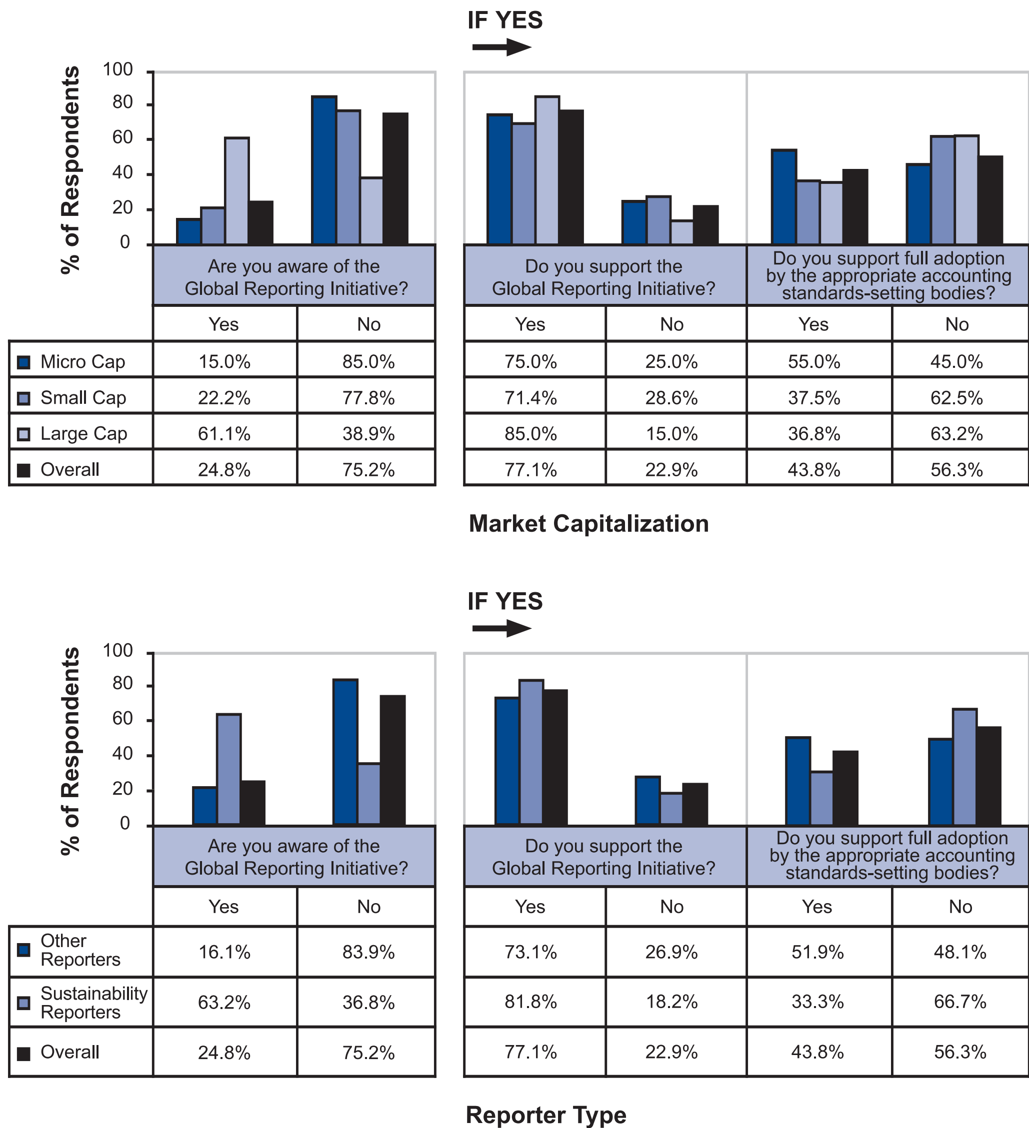
Views on the GRI, by Market Capitalization and Type of Reporter

Large-cap companies (61.1%) and Sustainability Reporters (63.2%) are more likely to be aware of the GRI than smaller companies and other reporters (Figure 21). Of those that are aware of the Global Reporting Initiative, more than 70% of respondents in all categories support the initiative.

Support for adoption of the Global Reporting Initiative by accounting standards-setters in the future differs between large and small companies, and between Sustainability Reporters and Other Reporters. Although there appears to be substantial support for full adoption of the Guidelines by accounting standards-setting bodies, Sustainability Reporters and larger companies are

more hesitant than Other Reporters and smaller companies. As Sustainability Reporters and larger companies are more likely to have experience using sustainability reporting guidelines, this result suggests that companies believe the Guidelines are not ready for mandatory implementation.

Figure 21: Views on Global Reporting Initiative, by Market Capitalization and Reporter Type



Market Capitalization

	Are you aware of the Global Reporting Initiative?		Do you support the Global Reporting Initiative?		Do you support full adoption by the appropriate accounting standards-setting bodies?	
	Yes	No	Yes	No	Yes	No
Micro Cap	15.0%	85.0%	75.0%	25.0%	55.0%	45.0%
Small Cap	22.2%	77.8%	71.4%	28.6%	37.5%	62.5%
Large Cap	61.1%	38.9%	85.0%	15.0%	36.8%	63.2%
Overall	24.8%	75.2%	77.1%	22.9%	43.8%	56.3%

Reporter Type

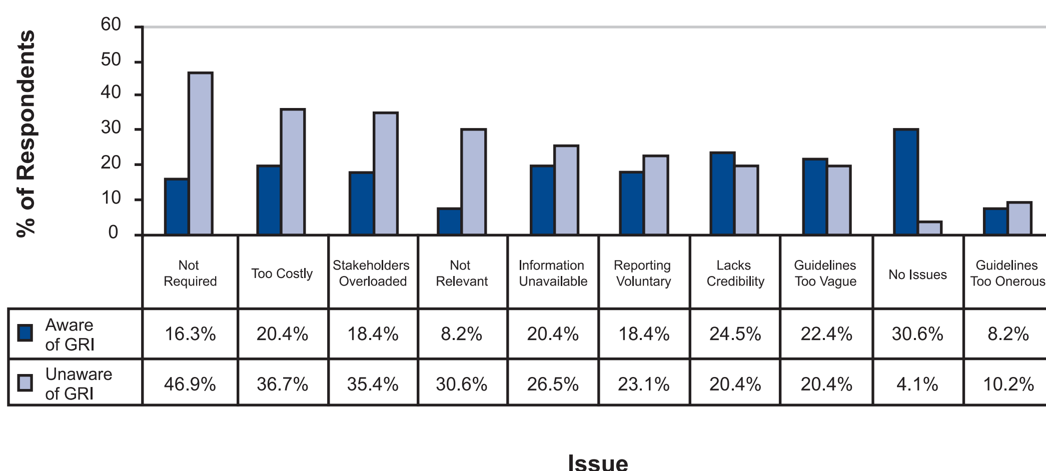
	Are you aware of the Global Reporting Initiative?		Do you support the Global Reporting Initiative?		Do you support full adoption by the appropriate accounting standards-setting bodies?	
	Yes	No	Yes	No	Yes	No
Other Reporters	16.1%	83.9%	73.1%	26.9%	51.9%	48.1%
Sustainability Reporters	63.2%	36.8%	81.8%	18.2%	33.3%	66.7%
Overall	24.8%	75.2%	77.1%	22.9%	43.8%	56.3%

Sustainability Reporting Issues — Aware Versus Unaware of the GRI

Figure 22 combines the results above with the findings of the previous section ("Sustainability Reporting — The Issues") to further examine the issues companies are facing with respect to adopting a comprehensive sustainability

reporting function. Through this analysis, we see that of those companies that are aware of the GRI, almost one-third (30.6%) have no issues with current sustainability reporting guidelines and that only 8.2% find current guidelines for sustainability reporting too onerous. Those that are aware of the GRI did, however, have concerns with the credibility of sustainability reporting (24.5%) and found current sustainability reporting practices and/or guidelines too vague (22.4%).[27]

Figure 22: Rationale for Not Adopting Comprehensive Sustainability Reporting Function — Aware Versus Unaware of GRI



	Not Required	Too Costly	Stakeholders Overloaded	Not Relevant	Information Unavailable	Reporting Voluntary	Lacks Credibility	Guidelines Too Vague	No Issues	Guidelines Too Onerous
Aware of GRI	16.3%	20.4%	18.4%	8.2%	20.4%	18.4%	24.5%	22.4%	30.6%	8.2%
Unaware of GRI	46.9%	36.7%	35.4%	30.6%	26.5%	23.1%	20.4%	20.4%	4.1%	10.2%

Costs of Reporting

How much are companies spending annually to prepare, develop, print, and distribute all external reports? How is this budget allocated for reporting on financial performance, governance issues, strategy and risks, and sustainability issues? How much are companies spending on sustainability reporting? Do companies intend on increasing this amount in the future?

Key Findings

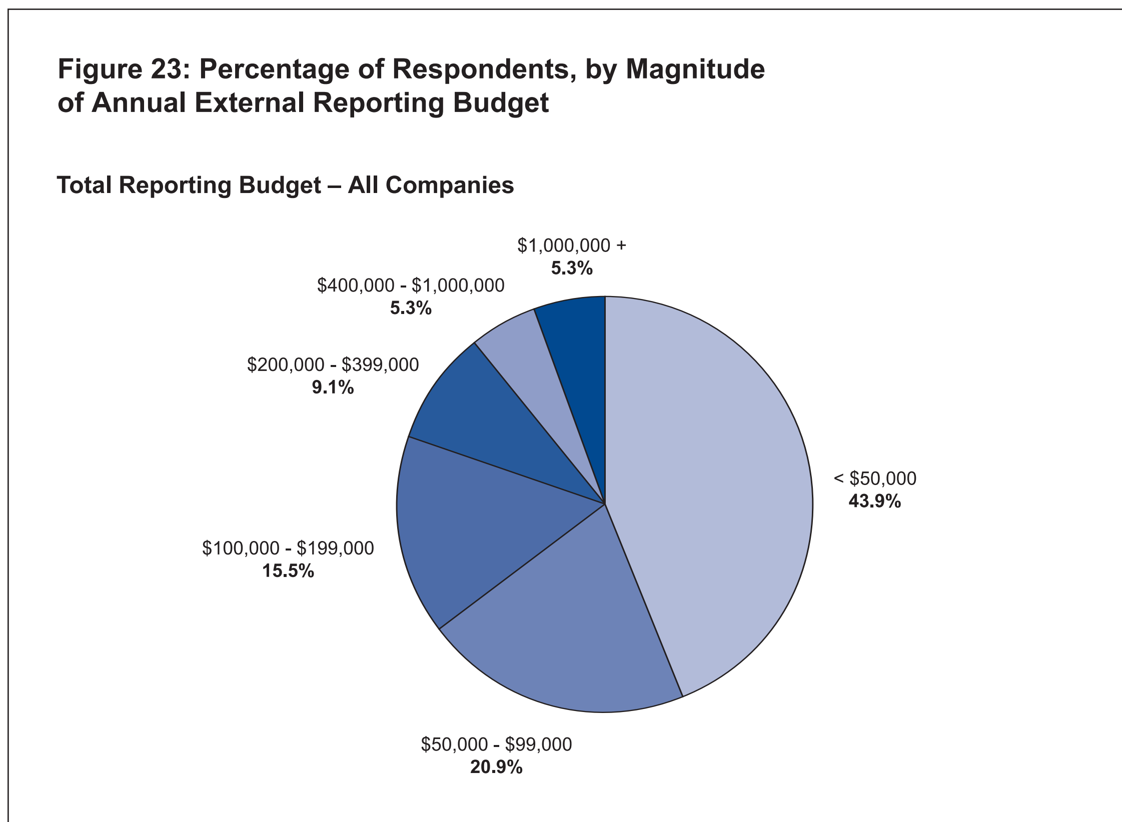
- Over 80.0% of all companies spend less than $200,000 per year on external reporting, while 5.3% spend greater than $1 million annually on reporting
- On average, more than two-thirds (68.8%) of reporting budgets are allocated to covering financial performance, while only 4.0% is spent on reporting sustainability issues (11.8% for large-cap companies)
- On average, 5.3% of companies are spending at least $119,000 annually to report on sustainability issues, while 43.9% are spending less than $1,000

27 Issues identified in the section titled "Sustainability Reporting — The Issues" refer to sustainability reporting guidelines in general and not specifically to the Global Reporting Initiative's Guidelines. However, as these respondents are aware of the GRI, an intuitive association between these comments and the GRI is made.

- Only 15.5% of companies plan on increasing budgets on sustainability issues in the future (20.0% of large cap, 24.3% of Sustainability Reporters).

Reporting Budgets — All Companies

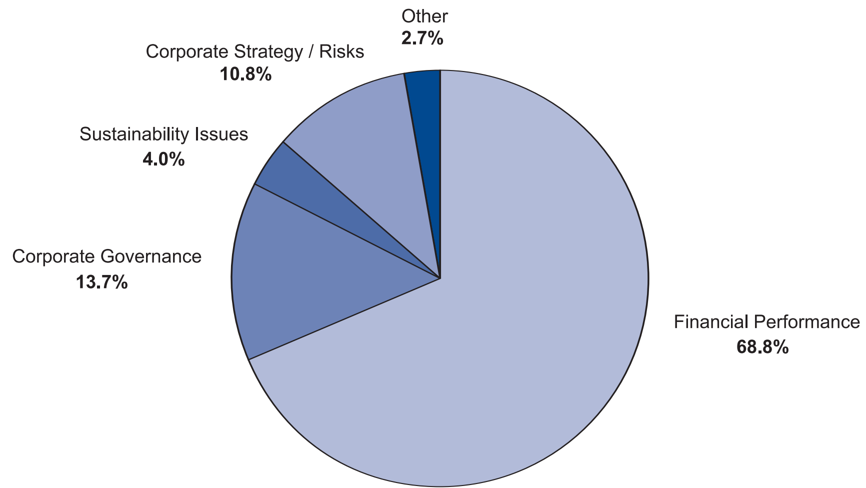
The average annual cost to prepare, develop, print, and distribute all external reports is less than $50,000 for 43.9% of respondents and less than $200,000 for over 80% of respondents, as can be seen from Figure 23. 5.3% of companies spend over $1 million annually on external reporting.



Allocation of Reporting Budget — All Companies

On average, over two-thirds (68.8%) of companies' external reporting budgets are spent on reporting financial performance. This figure significantly contrasts the 4.0% spent on sustainability issues. These results, seen in Figure 24, are consistent with earlier findings where companies believe that sustainability issues receive the poorest coverage of all areas while financial performance continues to receive the greatest coverage (Figure 6).

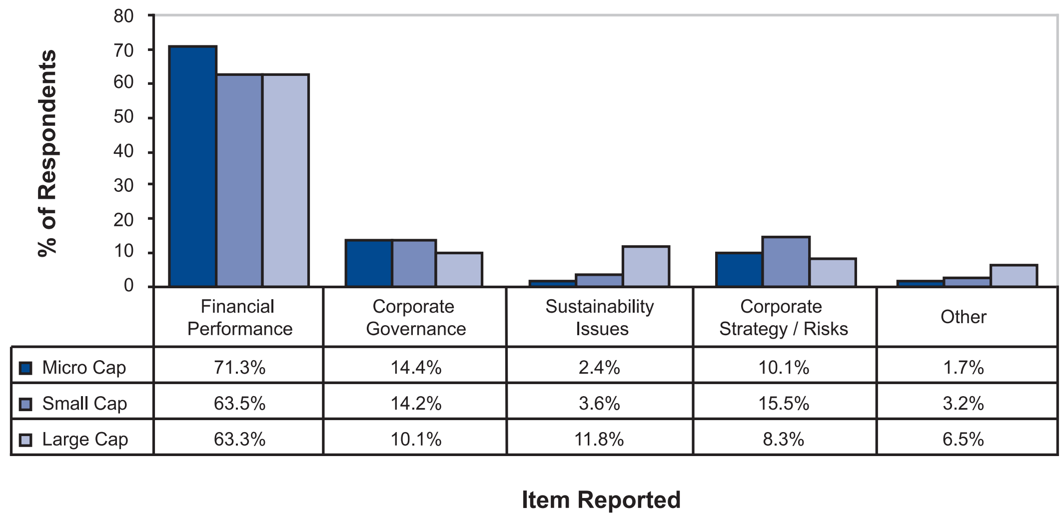
Figure 24: Average Allocation of Annual External Reporting Budget



Allocation of Reporting Budget, by Market Capitalization

As expected, larger companies, which are more likely to have greater social and environmental impacts, as well as greater resources to report on their performance with respect to these issues, spend a greater percentage of their reporting budgets on sustainability issues relative to smaller companies. As demonstrated by Figure 25, large-cap companies spend, on average, almost five times (11.8% of the total) more than micro-cap companies (2.4% of the total).

Figure 25: Average Allocation of Annual External Reporting Budget, by Market Capitalization



	Financial Performance	Corporate Governance	Sustainability Issues	Corporate Strategy / Risks	Other
Micro Cap	71.3%	14.4%	2.4%	10.1%	1.7%
Small Cap	63.5%	14.2%	3.6%	15.5%	3.2%
Large Cap	63.3%	10.1%	11.8%	8.3%	6.5%

Allocation of Reporting Budget, by Type of Reporter

Figure 26 provides a breakdown of reporting budgets for Sustainability Reporters and Other Reporters. As expected, Sustainability Reporters spend a greater portion of their external reporting budgets on sustainability issues.

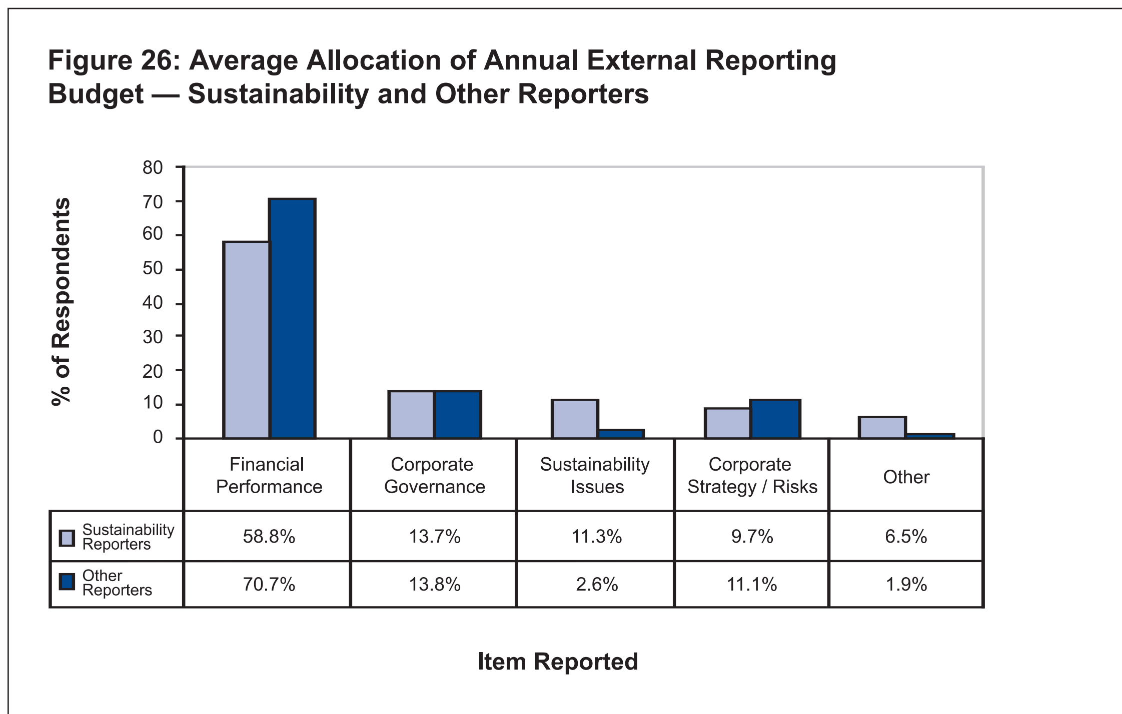


Figure 26: Average Allocation of Annual External Reporting Budget — Sustainability and Other Reporters

	Financial Performance	Corporate Governance	Sustainability Issues	Corporate Strategy / Risks	Other
Sustainability Reporters	58.8%	13.7%	11.3%	9.7%	6.5%
Other Reporters	70.7%	13.8%	2.6%	11.1%	1.9%

Reporting on Sustainability Issues — All Companies

Figure 27 expresses the average expenditure companies incur on sustainability issues. The calculations are based on the average spent on sustainability issues for each of the budget ranges. As can be seen, on average, companies with a budget of less than $50,000 are spending less than $1,000 annually to report on sustainability issues, while larger companies with external reporting budgets of over $1 million are spending at least $119,000 annually to report on these issues.

Coupled with the information provided in Figure 23, we can see that, on average, 5.3% of companies are spending at least $119,000 annually to report on sustainability issues, while 43.9% are spending less than $1,000.

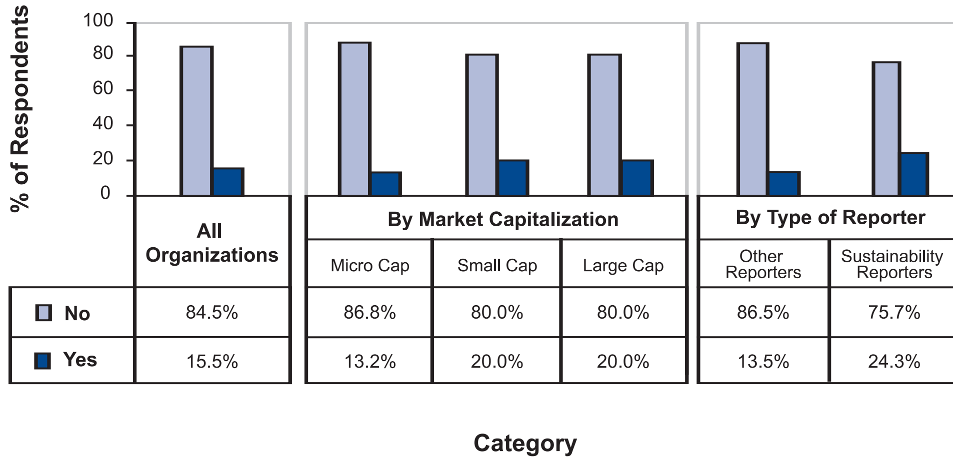
Figure 27: Average Sustainability Reporting Expenditure Relative to Total Annual Reporting Budget

Total Annual Reporting Budget	% of Budget on Sustainability Issues	Estimated Average Spent Annually on Sustainibility Issues
< $50,000	2.1	<= $ 1,000
$50,000 – $99,000	1.5	$ 10,800
$100,000 – $199,000	7.7	$ 11,600
$200,000 – $399,000	8.2	$ 24,700
$400,000 – $1,000,000	2.7	$ 18,900
$1,000,000 +	11.9	>= $119,000

Future Budget for Sustainability Issues — All Companies

Based on Figure 28, only 15.5% of all companies indicated that they plan to increase the total spent on sustainability issues in the future. However, the percentage that said they plan on increasing their budgets is higher for larger companies (20.0%), and for those already having significant coverage of sustainability issues (24.3%).

Figure 28: Planned Expenditure Increases in Sustainability Reporting



III. Survey Conclusions

Prominence of Traditional Corporate Reporting Features

By and large, analysis reveals that the primary focus of corporate reporting continues to be on the communication of financial performance to shareholders. This predestined outcome is unsurprising, given the nature and behaviour of capital markets. As can reasonably be expected, companies rank financial performance as the area best covered by their external reports and devote, on average, 68.8% of their reporting budgets to reporting on financial performance. Moreover, almost all companies (99.0%) selected their shareholders as one of the three most important stakeholders considered when reporting.

The traditional approach to reporting can rationally be expected to persist, given the requirements of securities regulation to diligently report on financial performance and the expectation of companies to maximize shareholder profit. However, the survey results do provide empirical evidence that companies are moving beyond reporting only on financial performance, as they are now incorporating broader social and environmental performance issues into their external reporting regimes.

Evolving Corporate Reporting Practices

The analysis shows that half (49.8%) of all publicly-traded companies now provide some coverage of their social or environmental performance; this figure increases to 91.2% for large-cap companies. The extent to which companies report on sustainability issues is also increasingly significant, with 18.4% of all companies producing stand-alone social, environmental, sustainability, and/or EHS reports and more than 5.3% of all companies spending, on average, over $100,000 annually reporting on sustainability issues.

Companies have been broadening their definitions of stakeholder interest, recognizing shareholders as only one principal group (albeit a key one) of petitioners for, and users of, external reporting information. Governments, customers, employees, creditors, and communities all rank as important stakeholder groups to be considered by companies when reporting. This expanded view is consistent with a corporate social responsibility methodology to management and reporting, and suggests that companies are progressively more responsive to the non-financial interests of their stakeholders.

companies are progressively more responsive to the non-financial interests of their stakeholders

Results also reveal generally strong support for the GRI and its ambition to develop globally applicable sustainability reporting guidelines. Interestingly, of those companies familiar with the GRI, 77.1% of them support the initiative, while 43.8% endorse full future adoption of the GRI's Sustainability Reporting Guidelines by accounting standards-setting bodies. While there are differences between sentiments of smaller and larger companies, these outcomes demonstrate that companies are overtly supportive of the ideals of sustainability reporting and are interested in further investigating the uniformity with which reporting guidelines can be developed and applied.

smaller companies are driven more so by regulatory pressures than by any other factor

Importance of Regulatory Issues to Smaller Companies

It is clear from the analysis that smaller companies are driven more so by regulatory pressures than by any other factor when it comes to reporting on sustainability issues. For example, micro-cap companies consider governments as the second most important stakeholder after shareholders when reporting (57.5%), see regulatory requirements as the most important factor in driving them to report on sustainability issues (57.6%), and identify the absence of stakeholder demand (46.9%) as the primary reason for not having adopted a comprehensive approach to sustainability reporting.

As a result of these influences and actualities, smaller companies are less inclined to voluntarily produce stand-alone reports and are more likely to cover sustainability issues in the MD&A, a mandatory filing requirement for publicly-traded companies. In fact, of the micro-cap companies that have some coverage of sustainability issues, 88.6% provide their coverage in the MD&A.

The concerns of smaller companies over existing and prospective regulations are likely motivated by cost considerations. This is evident, as throughout the responses and in the narrative comments provided, smaller companies aired concerns with over-regulation and articulated the burden that such regulation places on organizational resources.

Large Companies' Likeliness to Embrace Corporate Sustainability Reporting

The analysis suggests that the larger the company, the more likely it will be to report on sustainability issues. Furthermore, larger companies are seen as providing greater coverage of these issues, with 55.9% of large-cap companies producing an integrated annual report or stand-alone social, environmental, sustainability, or EHS report.

The key stakeholders and driving forces for reporting on sustainability issues also differ for larger entities. Larger companies are more likely to report with employees and communities in mind, while more likely also to be influenced by corporate image considerations when deciding to report on sustainability issues. These differences, along with the greater coverage of sustainability issues, are primarily a result of the larger scope or corporate footprints of these companies.

As a company's corporate footprint increases, so too does the likelihood it will have greater social and environmental impacts. This in turn increases the number of stakeholders (both in terms of absolute numbers and attentive groupings) influenced by the company's operations. Correspondingly, greater demand is placed on the company to report on its social and environmental policies, practices, and performance. For example, larger companies are more widely-held, making them more susceptible to investor pressures and social responsibility investment initiatives. In addition, as a result of broader stakeholder interest, larger companies are more likely to be concerned about maintaining a positive public image in order to attract customers and talented employees.

Access to resources and greater regulatory requirements are other reasons believed to contribute to the more significant coverage of sustainability issues by larger companies. These companies are more likely to possess the resources and infrastructure required to collect sustainability information and produce reports having the requisite breadth and sophistication. Larger entities are also more likely to face additional regulations simply by virtue of their largess. The requirement for financial institutions with equity in excess of $1 billion to file Public Accountability Statements is one example of the additional reporting requirements facing larger companies.

The Future of the Global Reporting Initiative and Reporting Guidelines

Approximately one-quarter (24.8%) of all companies are aware of the GRI and its aspiration to develop globally applicable sustainability reporting guidelines. For large-cap companies, this figure grows to 61.1%. While awareness of the initiative is not consistent amongst all companies, more than three-quarters of those companies that are aware of the GRI support the initiative. This support suggests that companies are looking for guidelines to improve the credibility and comparability of sustainability reporting. It also signifies that companies believe the GRI's Guidelines to be the best guiding principles to achieve this goal.

There is also significant support (43.8% of all companies) for accounting standards-setting bodies to move from the current voluntary nature of GRI diligence to greater adoption of the GRI Guidelines. This support is reaffirmed in additional narrative comments provided by companies that suggested that adoption of the standards by accounting standards-setting bodies would add to the credibility of the Guidelines while also providing for standardized application.

the larger the company, the more likely it will be to report on sustainability issues

Despite this significant company support for adoption of the Guidelines by accounting standards-setters, it is interesting to note that larger companies (36.8% of large cap) and those that produce stand-alone reports covering sustainability issues (33.3%) are less enamoured with full adoption. Taken with the fact that some of these companies represent the more experienced in matters of sustainability reporting and the Guidelines, we would underscore that the Guidelines, and/or companies that rely on them, may not be ready for mandatory application.

Some Issues with Corporate Sustainability Reporting

Our analysis looked at concerns companies had with respect to reporting on sustainability issues. Although these issues had no direct reference to the GRI's Guidelines, the feedback nevertheless provides insight into the issues companies face in applying sustainability reporting guidelines such as those provided by the Global Reporting Initiative.

The costs of reporting (32.7% of all companies) and the potential for stakeholder information overload (31.1% of all companies) were two of the

most important factors dissuading companies from adopting a comprehensive reporting function. These results suggest that in order to encourage companies to report on sustainability issues, especially smaller companies, sustainability reporting guidelines should not be over-burdensome and should allow for incremental adoption.

sustainability reporting guidelines should not be over-burdensome and should allow for incremental adoption

While companies aware of the Global Reporting Initiative and those that produce stand-alone reports covering sustainability reports are more likely to have "no issues" with sustainability reporting, both groups consider the vagueness of reporting practices or guidelines an issue (22.4% and 20.0%, respectively). This finding, which is likely correlated to the qualitative nature of sustainability reporting, suggests that if companies are to adopt a comprehensive reporting approach to sustainability reporting, sustainability reporting guidelines must be easy for reporters to apply. It also implies that sustainability reporting guidelines must provide appropriate guidance to ensure that the content of sustainability reports is relevant, comparable, and clear in order to render the information most useful to users.

Trends in Corporate Sustainability Reporting

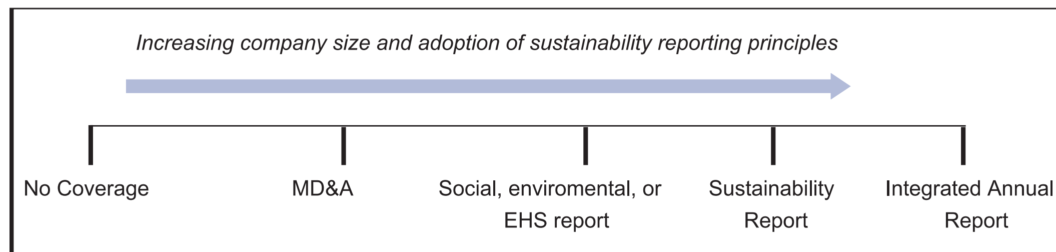
Slow Growth of Corporate Sustainability Reporting

Though there are signs that companies are increasing their coverage of sustainability issues, the growth is relatively slow and gradual. Evident from the analysis, coverage of sustainability issues continues to rank lowest of all items reported by companies. Furthermore, a modest 16.0% of all companies that currently provide no coverage of their social or environmental performance plan on including coverage in the near future, while only 15.5% of all companies plan on increasing the amount spent on sustainability reporting. Although these percentages are higher for larger companies, the results suggest that without mandatory requirements, widespread adoption of corporate sustainability reporting is likely to take some time.

Progression of Corporate Sustainability Reporting Forms

The results show that smaller companies are more likely to provide coverage of sustainability issues in the MD&A, while larger companies are more likely to prepare a stand-alone report or integrated annual report. Based on these results, it appears that as a company increases in size, the amount of disclosure required to communicate social and environmental performance also increases. As companies adopt a comprehensive approach to sustainability reporting, we can expect to see the progression outlined in Figure 29.

Figure 29: Progression of Corporate Sustainability Reporting



Web-based Reporting of Sustainability Issues

Although hard-copy reports are the most commonly used medium for reporting on sustainability issues, the results show that Web-based presentation also enjoys high incidence of use for capturing and presenting sustainability information. As companies experiment with, and take advantage of, the unique features offered by this relatively new medium, it is expected that Web-based reporting will play a significant role in future disclosure of social and environmental policies and performance.

Corporate Sustainability Reporting Lacks Credibility

Of those companies that currently produce stand-alone reports covering sustainability issues, the leading issue facing these companies was the lack of perceived credibility of their published reports. In fact, almost one-third (31.4%) of these companies have not adopted a comprehensive sustainability reporting function due to the lack of credibility associated with the qualitative nature of sustainability reporting. As social and environmental performance tends to be more qualitative in nature, for corporate sustainability reporting to continue to grow, companies will have to find ways to strengthen the quality and authenticity of their sustainability reports.

companies will have to find ways to strengthen the quality and authenticity of their sustainability reports

Stakeholder Pressures Driving Corporate Sustainability Reporting

Stakeholder interests are driving sustainability reporting. This result is evident as regulatory requirements (49.5%), stakeholder pressures (21.4%), and corporate image (12.0%) are the factors companies consider most important in moving to a sustainability reporting regime. In addition, stakeholder pressures (39.4%) are by far the most important factor driving companies that already have significant coverage of sustainability issues to report on these issues. Other potential factors such as lower costs of capital, operating cost savings, lower insurance costs, employee retention or morale, or share price stability are found to have less of an impact in motivating companies to report on sustainability issues.

The Future of Corporate Sustainability Reporting

4

I. Sustainability Issues are Here to Stay

Will corporate sustainability reporting continue to grow? If so, what are the key driving forces behind future growth? What changes are needed to improve existing guidelines and reporting practices to address concerns? The purpose of the following section is to discuss these questions and offer views on where corporate sustainability reporting may be headed.

In short, the forces that advance the sustainable development agenda are expected to persist. We now live in a truly global world, where we travel to, and extract resources from, all parts of the planet. Our ability to alter our environment has also increased, as is evident by the impressions we leave on our landscape (e.g. the diversion of large rivers through mega dams) and in the atmosphere (e.g. damage to the ozone layer through the release of CFCs). As the size of the earth's population continues to grow, and as economic development and globalization continue to provide improvements in our sought-after standard of living, especially in emerging countries such as China and India, our demand for resources will also increase.

the forces that advance the sustainable development agenda are expected to persist

The earth's size and capacity is finite, however, implying that at some point, our rising demand for resources is destined to stress our natural and social systems. The depletion of cod stocks in the Atlantic, the increasing debate regarding the ownership rights over fresh water, and concerns over climate change serve as testimonial that pressures can and will surface, notwithstanding our predictive capacity. As these pressures swell, we will continue to see a shift in societal anxieties and values. For years, people have been taking action against the environmental and social degradation that can materialize from commercialism and progress. This action to preserve quality of life and to promote renewal and replenishment is today enhanced by continuing improvements in human rights and advances in communications technologies. As such, the voice and awareness of collective societies has strengthened and unveiled that human actions are choices. Naturally, therefore, society increasingly adapts its behaviour in addressing these social and environmental issues and exerts communal pressures for governments and business to change.

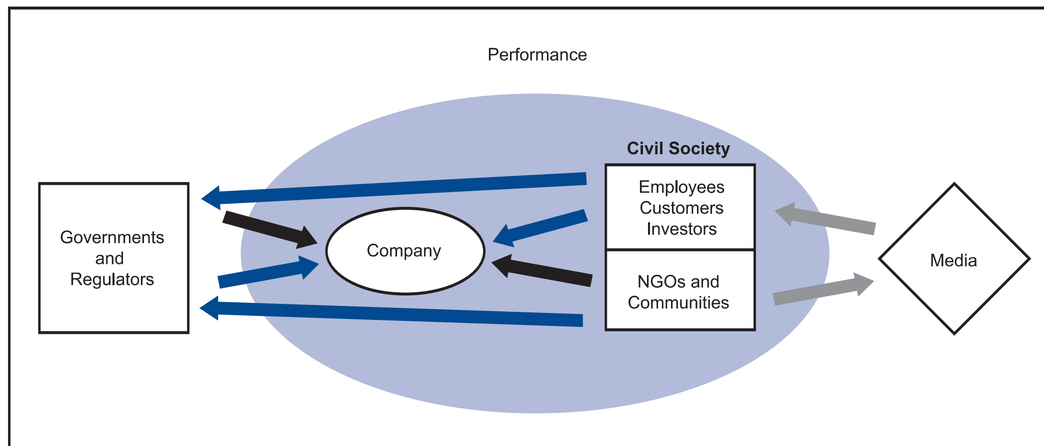
Business, either indirectly through governmental regulation or directly through investment and consumption behaviour, continues to shoulder a great responsibility for the state of social and environmental affairs. Due largely to the fact that business is the main engine of economic development, wealth, and social influence, business has been identified as having the greatest potential to bring about necessary change through behaviour and innovation (e.g. the development of alternative energy sources such as methane gas from

landfills and fuel cell technology, and improved workplace safety for employees). As government and commerce continue to respond to the preferences of society, it is reasonable to deduce that corporate social responsibility (CSR) and the legislative, regulatory, and organizational initiatives supporting CSR will persist.

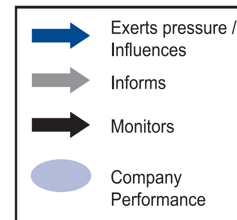
Future Drivers of Corporate Social Responsibility

As previously discussed, stakeholder pressures are believed to be the main driver of corporate social responsibility. Although the extent to which stakeholders and particular stakeholder groups influence the actions of companies depends on the company's industry, size, and location of operations, we can concede that certain drivers are generally more influential than others. In particular, shareholder pressures, government and regulatory requirements, and corporate reputation considerations are believed to be the three most important drivers of corporate social responsibility. This finding, illustrated in Figure 30, was accentuated in the views of publicly-traded companies, with respect to corporate sustainability reporting. As corporate sustainability reporting can reasonably be viewed as an extension of CSR, it is believed that these factors will predominantly drive both corporate social responsibility and corporate sustainability reporting agendas in the future.

Figure 30: Stakeholder Pressures Driving CSR Within a Typical Company



Legend



This diagram provides a simplified summary of the stakeholder forces influencing the activities of a company. Although it does not include stakeholder groups such as suppliers and industry associations, the diagram does impart the manner in which governments, regulators, investors, employees, and customers play a significant role in driving corporate social responsibility.

Using the diagram and the following example of a company releasing a toxic substance into a river, we can see how each of these groups can influence the actions of a company:

1. As a by-product of its manufacturing process, a company releases toxins into a river next to its manufacturing plant.
2. In the community where the river is located, pollution impacts the quality of life of the community's inhabitants (e.g. poor drinking water, reduced recreational opportunities, etc.).
3. Community groups and NGOs, acting as corporate watchdogs, inform the public through the media about negative consequences experienced. These groups also may exert pressure on governments and regulators to impose fines or create regulations or legislation to prevent continued or repetitive conduct in the future.
4. Information provided through the media becomes available to the public, affecting the reputation of the company within society.
5. Current and potential employees (who also may be members of the community) may refuse to work for the company, negatively affecting its ability to attract and retain talented employees.
6. Ethical or "green" consumers may refuse to purchase the products or services of the company, potentially lowering its revenues.
7. Shareholders and potential investors see the costs these actions may have on the value of their investments (i.e. lower revenues, reduced productivity and reduced ability to provide quality service or product, and potentially greater fines or lawsuits), resulting in divesture and/or reduced access to capital for the company.
8. The public may also place pressure on governments and regulators to impose fines or create regulations or legislation to prevent similar activities in the future.
9. Experiencing the financial influence of these events, the company ultimately modifies its actions.

As Figure 30 highlights, investors, governments and regulators, employees, and customers can all exert pressure on companies to adopt a CSR approach to their operations. Each of these groups and their main impact on corporate social responsibility and corporate sustainability reporting are described further in the sections to follow.

Investor Pressures and Socially Responsible Investment

Shareholder or investor pressures may represent the greatest factor driving CSR and corporate sustainability reporting in Canada today. As social and

environmental issues become increasingly important, investors will want to see that companies are appropriately managing their environmental and social risks. In this regard, CSR will be seen as a "contributor to a company's intangible assets and future earnings potential" as investors will increasingly associate strong CSR practices with a company's ability to attract and retain talented employees, enhance its reputation and garner the trust of its customers, and maintain its license to operate over the long term.[28]

The term generally used to describe investor pressure on companies to act responsibly, is Socially Responsible Investment (SRI). SRI, which can be defined as the practice of selecting or managing investments based on socially or environmentally responsible guidelines or principles, includes the following activities:

- **Screening** — screening of investments based on social and environmental guidelines or criteria (positive and negative screens)
- **Shareholder advocacy** — proxy voting policies, corporate engagement, shareholder resolutions, divestment strategy
- **Community investment** — financing needs of local communities that cannot ordinarily be addressed by traditional corporate models
- **Socially responsible lending** — lending to potential borrowers based on environmental or social screens
- **Sustainable venture capital** — fund placement with start-up or small organizations that produce products or services that efficiently utilize natural resources while reducing environmental impact

socially responsible investment as a methodology to promote CSR adoption has grown throughout the world

Socially responsible investment as a methodology to promote CSR adoption has grown throughout the world. For example, in 2002, while the mutual fund universe experienced in excess of a $10 billion exodus, "mutual funds screened for social or environmental criteria experienced a significant inflow."[29] In Europe, SRI has become mainstream among financial institutions as nearly 50% of Europe's financial institutions now offer SRI products.[30] In addition to the SRI funds and investments, the growth of SRI has also resulted in the formation of a number of sustainability rating agencies created to evaluate companies on their environmental and social performance. The results of these evaluations, which are provided to investors, fund managers, bankers, and securities brokers, have also been used to develop a number of socially responsible stock indices.

These indices, which include the Dow Jones Sustainability Index (DJSI) in the U.S., the FTSE4Good in the U.K., the SRI Index in South Africa, and the Jantzi Social Index (JSI) in Canada, identify for investors those companies that integrate social and environmental values into their business activities.

28 VanCity Credit Union, *The Future of Corporate Social Responsibility* (Vancouver: VanCity Credit Union, September 2002).
29 The Association of the Chartered Certified Accountants, *Corporate Social Responsibility: Is there a Business Case?* (London: ACCA, 2003).
30 CSR Europe, Deloitte, and Euronext, *Investing in Responsible Business: The 2003 survey of European fund managers, financial analysts and investor relations officers* (Brussels: CSR Europe and Deloitte, 2003).

The number of indices based on sustainability criteria is growing, as the recent formation of SRI indices in Australia (SAM Sustainability Index and RepuTex SRI Index) and Israel (Maala Socially Responsible Investing Index) can attest. Interestingly, a number of these indices are outperforming their conventional equivalents (DJSI outperformed the Dow Jones Global Index between January 1997 and April 2002, and the JSI has outperformed the S&P/TSX Composite from its inception in January 2000 to December 2004), signalling that SRI and socially-motivated investment is here to stay and will continue to drive corporate social responsibility in the future.

In Canada, the SRI movement is also strong, with total assets managed using social responsibility guidelines reaching $65.5 billion, as of June 30, 2004.[31] The growth of SRI assets in Canada has also outpaced the growth of the total fund market, with SRI assets growing at more than twice the rate of the mutual fund industry as a whole between 1998 and 2000.[32] In addition, the number of mutual funds screened on social and environmental criteria grew from 19 funds in 1998 to 53 in June 2002.[33] Although the growth of SRI in Canada is the result of a number of forces coming together, it is believed that institutional investors, using proxy voting policies and shareholder resolutions, are leading the way to compel the adoption of SRI and corporate social responsibility.

Institutional Investors and Socially Responsible Investment Initiatives

Institutional investors, which include pension funds, insurance companies, mutual funds, universities, foundations, religious organizations, and hospitals, make investment decisions on behalf of their beneficiaries. As institutional investors act as a single economic entity and often control a significant amount of resources,[34] they have the potential to influence the governance structures and policies of the companies in which they invest. Two methods of exerting this influence include proxy voting policies and shareholder resolutions.

Proxy Voting Policies

Proxy voting allows shareholders to vote on company activities such as the election of the board of directors or the appointment of auditors, without attending the company's annual general meeting (AGM). Proxy voting is particularly important for institutional investors as they tend to hold shares in a large number of different companies, making physical attendance at AGMs for all holdings virtually impossible. Proxy voting is also a means for institutional investors to monitor the activities and policies of a company and ensure that these policies and activities are aligned with the values and

31 The Social Investment Organization, *Canadian Social Investment Review 2004: A comprehensive survey of socially responsible investment in Canada* (Toronto: Social Investment Organization, April 2005), p. 5.
32 Government of Canada, Sustainability Reporting Toolkit, cited May 5, 2005. Available at http://www.sustainabilityreporting.ca.
33 See note 16.
34 According to the Public Policy Forum, in 2000, institutional investors in Canada held approximately $1.160 billion in assets. Overall, institutional investors hold close to 40% of the Canadian equity markets. See note 23.

expectations of beneficiaries. In fact, there has been increasing pressure for institutional investors to develop and disclose proxy voting policies to ensure consistency between their votes and the values of beneficiaries. One example is Proposed National Instrument 81-106 Investment Fund Continuous Disclosure Obligations (Table 5). If implemented, this regulation will require mutual funds to disclose their proxy voting policies as well as their records on proxy voting in companies in their portfolios.

there has been increasing pressure for institutional investors to develop and disclose proxy voting policies

Other countries are going further with their requirements for the disclosure of proxy voting policies related to social and environmental issues. In Australia, for example, the *Financial Services Reform Act* now requires providers of investment products to disclose "the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment."[35] The U.K., Belgium, Germany, Sweden, and France all have disclosure requirements for pension plans to disclose how they take into account social, environmental, and ethical factors in their investment decisions.

All of these initiatives are providing more information to beneficiaries, allowing them to determine whether votes on social, environmental, and corporate governance issues align with their declared values. They are also expanding the fiduciary responsibility of the trustees of institutional funds beyond the financial realm. Furthermore, the increased disclosure requirements for investment providers and pension funds in Australia and Europe reinforce the view that social and environmental risks have an impact on the value of investments. Although Canada does not have similar regulatory requirements, it is conceivable that similar disclosure requirements related to sustainability issues will materialize in the future. In fact, as seen in Table 8, there are signs that proxy voting policies in Canada are already beginning to embody social and environmental considerations.

35 See note 32.

Table 8: Proxy Voting Policies and CSR in Canada

Proxy Voting Policies and CSR in Canada

Proxy Voting Policies

A number of institutional investors have developed formal guidelines outlining how they will vote on their proxies. These guidelines not only simplify the process for voting on the many proxies facing institutional investors, but also allow beneficiaries to determine whether the fund's investment policies are consistent with their values. Further, the guidelines can signal to company management which practices and actions are required for continued investment.

Proxy Voting Guidelines

There are generally two types of guidelines: corporate governance and corporate social responsibility. Corporate governance guidelines refer to corporate policies affecting the structure and management of a company and CSR guidelines refer to corporate policies and practices related to social and environmental performance.

To assist companies in crafting their policies and guidelines covering each of these areas, a number of existing guidelines have been developed. An example of a CSR guideline is provided by the Coalition of Environmentally Responsible Economies (CERES). The CERES 10 principles, which have been adopted by a number of organizations including General Motors, Sunoco, and Vancouver City Savings Credit Union, include:

1. Protection of the biosphere
2. Sustainable use of natural resources
3. Reduction and disposal of wastes
4. Energy conservation
5. Risk reduction
6. Safe products and services
7. Environmental restoration
8. Informing the public
9. Management commitment
10. Audits and reports

The Organization for Economic Co-operation and Development (OECD)'s Guidelines for Multinational Enterprises (discussed in Table 1) are another example of guidelines for which institutional investors can base their proxy voting policies.

OMERS Proxy Voting Guidelines[36]

An example of an organization that has endorsed corporate social responsibility in its proxy voting guidelines is the Ontario Municipal Employees Retirement System (OMERS), which manages one of Canada's largest pension funds, with over 350,000 members and pensioners. An excerpt from the OMERS guidelines is shown below:

> E. SOCIAL RESPONSIBILITY, ETHICAL AND ENVIRONMENTAL CONSIDERATIONS INTRODUCTION
> Fiduciaries, according to trust law, must put the financial interests of their beneficiaries first, ahead of any social, environmental or other considerations. That means that OMERS fiduciary duty is to obtain the highest returns for the plan beneficiaries with acceptable risk.
>
> OMERS believes that the effective management of the risks associated with social, environmental and ethical matters can lead to long-term financial benefits for the companies concerned. Therefore, OMERS will monitor the performance of boards with respect to the disclosure of the impact of social, environmental or ethical issues on financial and non-financial investment risks, and engage with companies who in our view could improve the quality of their disclosures. Generally, OMERS believes that shareholders have a right to know about the activities of the companies in which they invest.
>
> OMERS will examine social, environmental and ethical issues on a case-by-case basis. In particular, OMERS will look at the effects proposed actions will have on the corporation's long-term value. Risks to the company's short and/or long-term value arising from social, environmental and/or ethical issues should be identified and assessed. Companies should disclose in their Annual Reports all information on social, environmental and ethical matters that significantly affect the company's short and long-term value.

Continued on next page

36 Ontario Municipal Employees Retirement System's Proxy Voting Guidelines, cited May 9, 2005. Entire guidelines available at http://www.omers.com/English/nts_1_903_1.html.

Table 8: *Continued*

In Ontario, the *Employment Standards Act* and *Human Rights Code* make it illegal to discriminate because of race, ancestry, place of origin, ethnic origin, citizenship, creed, sex, sexual orientation, marital status, family status, or physical handicap. Canadian employment and human rights standards are being extended by some advocates to the operations of Canadian companies in countries where these standards are considered to be inadequate. At the global level, human rights and labour issues are extremely complex and open to divergent cultural and political interpretations. OMERS deals with shareholder resolutions individually, and is guided in its proxy voting on these matters by the letter and the spirit of Canadian human rights and labour legislation.

OMERS believes that adequate policies and procedures for managing these risks should be an integral part of the overall management of a company, including a process for verifying compliance. All proposals involving social, environmental and/or ethical issues should be evaluated on an individual basis.

Voting Recommendation

In general, OMERS will vote in support of:
a) disclosure of risks arising from social, environmental, and ethical issues,
b) assessments of the impact of social, environmental, and ethical issues,
c) pursuit of fair human rights and labour practices,
d) companies instituting policies and procedures aimed at mitigating the risks associated with social, environmental and/or ethical issues, and
e) a process for verification of compliance with a company's policies and procedures providing costs are reasonable.

Shareholder Resolutions

Shareholder resolutions are a means of action available to shareholders wherein they are permitted to submit a proposal for change in a company's actions or policies. The proposal (motion) is circulated to all other shareholders in advance and is voted on at the company's AGM. Although a corporation's directors are not legally bound to take action on these resolutions, even if carried by a majority of shareholders, the directors and managers of the company generally take notice of the resolutions, especially if raised by a significant shareholder such as an institutional investor. As previously discussed, recent changes to the *Canadian Business Corporations Act* in 2001 have made it easier for shareholders of Canadian companies to file shareholder resolutions and bring forward proposals on social and environmental issues. According to The Shareholder Association for Research and Education, as of February 2005, a record number of shareholder proposals had been submitted for voting at Canadian annual general meetings in 2005, with more than 110 proposals filed to February 1, 2005. Examples of key issues included "sky-high executive pay-outs and poor corporate social and environmental disclosure," as well as "a series of proposals filed by pension and mutual funds calling on companies to publish sustainability reports using the Global Reporting Initiative (GRI) guidelines," and "proposals calling for improved disclosure on climate change risks, and supply chain labour rights."[37]

37 The Shareholder Association for Research and Education, "Excessive CEO compensation, environmental disclosure top 2005 proxy targets," *The Pension Report*, (January/February 2005).

This prevalence of activity demonstrates that not only are investors taking advantage of the new rules with respect to shareholder resolutions, but also that social and environmental issues and related disclosure practices are becoming increasingly important to the investment community. These occurrences, taken with proxy voting policies and other institutional investors' initiatives, such as the Carbon Disclosure Project (Table 3) and efforts of the Canadian Coalition for Good Governance (Table 6), demonstrate that institutional investors are playing a significant role in driving corporate social responsibility and corporate sustainability reporting agendas.

Governments and Regulators — Securities Regulation and Future Legislation

Securities regulation and the prospect of future statutory and regulatory requirements are expected to play a significant role in encouraging future developments in corporate social responsibility and corporate sustainability reporting. This point is supported by the findings presented above, where publicly-traded companies, especially smaller entities, view governments and regulatory bodies as important audiences when reporting on sustainability issues. The influence of governments and regulators is created by their jurisdictional authority to impose penalties and to oversee the granting and withdrawal of a company's license to operate. As agents of society, governments and regulators encourage and deter certain corporate activities and set disclosure requirements that are consistent with the values of society. As the values of society evolve to reflect growing concerns over the sustainability of social and environmental systems, it is felt that corporate legislation and regulations will increasingly shift to reflect these values in the absence of voluntary compliance.

corporate legislation and regulations will increasingly shift to reflect the values of society in the absence of voluntary compliance

Securities Regulations

Securities regulators regulate the activities of publicly-traded companies (reporting issuers) on behalf of investors. As investors are increasingly concerned with the environmental and social risks of their investments, we should continue to see securities regulations that encourage improved corporate governance and corporate disclosure with respect to environmental and social issues. Securities regulators in Canada have already taken a number of steps in this regard, with new continuous disclosure requirements for the Management Discussion and Analysis (MD&A) and the Annual Information Form (AIF) that include disclosures for material social and environmental risks and policies. Further, proposals for improved corporate governance policies and CEO and CFO certification of annual filing requirements promise to enhance the credibility of these disclosures (Table 5).

These initiatives are thought to be a part of a global shift towards greater disclosure requirements related to social and environmental issues for listed companies. Recent initiatives in the U.K. (mandatory disclosure of environmental and social issues in the Operating and Financial Review) and South Africa (the King Committee Report on Corporate Governance recommendation for

sustainability reporting by companies listed on the Johannesburg Stock Exchange) accentuate this trend. According to the World Business Council on Sustainable Development, it may be only a matter of time before we see regulations for corporate social responsibility.[38] As this trend evolves and as companies face increased requirements for disclosure, the importance of CSR and corporate sustainability reporting will also intensify.

Government of Canada Pressures

As previously discussed, the government of Canada is signatory to, and supporter of, a number of international initiatives related to sustainable development. As part of its strategy to encourage sustainable development in Canada, the government has developed Sustainable Development Strategies for its federal departments and selected agencies, and has undertaken a number of mandatory and voluntary initiatives directed at business. Although there is a belief that these efforts, especially the voluntary initiatives, are modest in encouraging sustainable development and CSR in Canada, and that the private sector has been more successful in driving CSR, the few mandatory initiatives the government has implemented have had positive impacts. As previously discussed, changes to the *Canada Business Corporations Act* (CBCA) have allowed for an increase in the number of shareholder proposals and requests for greater disclosure of environmental and social issues. Concurrently, revisions to the *Bank Act*, which now require larger financial institutions to publish annual public accountability statements, have increased the number of sustainability reporters from four to 19.[39]

increased intervention by governments will play a key role in continuing the drive towards CSR and corporate sustainability reporting

These initiatives demonstrate the reach and power of government to encourage corporate social responsibility. Given this influence, it is believed that the prospect of increased intervention by governments will also play a key role in continuing the drive towards CSR and corporate sustainability reporting in the future. A recent example of how potential regulations influence corporate actions was witnessed in the events leading up to the ratification of the Kyoto Protocol. A number of companies, including TransAlta Corporation in Canada,[40] purchased Certified Emission Reductions under the Kyoto Protocol well before the Protocol was ratified on February 16, 2005, and well before the government of Canada had released its Kyoto plan ("Moving Forward on Climate Change — A Plan for Honouring our Kyoto Commitment") outlining reduction targets for large final emitters. This move not only demonstrates a proactive approach to CSR by these companies but it also illustrates how the government and the prospect of future legislation can influence corporate social responsibility.

38 World Business Council for Sustainable Development, *Sustainable development reporting: Striking the balance* (Switzerland: World Business Council for Sustainable Development, December 2002), p. 55.
39 See note 16.
40 On August 24, 2004, TransAlta completed the first Canadian Certified Emission Reduction purchase under Kyoto, by purchasing 1.75 million tonnes of greenhouse gas reductions from a Chilean company named Agricola Super Limitada.

Consumers and Employees — CSR and Corporate Reputation

Increasingly, companies are realizing that a reputation for social and environmental responsibility is necessary for attracting both customers and talented employees. This point is confirmed by a Conference Board of Canada poll that found that 81% of Canadians are more likely to purchase from, and 79% to work for, companies they view as socially responsible.[41] The relationship between a company's reputation and how well it manages environmental and social issues is expected to continue to grow, especially as today's younger generation, which has grown up with social and environmental issues (sometimes referred to as the "Kyoto Generation"), becomes the future customers and employees of these companies.[42]

Employee Pressures

Corporate reputation is important in attracting, retaining, and motivating talented employees. In this mobile world where employment relationships change more rapidly than in the past, the best and brightest end up working with companies that align with their values. Trends suggest that these values are shifting towards more qualitative and non-monetary values, as demonstrated by the emergence of affirmative action, alternative work arrangements, and flexible benefit plans seen today. Proactive companies that identify with this trend and employ these strategies are seen as being more likely to attract the best employees. Further, companies that expand this social responsibility to all aspects of their operations are also more likely to retain and motivate these employees and enhance their reputations with all stakeholders.

Consumer Pressures

A solid reputation of social responsibility is also important in attracting customers. An Environics survey of 25,000 consumers in 23 countries found that 51% of consumers in North America and Oceania had actually punished a company based on its perceived conviction to social responsibility, or lack thereof.[43] Ethical considerations, or "green" consumerism, is forcing companies to change their products and services to be more in tune with the values of sustainable development. Recent examples include the growth of the organic food and fair-trade product industries, and the popularity of sweatshop-free clothing. The social responsibility of companies has also moved beyond the manner in which products and services are produced to examining the impacts these products or services impart after having been acquired by consumers. Examples of this expanded responsibility include recent pressures for companies to address obesity through the production of trans fat-free foods and the rising

41 Reported by Susan Flynn in "Winning with Integrity: The Business Case for Corporate Social Responsibility," based on a presentation by Adine Mees of Canadian Business and Social Responsibility. Available at http://www.cbsr.bc.ca/files/ReportsandPapers/WinningwithIntegrityAMpdf.pdf.

42 This trend is already evident today as a number of business schools in Canada now include social and environmental issues within their curriculum. As these students become business leaders, they are likely to bring these values to their future employers, helping encourage CSR in the future.

43 Environics International Ltd., *The Millennium Poll on Corporate Social Responsibility* (Toronto: Environics International Ltd., 1999).

popularity of hybrid cars as a way to reduce the impacts of CO_2 emissions on global warming. Eventually, it is expected that companies will be obliged to assume the greatest responsibility for the stewardship of a product or service over the entire lifespan of that product or service, from raw material extraction to transportation and ultimately to its recycling, reuse, or recovery.

Some individuals posit that although consumers express a conscious desire to punish or reward companies based on their approach towards CSR, in reality consumers continue to be motivated by cost consideration and personal gain. Although there is some truth to this argument, the trends identified herein demonstrate that the values of consumers and of society as a whole are positively influencing the behaviours of companies. Even without embracing pure altruism, we must concede to the importance of consumers in the competitiveness and survival of commercial enterprise. Companies know that an inability to innovate and to demonstrate CSR management practices will affect future reputation and ultimate financial success.

companies will be obliged to assume the greatest responsibility for the stewardship of a product or service over its entire lifespan

II. The Business Case for CSR and Corporate Sustainability Reporting

The Business Case for CSR

Many contend, perhaps by default, that it is the responsibility of governments to pursue policies that reflect societal values, while businesses should concentrate on maximizing profits to their shareholders. However, as the preceding analysis has outlined, businesses are addressing their responsibility to society in response to market forces and stakeholder pressure. In responding to these pressures, not only are companies becoming more socially responsible, they are doing so in a manner that pursues value for owners. In this respect, social responsibility and profitability need not be mutually exclusive.

In the context of stakeholder concerns, there are a number of reasons why corporate social responsibility improves shareholder value. With respect to customers and employees, CSR can enhance reputation, leading to greater sales and the ability to attract and retain talented employees. Companies that endorse CSR are also more likely to identify social and environmental risks, and avoid unnecessary penalties or liabilities. Investors are also more likely to provide capital to companies that have appropriately identified all business risks, improving access to capital while reducing the cost of capital necessary to conduct business. Other improvements to the bottom line attributed to CSR include operating cost savings (e.g. identification of energy or water-use inefficiencies), improved management information for decision-making, development of a competitive advantage through differentiation from non-CSR competitors, and increased opportunity for innovation and the development of socially-responsible processes, products, and services. Together, all of the benefits increase shareholder value in both the short-term

through improved net revenues and the long-term through improved strategic information, enhanced reputation, efficient capital, competitive advantage, and innovation.

There have been a number of studies and surveys supporting the case for corporate social responsibility. One study involves a meta-analysis of over 50 other studies published between 1972 and 1997 that examine the link between corporate social performance and corporate financial performance. The results of the meta-analysis, published in a paper titled *Corporate Social and Financial Performance: A Meta-Analysis,* found that there is an unambiguous positive affinity between corporate social performance and corporate financial performance. Furthermore, the authors of the paper go on to say that there is a "virtuous cycle" between corporate social and financial performance, with each enhancing the other.[44] The business community is also confirming the business case for CSR, as PricewaterhouseCoopers, in its 6th Annual Global CEO survey, found that 79% of CEOs believe that "sustainability is vital to the profitability of any company."[45]

What these companies are recognizing is that intangible assets such as reputation, human and intellectual capital, and management skills are an increasingly important part of a company's market capitalization. In fact, the intangible value of companies (as a function of market capitalization less balance sheet net worth) increased from 17% of market capitalization in 1981 to 71% in 1998.[46] As companies enhance the value of these intangible assets through CSR, they are contributing to sustainable development, all the while achieving value for their shareholders.

The Business Case for Corporate Sustainability Reporting

In order to benefit from the adoption of socially responsible business practices, it is not enough to simply act responsibly — companies must effectively communicate this approach to their stakeholders. Corporate sustainability reporting is the means by which companies can communicate their policies and practices related to sustainability issues, and demonstrate their social responsibility and performance to stakeholders.

intangible assets such as reputation, human and intellectual capital, and management skills are increasingly important

Over recent times, as investor and public confidence has been eroded due to corporate scandals (e.g. Nortel, WorldCom, and Enron) and questionable business practices, society is demanding that companies become more transparent in how they operate, both financially and socially. Corporate sustainability reporting is a means by which to promote and publicize this transparency, and thus enhance a company's ability to shape its reputation with the public. Sustainability reporting also provides companies with the information necessary to satisfy regulatory requirements (i.e. social and

44 Marc Orlitzky, Frank L Schmidt, and Sara Rynes, "Corporate social and financial performance: A meta-analysis," *Organization Studies* 24, No. 3 (2003), p. 403-411.
45 PricewaterhouseCoopers, *6th Annual Global CEO Survey: Leadership, Responsibility, and Growth in Uncertain Times* (New York: PricewatherhouseCoopers, 2003), p. 26.
46 Sarah Roberts, Justin Keeble, and David Brown, *The Business Case for Corporate Citizenship* (Cambridge: Arthur D. Little Ltd., 2002).

environmental risks and policies) and the growing information needs of investors inclusive of the SRI community (i.e. satisfying requirements of sustainability rating agencies and meeting the disclosure requirements of proxy voting policies of institutional investors). In so far as operating within the capital markets, corporate sustainability reporting enables companies to provide information on business performance and risks, including those of a social and environmental nature, necessary to maintain the efficient allocation of resources within these markets.

Although corporate sustainability reporting can reasonably be viewed as an extension of corporate social responsibility, sustainability reporting can also drive CSR. As companies communicate on their social and environmental performance, they essentially establish benchmarks and goals against which stakeholders can evaluate future or prospective performance. Once benchmarks are established, formally or otherwise, the goals emanating from them will organically flow such that a blueprint for corporate success will be articulated. Perhaps clumsy at inception, companies will then take steps to achieve expected goals while demonstrating that performance is improving over time. This philosophy, which is not so unlike the current approach taken with financial reporting and performance, will drive future CSR initiatives and performance.

III. Sustainability Reporting Horizons

Enhancing Corporate Sustainability Reporting

unlike financial reporting, sustainability issues tend to be more qualitative in nature and address broader groups of stakeholders

The preceding analysis shows that corporate sustainability reporting is growing in Canada. This growth is expected to continue as companies increasingly recognize the value sustainability reporting can offer in satisfying stakeholder demands for transparency and social responsibility. However, despite this growth, the analysis also reveals that, to date, the adoption of corporate sustainability reporting in Canada has not been uniform. A significant number of companies, especially smaller entities, currently do not report on their social or environmental performance. Further, growth in the number of reporters and the budgets allocated to reporting on sustainability issues is only expected to be moderate. Companies are also expressing a number of concerns with respect to sustainability reporting practices and guidelines, citing problems with the costs of reporting, information overload of stakeholders, the vagueness of reporting practices and guidelines, and the credibility of sustainability reports.

These concerns and the slow growth in sustainability reporting can be attributed to two factors. First, sustainability reporting is still in its infancy. Proponents and practitioners are still wrestling with questions of best practice and the intended character of future reporting codes, principles, and/or guidelines. Second, unlike financial reporting, which has a clear unit of measure and a

defined audience, sustainability issues tend to be more qualitative in nature and address broader groups of stakeholders. This ambiguity and diversity contributes to the difficulties of establishing best reporting practices, codes, principles, and guidelines. Until these issues can be reasonably addressed, sustainability reporting is not expected to experience widespread adoption current stakeholder pressures suggest.

Improving Guidelines and Reporting Practices

Standardization of Reporting

Due to the infancy of sustainability reporting and the complexity of reporting qualitative issues to diverse audiences, there is tremendous variation in the quality, comprehensiveness, and content of current sustainability reporting practices, systems, and directives. This inconsistency creates confusion amongst users of sustainability reports, as they are limited in their ability to make meaningful company comparisons. Further, the credibility of reports is diminished as users do not have a yardstick against which they can distinguish socially responsible companies from others. In turn, companies are less inclined to engage in, and report on, CSR activities as they question whether they will be rewarded for their socially responsible actions. To reduce confusion and improve the comparability and credibility of sustainability reports, it is important that companies report with reliance on the same sustainability reporting principles. By establishing a sustainability framework and a common set of reporting principles, credibility is enriched while users benefit from analogous information by which to make useful comparisons.

Need for a Global Framework

Companies increasingly find themselves competing in a global marketplace for finite capital and resources. To ensure the efficiency of these markets, it is important that the information provided to investors, both financial and non-financial, is based on a common reporting framework. As a result, a framework for sustainability reporting should be global in scope. Not only is a global approach to establishing a sustainability reporting framework consistent with the approach taken by the International Accounting Standards Board (IASB) in developing international financial accounting standards, it is also consistent with the view that sustainability issues and sustainable development are global in nature.

At this point, the Sustainability Reporting Guidelines (Guidelines) provided by the Global Reporting Initiative (GRI) represent the best framework for achieving necessary standardization. The attractiveness of the GRI Guidelines as the standard for sustainability reporting is in large part attributable to the multi-stakeholder approach adopted in the development of those Guidelines. As the Guidelines are developed using a consensus-driven process that involves stakeholders from all sectors of society, it is considered more likely that the Guidelines reflect accurately the values of society over those of one

particular group. Also, the continuous improvement model ascribed to by the GRI permits that the Guidelines be aligned with societal values as they shift over time. The success of the GRI is unmistakable, as over 650 companies now use the GRI Guidelines to prepare their sustainability reports, while a growing number of organizations are recommending reliance on those GRI Guidelines. For example, since September 1, 2003, all companies listed on the Johannesburg Securities Exchange (JSE) are required to disclose information in financial statements with regard to the Code of Conduct (King Code) provided by the King Committee Report on Corporate Governance. According to the King Code, "disclosure of non-financial information should be governed by the principles of reliability, relevance, clarity, comparability, timeliness and verifiability with reference to the Global Reporting Initiative sustainability reporting Guidelines."[47] In addition, a coalition of 17 socially responsible investment firms representing in excess of $147 billion in assets, recently issued a statement urging companies to disclose environmental and social information using the GRI Guidelines.[48] GRI has also taken steps to describe how its Guidelines relate to other global sustainable development initiatives such as the UN Global Compact, Organisation for Economic Co-operation and Development's Guidelines for Multinational Enterprises, and the Millennium Development Goals.

over 650 companies now use the GRI Guidelines to prepare their sustainability reports

Although there may be concern that it is too early to move towards a global sustainability reporting framework, it is believed to be counterproductive not to, given the global nature of the business environment and the general trend towards international standards (e.g. International Organization for Standardization's ISO 14000 standard and the Greenhouse Gas Protocol's internationally-accepted accounting and reporting standards for greenhouse gas emissions). In fact, an opportunity exists to learn from the experiences of these other global initiatives, as well as develop global sustainable reporting guidelines before countless diverging reporting systems and standards surface. This latter point is particularly important, as other global initiative, such as IASB's development of International Financial Reporting Standards (IFRS), have had to deal with difficulties of harmonizing a number of divergent national standards.

The move towards a globally-accepted sustainability reporting framework is important for comparability, consistency, and credibility. However, as sustainability reporting is still in its infancy, it is prudent that sustainability reporting guidelines not become too rigid without first learning from the experiences of reporters. In addition, given the complexity of sustainability issues and reporting, a certain degree of flexibility within this framework will continue to be desirable if we are to fully benefit.

47 Global Reporting Initiative,cited May 9, 2005. Available at http://www.globalreporting.org.
48 "Analysts at 17 Leading Socially Responsible Investment Firms Urge Stronger Corporate Reporting," News release, October 6, 2004. Available at http://www.socialinvest.org/areas/news/100604-CorporateReporting.htm.

Benefiting from the Experience of Reporters

As the practice of sustainability reporting is relatively new, companies are in the process of developing the management and reporting systems required to identify, capture, and report information. Companies are also in the process of engaging stakeholders for the purpose of identifying information needs and feasibility. As a result, it is important to not move too fast towards the development and endorsement of a globally-accepted sustainability reporting framework. Reporting guidelines should stay flexible enough, at least in the short-term, to learn from the experience of reporters. Maintaining this openness, especially given the complexity of reporting on social and environmental issues, will ensure the development of more meaningful indicators and guidelines.

Maintaining Flexibility

Although standardization is important for comparability, consistency, and credibility, a globally-accepted framework for sustainability reporting must remain flexible. First, the importance of social, economic, and environmental issues varies depending on a company's size, location, or industry. For example, workplace safety issues or groundwater contamination may be more relevant to a mining company than to a financial services organization. Second, information needs and interests will vary depending on stakeholder group. For example, the local community where a chemical manufacturer operates may have a greater interest in information about the emissions released by the manufacturing plant or the average wages paid to local employees, while the company's customers may place greater value on information about the safety of the company's products. In order to assess and to address these challenges as they arise, sustainability reporting guidelines must remain flexible, with a view to honouring the spirit of disclosure.

The approach taken to date by GRI, with its "core" and "additional" indicators provides a good balance of standardization and flexibility. This approach is encouraged going forward, as is the development of specific sector supplements created to provide guidance for different industry sectors.

the move towards a globally-accepted sustainability reporting framework is important for comparability, consistency, and credibility

Meeting the Needs of Smaller Entities

It is apparent from the views of publicly-traded companies in Canada that smaller entities are relatively more concerned about the added costs of reporting on sustainability issues than are larger ones. This concern has only been heightened by increasing disclosure requirements created in response to recent accounting failures and alleged executive misconduct. Although these concerns are valid, as smaller entities tend to have more limited resources for reporting, it is held that publicly-traded companies, regardless of size, must adhere to identical standards. All publicly-traded companies compete for capital in the markets and might consequently be expected to do so equitably. In keeping with goals of maintaining efficient capital markets, it is reasonable to command that financial and non-financial information be prepared using the same principles. That

understood, a number of steps can be taken to ensure that disclosure requirements are not overly burdensome for either smaller or larger companies. In particular, leaving sustainability reporting as a voluntary act would allow companies to decide at which level the benefits of additional disclosure outweigh the associated costs. More importantly, the discretion to report would be heavily mitigated by influence and conduct of stakeholders. As such, the efficiency with which capital markets operate need not be violated.

sustainability reporting should, at least in the short-term, remain voluntary

Voluntary Sustainability Reporting

Although there is substantial support for mandatory reporting of sustainability issues, we believe that sustainability reporting should, at least in the short-term, remain voluntary. A voluntary approach, such as that taken by the GRI, is important as sustainability reporting is still relatively embryonic and guidelines or reporting practices are still evolving. Until reporters have adequate time to experiment with reporting forms, content, and media, and users have time to identify their information needs, it is too early to render reporting mandatory.

An argument made against a voluntary approach to reporting is that companies, given the option, are more likely to not report on sustainability performance. However, as the trends suggest, stakeholder pressures and market forces are driving companies to report on sustainability issues. Another concern raised with the voluntary approach is that information provided by those who do report will not be comparable. Although this is a valid concern, the growing support and recognition of the Global Reporting Initiative suggests that market forces are also driving companies to report using the same set of sustainability reporting principles and would contend also that the issue of uniformity can be examined apart from that of obligation. As market forces continue to drive sustainability reporting and as the GRI Guidelines are increasingly recognized as the framework for sustainability reporting, calls for mandatory sustainability reporting requirements should decline.

Efficient Indicators and Guidance

Whether mandatory or voluntary, reporting indicators and guidance must be efficient if adoption of sustainability reporting guidelines is to be actualized. Popular opinion suggests that with 50 core indicators, the GRI Guidelines are overly burdensome. More so, there are concerns that a number of these indicators are too qualitative and difficult to report. These concerns are reflected in the views of publicly-traded companies in Canada that insist that current sustainability reporting guidelines are too costly, vague, and result in information overload for their stakeholders.

While we expect that next iteration of the GRI Guidelines (“G3”) will address a number of these concerns, it will be essential for the GRI to develop a smaller set of core indicators. In providing a smaller set of core indicators, it is believed that the Guidelines can still allow comparisons

within and between industries, while reducing unnecessary exposure to complexity, cost, and overload. Further, to encourage comparability and facilitate audit, efforts are required to render these indicators more amenable to quantification. Quantitative indicators allow for consistent reporting, while they also afford the opportunity to enhance credibility by way of external verification, review, or audit.

Improving Credibility

"Greenwashing" and Credibility Issues

According to the European Federation of Accountants (FEE) "CSR reporting, without assurance, is rightly seen as little more than advertising." There is legitimate concern that companies are using sustainability reports merely as a means of enhancing reputation and social image without corresponding operational realities. This apprehension, sometimes referred to as "greenwashing," is reflective of a concurrent view that corporate sustainability officers, or those responsible for sustainability reporting, are often individuals from the public relations or corporate relations department of a company. Concerns over the credibility of sustainability reports are also shared by companies that already report on sustainability issues. As the foregoing analysis has revealed, credibility of sustainable reporting is the biggest issue for companies with substantial coverage of sustainability issues.

Given the relative infancy of sustainability reporting and the complexities associated with reporting on and providing assurance for sustainability issues, concerns over credibility of sustainability reports are likely to persist, at least in the short-term. Until reporters are seen as having taken steps to improve the credibility of their reports, and until reporting and assurance techniques evolve to deal with the unique nature of non-financial information, the public and users of sustainability reports will continue to question the intentions of these reports and the legitimacy of information provided.

there is legitimate concern that companies are using sustainability reports merely as a means of enhancing reputation and social image without corresponding operational realities

Improving the Credibility of Sustainability Reports

Unlike financial information, which has a defined unit of measure, sustainability information is more qualitative in nature and, therefore, more difficult to interpret, verify, and audit. However, a number of options are available to improve the credibility of sustainability reports in the eyes of stakeholders. These methods, which range from improved stakeholder engagement to third-party assurance, are described in Table 9.

Table 9: Approaches for Improving the Credibility of Sustainability Reports

Approach	Description of Approach
Stakeholder engagement	Dialogue with stakeholders to learn about their concerns and what information is important to them; will help eliminate "trust barriers" with stakeholders
Corporate governance	Improving corporate governance through greater independence of boards and audit committees, and/or through the establishment and disclosure of corporate codes and policies related to sustainability reporting and CSR activities; will also help eliminate trust barriers
Internal audit or review	Implementing appropriate internal control procedures and reviews to ensure that management and reporting systems capture and report information accurately
Assurance statements by stakeholders or external experts	Independent statements or evaluations by external experts or specific stakeholder groups attesting to the validity of disclosures in sustainability reports
Third-party assurance	Independent opinion regarding the effectiveness of internal systems and processes and/or data contained in sustainability reports
Comprehensive reporting and the reporting of "bad news"	Reporting trends or presenting results based on achievements relative to targets or external benchmarks, regardless of whether the results are good or bad; reporting bad news demonstrates transparency and enhances credibility
In accordance with GRI	Preparing reports in accordance with GRI Guidelines (see Appendix 2 for criteria) requires the board or CEO to state that the report represents a balanced and reasonable presentation of their organization's economic, environmental, and social performance

Sustainability reporters may use a number of the approaches listed in Table 9 to increase the credibility of their reports. This is significantly different from financial information where credibility is typically enhanced using a single approach (i.e. third-party verification through either review or audit). Encouragingly, we can expect that, as sustainability reporting guidelines and indicators are refined and rendered more quantifiable, third-party assurance techniques for sustainability reporting shall begin to resemble those available to financial reporting.

there are no internationally-accepted assurance standards applicable to sustainability reporting

Internationally-accepted Assurance Standards

Although there are no internationally-accepted assurance standards applicable to sustainability reporting, efforts are currently underway to establish standards. AccountAbility, a non-accountancy organization, has developed the AA1000 Assurance Standard to give assurance providers guidance on how to

design and implement assurance assignments relating to sustainability reporting. Building on mainstream financial, environmental, and quality-related assurance, the AA1000 standard aims to strengthen the credibility and quality of sustainability reporting and the underlying processes, systems, and competencies used to develop sustainability reports. The International Federation of Accountants (IFAC), which has developed a set of standards for financial statement auditing, has also released a standard related to sustainability auditing. The standard, identified as ISAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, provides basic principles and procedures that can be used for assurance engagements relating to sustainability reports. The issuance of both of these standards demonstrates that there is a trend towards developing internationally-accepted sustainability assurance standards.

The involvement of IFAC, big accountancy firms, FEE, and other accountancy bodies in sustainability assurance demonstrates a growing interest of the accounting profession in sustainability assurance. In fact, according to the 2002 KPMG International Survey of Corporate Sustainability Reporting, a quarter of environmental, social, and sustainability reports were verified by independent third parties, and that 65% of these verifications were carried out by major accounting firms.[49] Although this migration of the accounting profession presents great potential in improving the credibility of sustainability reporting, it is important that these efforts proceed with caution and do not blindly follow financial assurance standards. Given the complexity of reporting on sustainability issues, future assurance must reflect the unique nature of social and environmental information.

governments have no basis from which to establish mandatory requirements for corporate social responsibility and sustainability reporting

The Role of Government

As an agent of society and as an institution with the authority to mandate certain behaviour, government has the power to shape future directions in CSR and corporate sustainability reporting. The influence of government is validated by the views of publicly-traded companies, which have shown that regulatory requirements are considered the most important factor driving sustainability reporting. However, despite the power of governments and the view by some that governments should make corporate social responsibility and sustainability reporting mandatory, there are a number of reasons why these activities should remain voluntary, at least in the short-term:

- CSR and corporate sustainability reporting are still in their infancy. Until standard management and reporting practices develop, governments have no basis from which to establish mandatory requirements for corporate social responsibility and sustainability reporting.

49 KPMG and University of Amsterdam, *KPMG International Survey of Corporate Sustainability Reporting 2002* (The Netherlands: KPMG Global Sustainability Services, June 2002).

- Sustainability issues are qualitative in nature and vary depending on a company's size, industry, and location. Given the complexity and variability, not only is it difficult to establish standards, it is also difficult for governments to monitor and enforce compliance. Furthermore, as governments often find themselves having to develop regulations that accommodate all interests, there is a fear that a mandatory standard would be diluted, and as a result, would likely have little impact in driving CSR and corporate sustainability reporting.

- Stakeholder and market pressures are resulting in growing adoption of CSR and corporate sustainability reporting without significant government involvement. In fact, according to Canadian Business for Social Responsibility, the private sector has been "leading and setting the CSR agenda," while government has been in "catch-up mode."[50]

There are, however, a number of initiatives that federal and/or provincial governments can undertake to encourage and promote CSR and corporate sustainability reporting, especially in areas not supported by other stakeholders or where a voluntary approach is considered inadequate.

governments must use their legislative authority to either encourage or discourage behaviour in a manner that reflects the values of society

- **Provide legislation to adjust for environmental externalities.** Markets do not appropriately incorporate the price of externalities. For example, in the case of air pollution, an un-regulated company that releases toxic emissions into the air typically does not incorporate the cost of this pollution into its products, even though the pollution may pose costs to society (e.g. future health costs). This problem is common to a number of environmental issues where public goods (e.g. clean air, water, and soil) are involved. Therefore, to ensure that the market appropriately addresses environmental externalities such as air pollution, governments must use their legislative authority to either encourage or discourage behaviour in a manner that reflects the values of society. The *Canadian Environmental Protection Act*, which requires companies to supply information on certain pollutant emissions to the National Pollutant Release Inventory (NPRI), is an example of one such initiative.

- **Use fiscal policy tools to encourage CSR.** In addition to legislation, governments can use a number of fiscal policy tools, such as green taxes, green technology grants or subsidies, and tax credits, to encourage CSR.

- **Commit to legislative or fiscal policy initiatives.** It is not enough for governments to simply implement regulations or announce new commitments related to corporate sustainability. To ensure that these initiatives achieve

50 Canadian Business for Social Responsibility, *Government and Corporate Social Responsibility: An Overview of Selected Canadian, European and International Practices* (Vancouver: CBSR, April 2001).

the desired outcomes, governments must also provide the appropriate monitoring and enforcement activities.

- **Remove obstacles and provide information to stakeholders.** Corporate stakeholders require information and the legislative authority to influence CSR. Governments can revise legislation so that stakeholders are not prevented from rewarding or discouraging companies based on their actions. For example, revisions to the *Canada Business Corporations Act* have made it easier for shareholders to file shareholder proposals based on social and environmental issues. Future efforts could involve changes to pensions laws, similar to what has occurred in many jurisdictions in Europe, so that pension plans are required to disclose how they take social, environmental, and ethical factors into their investment decisions.

- **Demonstrate leadership.** As mentioned above, the government of Canada has fallen behind business in leading CSR. To add more credibility to its legislative and policy initiatives related to CSR and corporate sustainability reporting, the government must demonstrate leadership. In this regard, the government of Canada, as a large purchaser, could demonstrate a stronger commitment to the purchasing of products and services from socially responsible companies.

- **Promote dialogue and share information.** Governments can continue to encourage the sharing of information and knowledge through guides, Web sites, conferences, and stakeholder networks (i.e. where companies, CSR organizations, and the public can discuss best practices and issues with CSR and sustainability reporting). In addition, the government can support further research into the business case of CSR and sustainability reporting, as well as look into the development and provisioning of appropriate social, environmental, and economic performance benchmarks for corporations.

The Role of Securities Regulators

Securities regulators acting in the interests of investors have an impact on the corporate sustainability reporting activities of publicly-traded companies (reporting issuers) in Canada. To date, securities regulators have taken a number of steps to encourage and require better corporate governance and disclosure by reporting issuers (Table 5). These initiatives serve well as a minimum standard for the disclosure of sustainability issues, especially for smaller entities. This is particularly true as there is an increasing presence of sustainability information in financial statements (e.g. environmental liabilities and contingencies, and accounting for greenhouse gas emissions and credits) and disclosures in the MD&A are increasingly encouraged to address the impacts social and environmental issues have on current and future corporate performance. In addition, with current and proposed regulations, the credibility

of these disclosures is further heightened as the MD&A and financial statements both attract board approval and will soon require CEO and CFO certification.

However, some companies may feel inclined to exceed these minimum requirements due to their larger size, greater social and environmental impacts, and/or stakeholder demands. As is evident from the analysis, a significant number of companies are already voluntarily reporting on sustainability issues in a more comprehensive manner through an integrated annual report or stand-alone sustainability report. Although a voluntary approach is encouraged for reasons stated above, it is important for those companies that go beyond their regulatory requirements to do so in a manner that is as consistent, comparable, and credible as possible. As the Sustainability Reporting Guidelines provided by the GRI assist companies in improving the consistency, comparability, and credibility of their sustainability reports, it is recommended that the GRI Guidelines become a mandatory requirement for reporting issuers that go beyond the regulatory minimum. At first glance, this recommendation may appear burdensome for reporting issuers. As the GRI allows incremental adoption of its sustainability reporting guidelines, however, companies can report to the extent that is deemed appropriate based on their particular circumstances.

Regulatory requirements for disclosure of sustainability issues by publicly-traded companies are increasing throughout the world. A similar initiative to what is recommended here has already taken place in South Africa for companies listed on the Johannesburg Securities Exchange. As Canada's securities regulators consider future requirements related to sustainability disclosures, it will be useful to monitor the progress of these other initiatives.

The Role of Society

> if society truly believes in the goals of sustainable development and CSR, society must likewise assume its responsibility and play its part

Ultimately, society is pushing CSR and corporate sustainability reporting agendas. We must concede that governments, regulators, and business are institutions created to achieve the goals of society. Therefore, if society truly values CSR, then it must behave in a way that promotes and rewards solid governance and responsible corporate behaviour. Stakeholders and customers must be prepared to pay the true cost of products and services. Employees must be willing to walk away from companies that do not embrace CSR, even if it means a lower wage. Investors must be willing to invest their savings in socially-responsible companies, even if it means lower returns in the short term.

As the directors, managers, and employees of companies, society must take steps to ensure that companies conduct their operations in a socially responsible manner and effectively communicate this performance to stakeholders. Society must also ensure that governments and regulators play their roles in correcting market failures (i.e. externalities) and that they provide the information and authority necessary for society to hold companies accountable for their actions. If society truly believes in the goals of sustainable development and

CSR, society must likewise assume its responsibility and play its part. Importantly, citizens must embrace their personal obligations to society and behave in ways that reward stewardship, ingenuity, and social responsibility. It is not enough, nor is it equitable, to simply place the burden squarely on the shoulders of government and enterprise.

5 Closing Comments

The commercial sector is increasingly conscious of the range of non-financial issues, while the financial sector — investors, lenders, insurers, and analysts — has recognized that the convergence of financial and non-financial outcomes has begun to take shape. As a result, some companies have made significant progress in responding to the need for enhanced transparency on key issues and the broader call for enhanced corporate social responsibility. Others have not.

What is clear is that some companies have not identified material strategic and financial risks or opportunities that relate to economic, environmental, and social impacts. As such, they have not been swept up in the wider corporate social responsibility movement or the triple-bottom-line agenda. These candidates are therefore unlikely to embrace provisional sustainability reporting or to consider its legitimacy in communicating their corporate successes and challenges.

View reporting as a requisite of engagement and achievement, not as a substitute for good corporate governance and social responsibility.

Possibly the clearest, most irrefutable, trend in corporate sustainability reporting is its growth. While more pronounced in Europe and the U.K., the proliferation of sustainability reporting practices in Canada might be expected to swell as regional and global pressures of stakeholders come completely to bear on commercial activity. There is, however, no guarantee that the trend will continue or that its popularity will intensify. For sustainability reporting to mature, issues of substance, credibility, communication, and reward must be addressed.

On the immediate horizon, societal values and market conditions must motivate and reward reporting.

While we stand on the speculative threshold of a new era in corporate disclosure, we are unlikely to experience uniformity in reporting and disclosure until such time as the challenges with the Global Reporting Initiative, or any plausible alternate, can be resolved. By our indications, Canada is not ready for full adoption of GRI nor is it uniformly receptive to mandatory compliance. Some groups contend that voluntary reporting will never go far enough on its own, while others insist that further regulation or observance is costly and ineffective.

The real opportunity for GRI lies in its voluntary application, where companies can expect to harvest appreciation for their efforts and fiscal reward from stakeholders.

In terms of credibility, the most significant contributions may well come in the form of mandatory issuance and third-party assurance. Given, however, the imperfect support for accounting standards-setting bodies to fully adopt formal guidelines, it may well be too soon to mandate compliance or to introduce assurance standards.

Importantly, credibility can be reinforced by adapting the tone of the report to signal both the good and the bad news. Some have alleged that sustainability reports can be tainted when companies are so anxious about sharing positive results that failed results are underestimated or overlooked entirely. If reports are to be taken seriously, they must avoid the tendency to respond to marketing agendas.

Where sustainability reporting is the order of the day, the benefit of third-party assurance cannot be overstated.

Finally, we must recognize that sustainability reporting enjoins the adoption of a broader corporate social responsibility (CSR). Moreover, the process of reporting often catalyzes change, leading to the integration of social and environmental sustainability issues into corporate culture and behaviour. Proponents of CSR reporting, which defines a company's ultimate worth in economic, social, and environmental terms, contend that CSR, propped by effective sustainability reporting, permits companies to generate and nurture human, environmental, and economic capital; optimise gains in all of these areas; and, identify, monitor, and measure losses in all three areas.

In effect, corporate sustainability reporting adds social and environmental performance to financial accomplishment. The emerging approach to sustainability reporting complements traditional financial reporting on a company's past performance. It is forward-looking, shaping the impacts that a company's activities will have on future generations. And because what gets reported gets measured and managed, company directives should encourage disclosure of reporting policies as well as express information such as ratios and absolute values that can serve as indicators or benchmarks.

Sustainability reporting validates sustainability as a significant measure of business success.

Sustainability reporting is an evolving science and it will take some time to integrate qualitative and quantitative information into internal management systems and decision-making processes. Only by means of balanced reporting on the value that a company generates for stakeholders — whether they be shareholders, employees, customers, or the public — will these groups be able to properly value the worth and contribution of a company.

Appendix 1

6

Acknowledgement of Participants

CGA-Canada would like to recognize the valuable contributions made by all the Canadian listed companies that generously participated in the Corporate Sustainability Reporting survey. Some of these organizations include:

Abbastar Holdings Ltd.
Amador Gold Corp.
Alexis Nihon R.E.I.T.
Anglo Bomarc Mines Ltd.
BCE Inc.
Belvedere Resources Ltd.
Battery and Wireless Solutions Inc.
bcMetals Corp.
CCL Industries Inc.
Cameco Corp.
CriticalControl Solutions Corp.
China Diamond Corp.
Certicom Corp.
ClearFrame Solutions Inc.
Canadian Imperial Bank of Commerce
C-Com Satellite Systems Inc.
Candor Ventures Corp.
Canadian Oil Sands Trust
Coral Sea Petroleums Ltd.
CSI Wireless Inc.
Consolidated Venturex Holdings Ltd.
Dofasco Inc.
Earth (Canada) Corporation
EnCana Corp.
Merrex Resources Inc.
1st Anyox Resources Ltd.
First Idaho Resources Inc.
The Leadership Fund
Freeport Resources Inc.
BSM Technologies Inc.
Sun Gro Horticulture Canada Ltd.
Glenbriar Technologies Inc.
Hudson's Bay Company
Husky Energy Inc.
Harris Steel Group Inc.
Intercap eCommerce Inc.
Info Touch Technologies Corp.
IFL Investment Foundation Ltd.
Intl. Health Partners Inc.
Inmet Mining Corporation
International Road Dynamics
Ivernia Inc.
Jantri Resources Inc.
Junex Inc.
J-Pacific Gold Inc.
Javelin Capital Corp.
Metalore Resources Limited
Mainframe Entertainment Inc.
Morguard Real Estate Investment Trust
Municial Solutions Group Inc.
Mitec Telecom Inc.
Methanex Corp.
Norbord Inc.
Norske Skog Canada Ltd.
Nexen Inc.
Placer Dome Inc.
Plexmar Resources Inc.
Pine Valley Mining Corporation
Romarco Minerals Inc.
Response Biomedical Corp.
Raydan Manufacturing Inc.
Resource Equity Ltd.
RIFCO Inc.
Regal Energy Corp.
Retrocom Mid-Market REIT
Real Time Measurements Inc.

Sable Resources Ltd.
Sabina Resources Ltd.
Sepp's Gourmet Foods
Shell Canada Limited
Spruce Ridge Resources Ltd.
Sheer Energy Inc.
St. Jude Resources Ltd.
Shoreham Resources Ltd.
Ciment St-Laurent
Suncor Energy Inc.
Teck Cominco Ltd.
Thor Explorations Ltd.
Tagish Lake Gold Corp.
TSO3 Inc.
TransCanada Corporation
True Energy Inc.
TVI Pacific Inc.
Vangold Resources Ltd.
Viventia Biotech Inc.
Viking Gold Exploration Inc.

Appendix 2

The Global Reporting Initiative[51 52]

Launched in 1997

The Global Reporting Initiative (GRI) was launched in 1997 as a joint initiative of the U.S. non-governmental organization Coalition for Environmentally Responsible Economies (CERES) and United Nations Environment Programme, with the goal of enhancing the quality, rigour, and utility of sustainability reporting. The GRI is now a permanent, independent organization with a distinguished Board of Directors and global headquarters in Amsterdam, Netherlands.

Multi-stakeholder Process

It is a multi-stakeholder process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research, and labour organizations from around the world.

New Guidelines ("G3") in 2006

The first Guidelines were issued in 2000. Since this time, the Guidelines have been revised through a continuous improvement process involving the initiative's many stakeholders. In 2002, the current version of the Guidelines was released. A third version, "G3," is expected in 2006.

The GRI is a Framework

The GRI Guidelines are a framework for reporting on an organization's economic, environmental, and social performance. They present reporting principles and specific content to guide the preparation of organization-level sustainability reports; promote comparability, consistency, and credibility of sustainability reports; and support benchmarking and assessment of sustainability performance with respect to codes, performance standards, and voluntary initiatives. The Guidelines are not a code or set of principles of conduct, a performance standard, or management system, nor do they provide instruction for designing a data management or reporting system.

51 Global Reporting Initiative, cited May 9, 2005. Available at http://www.globalreporting.org.
52 Global Reporting Initiative, *Sustainability Reporting Guidelines 2002* (Boston: GRI, 2002).

Voluntary and Flexible

The Guidelines are voluntary and are intended to be applicable to organizations of all sizes and types operating in any location. The Guidelines are structured so that all organizations, from beginners to sophisticated reporters, can readily find a comfortable place along a continuum of options. The Guidelines present performance indicators as both core indicators (those relevant to most organizations and of interest to most stakeholders) and additional indicators (those that may have specific interest to a particular organization or stakeholder). In recognizing the limits of a "one-size-fits-all" approach, the GRI has developed sector supplements to capture the unique set of sustainability issues faced by different industries. Finally, to assist users in applying the Guidelines, the GRI has also developed technical protocols on specific indicators.

Reporting Principles and Content (2002 Guidelines)

Part B of the Guidelines outlines the reporting principles (i.e. completeness, relevance, accuracy, comparability, timeliness), while Part C of the Guidelines outlines what content a sustainability report should have, including:

- **Vision and Strategy –** description of the reporting organization's strategy with regard to sustainability, including a statement from the CEO
- **Profile –** overview of the reporting organization's structure and operations, and the scope of the report
- **Governance Structure and Management Systems –** description of organizational structure, policies, and management systems, including stakeholder engagement efforts
- **GRI Content Index –** a table supplied by the reporting organization identifying where the information listed in Part C of the Guidelines is located within the organization's report
- **Performance Indicators –** measures of the impact or effect of the reporting organization divided into integrated, economic, environmental, and social performance indicators

Guidance for Public Agencies and SMEs

Although the Guidelines have been developed primarily with the needs of larger business organizations in mind, GRI has recently released a sector guidance document for public agencies and has published its *High 5!* Handbook to support sustainability reporting for small and medium-sized enterprises (SMEs).

Over 650 Organizations Report Using Guidelines

At publication, 659 organizations have published reports that adopt part or all of the Guidelines. In Canada, there are 23 organizations, with three of those companies publishing reports "in accordance" with the Guidelines.

“In Accordance” Conditions

- Report on the numbered elements in Sections 1 to 3 of Part C
- Include a GRI Content Index, as specified in Section 4 of Part C
- Respond to each core indicator in Section 5 of Part C by either (a) reporting on the indicator, or (b) explaining the reason for the omission of each indicator
- Ensure that the report is consistent with the principles in Part B of the Guidelines
- Include the following statement signed by the board or CEO: “This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization’s economic, environmental, and social performance.”

Appendix 3

A Survey on Corporate Sustainability Reporting in Canada

With increased pressure for improved accountability and corporate governance, Canadian companies continue to re-evaluate their external reporting functions. In light of emerging expectations, CGA-Canada Research Foundation invites you to participate in a short survey that will be used to gain an understanding of current Canadian views and practices as they relate to corporate sustainability reporting. In turn, the findings of this survey will be made available to the appropriate accounting standards-setting bodies.

Benefits of Completing Survey

Your participation in this survey is important to understanding current views and practices in Canada with respect to corporate sustainability reporting. As a symbol of our appreciation, we will be pleased to make available the results of the survey to all respondents.

Completing the Survey

The survey should take approximately 5-10 minutes to complete. Upon completion, please return the survey to CGA-Canada Research Foundation using the enclosed postage-paid envelope. Additional copies of the survey are available at www.cga-canada.org.

Confidentiality

Any and all identifying information will be treated with complete confidentiality. No material or response will be attributed to any individual or organization.

Company Name: ______________________________

Ticker Symbol: ______________________________

Respondent's Name: ______________________________

Respondent's Position: ______________________________

Email (for results): ______________________________

Would you like your organization to be identified as having participated in this survey?

☐ Yes ☐ No

1. Company size (market capitalization):

- ☐ < $25 million
- ☐ $25 to $99 million
- ☐ $100 to $499 million
- ☐ $500 to $999 million
- ☐ $1 to $4.9 billion
- ☐ > $4.9 billion

2. Which of the following are currently included in your organization's annual external reporting package (i.e. are produced at least once per year)?

Applicable? *(please check all that apply)*		**Full Report Available:** *(please circle all that apply)*
Annual report	☐	Hard copy / Electronically / Website
Quarterly reports	☐	Hard copy / Electronically / Website
Industry/association report(s)	☐	Hard copy / Electronically / Website
Social/Environmental report(s)	☐	Hard copy / Electronically / Website
Sustainability report	☐	Hard copy / Electronically / Website
Environmental Health & Safety report	☐	Hard copy / Electronically / Website
Other_________________	☐	Hard copy / Electronically / Website

3. Please indicate which of the following are the **three** most important stakeholders taken into consideration when preparing your organization's external reporting package *(please select only **three**):*

☐ Suppliers	☐ Employees
☐ Shareholders	☐ NGOs
☐ Communities	☐ Governments
☐ Customers	☐ Creditors

4. Considering all forms of external reporting for your organization, _rank_ from 1-8, how well your organization *reports* on the following (1 = greatest coverage, 8 = least coverage):

___ Business risks	___ Social performance
___ Corporate strategy	___ Environmental performance
___ Corporate policies	___ Community interests
___ Financial performance	___ Corporate governance

5. Which best describes your organization's external reporting coverage of its environmental and social performance:

- ☐ Integrated annual report or separate annual sustainability report
- ☐ Separate environmental, social, CSR or EHS report
- ☐ Specific section in annual report (**3+** pages related to social and environmental performance)
- ☐ Specific section in annual report (**<3** pages related to social and environmental performance)
- ☐ Discussion in MD&A section of annual report
- ☐ No coverage
- ☐ Currently no coverage, however, we plan to report in the near future

6. The Global Reporting Initiative (GRI) is an institution aimed at developing globally applicable sustainability reporting guidelines. Are you aware of this initiative?

☐ Yes ☐ No

If yes,

i. Do you support this initiative?

☐ Yes ☐ No

ii. Although the guidelines under the Global Reporting Initiative are currently voluntary, would you support full adoption of the guidelines by the appropriate accounting standards-setting bodies in the future?

☐ Yes ☐ No

Please feel free to comment why or why not:

7. In reporting your organization's social and environmental performance, which of the following describe best why your organization has not adopted a comprehensive sustainability reporting function *(please check **all** that apply):*

- ☐ Social and environmental issues are not relevant to our organization
- ☐ The costs required to report on sustainability issues outweigh the benefits
- ☐ Our stakeholders do not require sustainability reporting
- ☐ Current guidelines for sustainability reporting are too onerous
- ☐ Sustainability reporting is only voluntary
- ☐ Current sustainability reporting practices and/or guidelines are too vague
- ☐ Information on our organization's sustainability performance is currently unavailable
- ☐ Reporting is too qualitative and hard to verify and, therefore, lacks credibility
- ☐ Our stakeholders are already overloaded with information provided in other external reports (i.e. the annual report)
- ☐ No issues — our organization has fully adopted sustainability reporting principles

8. What factor would you consider most important in moving to sustainability reporting *(please check only **one**):*

- ☐ Stakeholder pressure
- ☐ Cost and access to capital
- ☐ Lower insurance costs
- ☐ Share price stability
- ☐ Competition
- ☐ Regulatory requirements
- ☐ Corporate image
- ☐ Operating cost savings
- ☐ Improved management information
- ☐ Employee retention/morale

9. How much does your organization pay annually for its external reporting function in CDN$ (i.e. to prepare, develop, print & distribute all external reports)?

- ☐ Over $1,000,000
- ☐ $800,000-$1,000,000
- ☐ $600,000-$799,000
- ☐ $400,000-$599,000
- ☐ $200,000-$399,000
- ☐ $100,000-$199,000
- ☐ $50,000-$99,000
- ☐ Under $50,000

What percentage of the cost above is related to reporting on:

Financial Performance	____%
Corporate governance issues	____%
Sustainability issues	____%
Corporate strategy/risks	____%
Other__________________	____%
Total	**100%**

10. Do you plan on increasing the total amount spent on sustainability reporting?

☐ Yes ☐ No

Please feel free to provide any other comments you have with respect to corporate sustainability reporting: