Interview

Ole Lund Hansen and Eric J. Hespenheide discuss environmental and societal impacts of business practices

Ole Lund Hansen is Chief of Business of Tomorrow at the United Nations Global Compact. This initiative promotes the integration of sustainability into strategies and operations of leading companies in line with the Sustainable Development Goals. In his role, Ole is also overseeing the UN Global Compact’s work on responsible investment and encouraging the inclusion of sustainability into business school research and curricula through PRME. Before joining the UN, Ole was an International Business Development consultant based in Denmark, while simultaneously acting as the focal point for the Global Compact Nordic Network and the Danish Base of the Pyramid (BOP) Learning Lab. Earlier in his career, Ole worked as a Senior Advisor on international trade policy, a Political Risk Advisor, and for an NGO in Central America.

Eric Hespenheide is GRI’s Interim Chief Executive and also serves on the GRI Board of Directors. Eric previously chaired the Global Sustainability Standards Board (GSSB). Before 2013, Eric led Deloitte’s global sustainability reporting and assurance practice for a number of years. In addition to GRI related activities, Eric is involved in a number of organizations. He is the Chair of the American Institute of Certified Public Accountants (AICPA) Sustainability Assurance and Advisory Task Force, a member of the Institute of Internal Auditors (IIA) Global Advocacy Committee, and serves on the Dean’s Advisory Committee at both Louisiana State University and the University of Detroit Mercy. Eric previously served on the Working Group of the International Integrated Reporting Council (IIRC) during the development of the integrated reporting Framework.

Which environmental and societal impacts of business practices are covered in current reporting practices?

Ole Lund Hansen: For a long time companies did not transparently report on the environmental and societal impacts of their activities and development of such reporting was not a focus. However, over the last 15 years, the accountability perspective has become more common and sustainability reporting more widespread. Interest in businesses’ long-term impacts on the environment and society is growing among stakeholders and investors. Therefore, sustainability reporting is gaining in relevance.

The aim of the UN Global Compact is to integrate sustainability reporting as much as possible into the annual report cycles of companies. This can be done in different ways, e.g. as part of the annual Communication on Progress to the UN Global Compact, a GRI report or other specific sustainability or SDGs reports. Increasingly, leading companies also produce integrated reports on sustainability and financial issues and bring these issues closer to the traditional financial reporting.

The Ten Principles of the UN Global Compact cover four broad areas: human rights, labour, environment, and anti-corruption. The principles are all based on UN treaties, conventions or agreements. They help increase understanding and accountability around the impact of companies on sustainable development and progress of societies at large. These principles are the foundation for what is to be covered by companies in their annual Communication on Progress and also integrated into more specific guidelines and indicators for reporting, including GRI.

Eric J. Hespenheide: Reporting on environmental, social, and governance impacts, also known as sustainability reporting, encompasses a wide range of topics from emissions and energy use, to child labor practices, gender diversity in the workplace and anti-corruption. GRI’s sustainability reporting framework is the most widely used in the world. Organizations that use GRI can report according to a comprehensive methodology aligned with other normative sustainability frameworks, including the United Nations Guiding Principles on Business and Human Rights, UN and ILO Conventions, and the OECD Guidelines for Multinational Enterprises. For a full list of the topics covered please download the new GRI Sustainability Reporting Standards (GRI Standards), for free, on the GRI website.

What environmental and societal impacts are still not covered?

Ole Lund Hansen: The following trends in sustainability reporting have been important over the last few years. Firstly, companies are increasingly asked to report on the governance and ‘procedural’ aspects of sustainability, including the goals they
have set, the role of the board, and the systems they have in place to reduce the risk of unwanted behaviour across the entire organization. This helps investors and other stakeholders understand not just current performance and impact, but also how the company is being managed to deal with future risks and opportunities. Secondly, there is a growing interest in aligning sustainability reports that align with the UN Sustainable Development Goals. Some companies are already making progress in this area, and the UN Global Compact is supporting companies in this in collaboration with GRI and the World Business Council for Sustainable Development. Companies are encouraged to provide data and information based on a good understanding of their potential future impacts on the sustainable development, and are recommended to integrate this into existing types of report, thereby avoiding separate reports on the SDGs.

Eric J. Hespenheide: The interest around sustainability is rapidly evolving. For instance, reporting about impacts on the climate has become increasingly relevant. Since the signing of the Paris COP 21 Agreement in 2015, climate has moved to the forefront of the corporate sustainability reporting agenda. However, the KPMG Survey of Corporate Responsibility Reporting 2015 reveals a lack of consistency among the world’s largest companies. Additionally, the same survey finds that European companies are far more likely to report on carbon use than US and Chinese companies. Therefore, climate reporting is clearly an area where improvements are needed if we are serious about bringing the Paris Climate agreement to fruition. Furthermore, increased attention should also be given to reporting on child labor, forced labor, and indigenous rights. We would like to see more robust reporting on these impacts, even when they occur outside of the direct control of the business.

In recent years many companies have adopted specific reporting standards in this field. Is it possible to identify any factor, such as company size, sector or organisational type, determining differences in the uptake of the reporting?

Ole Lund Hansen: Sustainability reporting is now much more widespread than it was just a few years ago and the Global Compact principles are adopted by more than 9,000 different firms in all parts of the world and in all sectors.

In its early stages, sustainability reporting and the broader ‘CSR movement’ was partly a response to a growing focus on the perceived negative effects of globalization. The initial focus was almost exclusively on multinationals, including in the extractive industries, due to their large social and ecological footprint that was largely unaccounted for in their financial reports. Moreover, for some time only very few U.S. based companies did initially take part in the UN Global Compact due to concerns over the legal implications, but this has changed in recent years.

Additionally, there clearly are – and has always been – barriers for small and medium-sized enterprises in terms of reporting on sustainability, often simply due to a lack of resources and much less of a ‘culture of reporting’ even on more traditional financial issues.

Eric J. Hespenheide: Sustainability reporting requires a commitment of resources, and organizational size plays an important role. According to the KPMG Survey of Corporate Responsibility Reporting in 2015, 92% of the world’s largest companies disclose some information about their sustainability practices. However, the situation is different for small and medium-size enterprises, for which the lack of resources represents a more serious problem. The newly released GRI Standards provide a new reporting option that allows organizations to use an individual Standard to report specific sustainability information without creating an entire sustainability report.

Are there any initiatives to involve companies not meeting appropriate reporting standards?

Ole Lund Hansen: Yes, the UN Global Compact is undertaking a number of initiatives to promote the UN Global Compact among small and medium-sized companies, including through its Local Networks. Similarly, over the last few years, we have made a number of changes to make sustainability reporting – specifically the Communication on Progress – more accessible and relevant to SMEs.

It is also worth looking at the relationship between publicly listed and privately owned companies. Privately held companies typically face less or less stringent reporting requirements, but it would be unfortunate if this would lead to a reduction of sustainability reporting among privately held companies, considering how sustainability reporting arguably is of great value to the company itself, providing a tool to regularly assess manage their impacts and provides a foundation for a constructive dialogue with key stakeholders.

Has the improved quality of reporting in some way influenced business practices, including investment decisions?

Ole Lund Hansen: There are a significant amount of studies that point to the positive effects of ESG reporting. Raising awareness is one of the achievements as this allows companies to be better informed concerning the different impacts of their decisions.

Steady progress has been made to increase the relevance of sustainability reports by focusing more on ‘materiality’ (relevance for internal decision-making and/or stakeholders) of the content. The further development of the principles and guidelines in this regard is an ongoing process for both the companies and the UN Global Compact. Significant progress has been made in this area.

Eric J. Hespenheide: Over the years, one of the main focuses of our work has been helping organizations that are already reporting to extract more value from the process. One of the ways we have done this is by focusing on the principle of materiality, namely that organizations should only report on those topics and
Sustainability reports and data are becoming more and more relevant to investors all over the world. For instance, we see pension funds divesting from carbon-heavy industries and opting for green investments. Investors want comparable sustainability data, i.e. standardized data for reducing risks related to investment decisions.

**Could these reports become even more relevant to investment and business decisions? If so, how?**

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**In the spotlight**

**ESG reporting: Making the societal impacts of businesses transparent**

The ambition of the Beyond GDP initiative is to promote measures of well-being by providing decision makers with relevant information on economic and socio-environmental aspects. Specific information on different dimensions is also required for business decisions at the company level. Therefore, Environmental, Social and Governance (ESG) or sustainability reporting by companies is relevant for the Beyond GDP agenda.

Over the years, a number of organizations promoting ESG reporting have been established and different approaches have been developed, such as guidelines for informed business decisions and indices of sustainable investment in capital markets.

The guidelines for the ESG reporting cover a variety of topics relevant for companies, from revenue, assets, and profits to human rights, labour, environment, and anti-corruption. Companies are offered relevant templates, training programs, and databases to assist them in fulfilling their reporting obligations. Each initiative targets different companies: the UN Global Compact and the Global Reporting Initiative (GRI) are addressed to all companies and non-businesses, whereas the OECD Guidelines for Multinational Enterprises are addressed specifically to multinational enterprises.

These initiatives also differ in other aspects. The UN Global Compact greatly values the disclosure of companies’ efforts to uphold human rights, whereas the GRI is interested in the degree of stakeholder inclusiveness and requirements to satisfy specific standards, which are more prescriptive than the OECD standards.

The recently established Corporate Reporting Dialogue (the Dialogue) offers these organizations a platform for discussion in order to reach greater coherence, consistency, and comparability. It also provides an overview of their purpose, scope, and content in a ‘Landscape Map’. The ISO 26000 introduced by the International Organization for Standardization (ISO) provides guidance on harmonized concepts, terms, and definitions for ESG reporting.

ESG indexes, such as the Dow Jones Sustainability Indices, the FTSE4Good Index Series, and the MSCI ESG Indexes, rank companies’ performances on a wide variety of issues. This stimulates competition among companies to devote more attention to the impacts of their business practices and enables investors to take those practices into account in their investment decisions. Very often companies have to follow the reporting standards or principles of the Global Compact of the Global Reporting Initiative or other standards for an inclusion into the sustainability indices of the second group.

**Figure 1: Organisational overview**

In recent years, policies have been designed to strengthen transparency in business practices. The European Parliament and the Council of the European Union’s Directive 2014/95/EU on disclosure of non-financial and diversity information requires companies with more than 500 employees to disclose their policies on environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity in the board of directors. Companies may rely on recognized international frameworks like the UN Global Compact, the GRI, the OECD Guidelines for Multinational Enterprises, and ISO 26000. Member-states are required to implement the laws, regulations, and administrative provisions in compliance with Directive 2014/95/EU by 6 December 2016. The European Commission’s non-binding guidelines for reporting on non-financial information are expected to be published in spring 2017.

Furthermore, goal 12.6 of the UN Sustainable Development Goals encourages companies, especially large and multinational companies, to incorporate sustainability information in their reporting. The Sustainable Development Goals Fund was established in 2014 to help to achieve these goals by bringing together UN agencies, national governments, academia, civil society, and business in joint programmes aimed at supporting sustainable development. On 11 November 2016, the Sustainable Development Goals Fund in co-operation with its Private Sector Advisory Group and the UN Global Compact published the report *Universality and the SDGs: A business perspective*. This report analyses some of...
the main issues that businesses face if they want to integrate and implement the Sustainable Development Goals in their management practices. It is also relevant for all ESG reporting initiatives to cover environmental and social impacts which do not have a strong link to future profits and in which investors might be less interested. Not taking into account the climate change implications of investment decisions now could lead to severe asset devaluations in carbon intensive industries in the future. Concerning other social and environmental impacts, this link to future profits might be less direct or relevant. Nevertheless, legislation should ensure that all environmental and social aspects are taken into account in ESG reporting and decision-making.


Quote

“In our opinion, it may be a breach of fiduciary duties to fail to take account of Environmental Social and Governance (ESG) considerations that are relevant and to give them appropriate weight.”

From the report ‘A legal framework for the integration of environmental, social and governance issues into institutional investment’ (2005) by international law firm Freshfields Bruckhaus Deringer, p.100.

In brief

The 2016 Canadian Index of Well-being: how are Canadians really doing?

Launched in 2011, the Canadian Index of Well-being highlights the components of well-being which Canadians value beyond economic productivity. This second edition of the index, published by the Faculty of Applied Health Science at the University of Waterloo, builds on 64 indicators covering 8 dimensions of well-being: community vitality, democratic engagement, education, environment, healthy populations, leisure and culture, living standards and time use. Indicators are mainly taken from data sources provided by Statistics Canada. Some indicators are taken from selected national and international sources. All the indicators are equally weighted. The 2016 Report analyses Canadians well-being evolution looking at trends from 1994 to 2014. Data show that after 2008 the economy recovered, but Canadians’ well-being took a significant step back and only recently started to recover. Over the considered period, some areas, such as leisure, culture and environment, suffered more. The education domain has instead largely kept pace with GDP.

See the press release and the full report.

Happiness Atlas Germany – 2016 Edition

Deutsche Post AG published the Happiness Atlas 2016 for Germany. This Atlas presents data on life satisfaction in 19 German regions, pulling together information from existing surveys and additional data collected ad hoc. The overall life satisfaction results from self-assessments on different dimensions such as work, health or living and leisure. Over the recent years, Germans have reported a largely increasing life satisfaction. The happiest Germans live in the northern state of Schleswig-Holstein, while the largest increase in happiness with respect to the previous edition is observed in the southern parts of the country. The 2016 edition of the Atlas contains a special analysis of how cultural diversity impacts on life satisfaction. 75% of the analysed sample regards Germany as an open and tolerant country and 65% considers immigration an enriching experience. At the same time, only 44% thinks that the coexistence of people with different backgrounds works out well.

Explore the interactive Happiness Atlas, read the summary and background information on methodology (all documents in German).

The 2016 Arcadis Sustainable Cities Index

Balancing the needs of today without compromising those of tomorrow is necessary to make cities sustainable. The Arcadis Sustainable Cities Index measures three dimensions of urban sustainability: social (People), environmental (Planet) and economic (Profit). The 2016 edition of the index is based on an expanded data set covering 100 cities (compared to 50 in the previous edition) at different stages of evolution. The overall score of each city is given by the average of the scores separately obtained on each of the three sub-indexes. The findings indicate that no city effectively balances all three dimensions of sustainability. Overall, European cities perform better than emerging cities. Zurich is the best performing city and also reaches the highest score in the Planet sub-index.

Read the press release and the full report.

The Boston Consulting Group publishes the 2016 Sustainable Economic Development Assessment
Developed by the Boston Consulting Group and available since 2012, the Sustainable Economic Development Assessment (SEDA) measures wellbeing through 44 indicators covering three elements and ten dimensions: economics (income, economic stability and employment), investments (health, education and infrastructure) and sustainability (income equality, civil society, governance and environment). The scores of each country reflect current levels of and improvements in well-being, which are calculated overall and for each of the ten dimensions. These scores capture how effectively countries convert income into wellbeing and economic growth into wellbeing improvements. The 2016 SEDA was applied to 162 countries and Hong Kong. While western European countries reach the top wellbeing levels, Asian and African countries exhibit the most considerable recent progress. The scores of 15 sub-Saharan countries are in the top quintile for recent progress.

Read the full report and the press release.

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**Agenda**

20 December 2016
Europe’s Response to Sustainability Challenges - Delivering the 2030 Agenda

1 March 2017
The edie Smarter Sustainability Reporting Conference

26 - 28 March 2017
International Corporate Citizenship Conference