

Non-Financial Reporting: Sustainable Development Trends



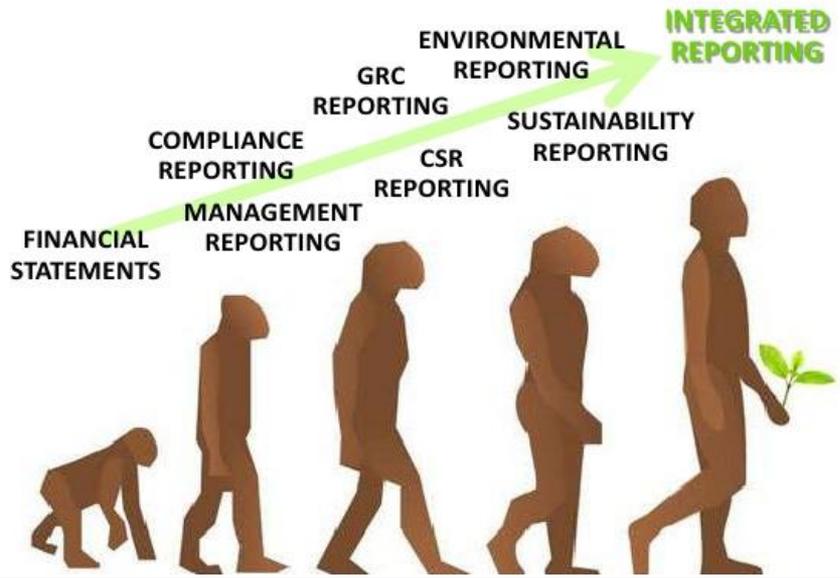
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The Evolution of Corporate Reporting

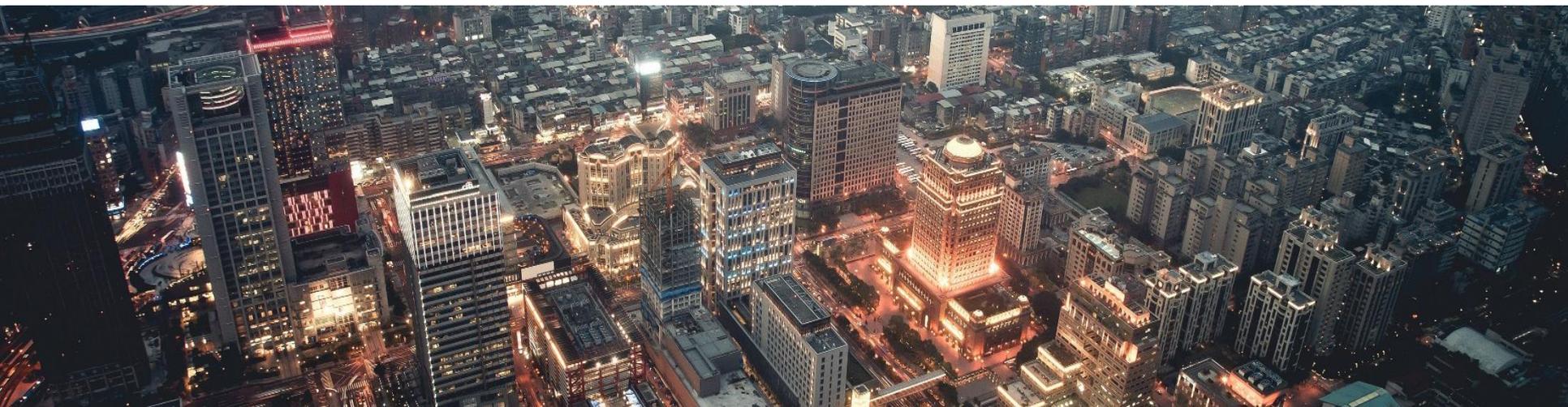


1. FOREWORD

Non-financial reporting is an essential first step in an organization that wants to help transition to a truly sustainable global economy. It is fundamental – allowing stakeholders to hold companies to account for poor performance and to direct capital towards companies that are providing the innovation, solutions and scale of action needed to meet regulations from international organizations and governments.

But reporting is not static – it evolves, through developments like emerging global challenges, new technologies and changing stakeholder interests – and companies need to take this into consideration. There are various topics that are fundamentally important to the evolving sustainability trends: **climate change, human rights, wealth inequality** and **data and technology** being among the biggest ones.

Captured in this report are insights that provide practical guidance to all reporting organizations working to respond to the risks and opportunities that we face on our path to a sustainable future. We hope that this study will help you make a measurable and transparent progress in these critical areas.



2. NON-FINANCIAL REPORTING KEY TOPICS

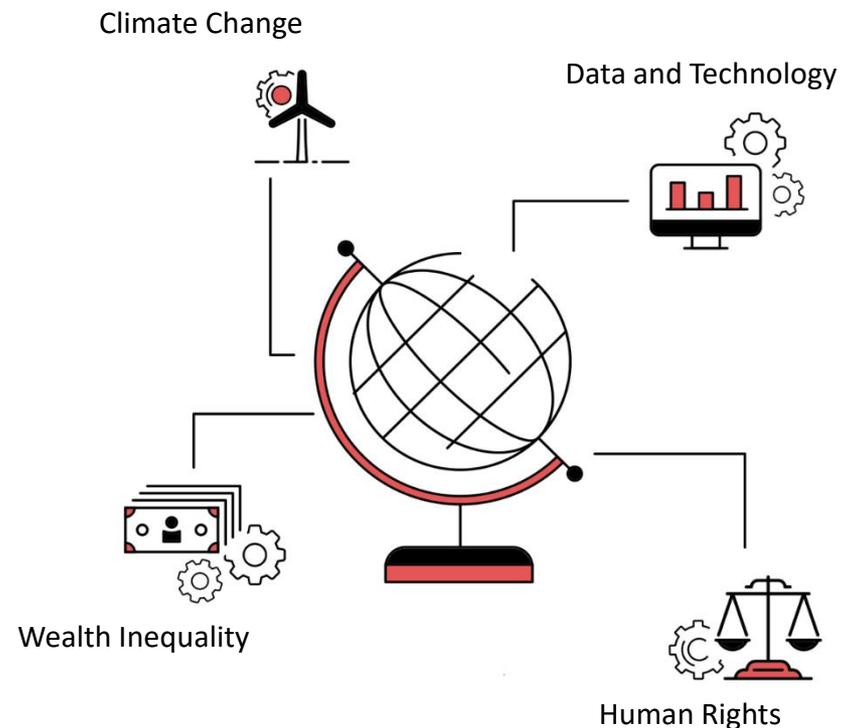
At the end of 2015, the Global Reporting Initiative ([GRI](#)), non-financial reporting standards organization, formed the [Corporate Leadership Group on Reporting 2025](#) comprising of 13 companies from various sectors and regions. The aim of this Group was to explore emerging trends in sustainability reporting, improve the way non-financial information is disclosed and exchange know-how. The group came up with 4 fundamental topics that will soon profoundly affect their businesses and consequently their sustainability reporting:

1. **Climate Change**
2. **Human Rights**
3. **Wealth Inequality**
4. **Data and Technology**

This case study is divided into 4 parts corresponding with each of these trends.

The subsections cover:

- **Current situation in the area**
- **What the drivers for business performance are**
- **Implications for business**
- **Examples of successful companies taking action to answer the trend**
- **How to improve your business**



CLIMATE CHANGE



A. CURRENT SITUATION

According to the World Economic Forum, the **top global risk in terms of impact is the failure to mitigate and adapt to climate change**. Climate change has become the central topic of international organizations, institutions, governments and is one of the biggest sustainability and corporate reporting trends.

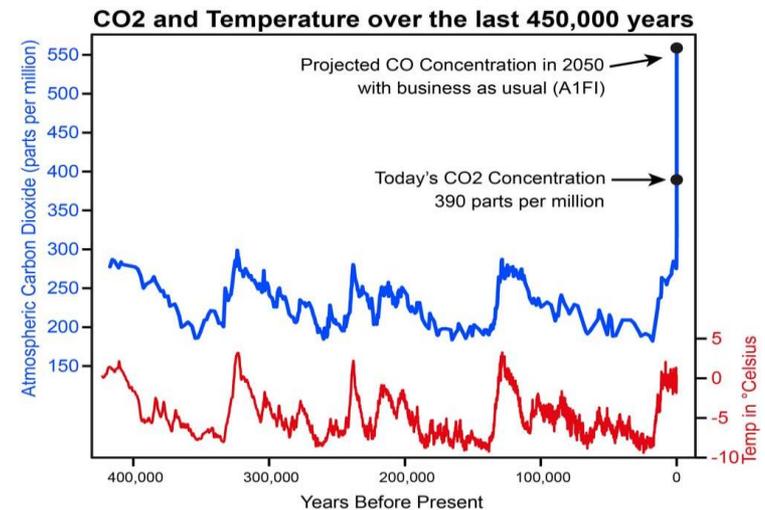
The Organization for Economic Cooperation and Development (OECD) and the Climate Disclosure Standards Board (CDSB) published a [study](#) aimed at **the rate of climate change disclosure in the G20 countries**. The results showed that non-financial reporting practices are increasing rapidly, with practice that was considered pioneering in 2010 becoming standard in 2015.

One of the most important climate change agreements came to light at the 2015 UN Climate Change Conference (COP21) and was ratified a year later in 2016. The so-called **Paris Agreement** set up a target to limit the CO2 emissions and follow up on the Kyoto Protocol.



The Agreement resulted in:

- ✓ A tighter climate policy environment.
- ✓ A long-term goal being set for global decarbonisation.
- ✓ Increase in investor interest in the issue, so far playing out by sector lines.
- ✓ The certainty that governments cannot achieve global targets alone.



A number of associated initiatives also emerged in 2016:

- **17 Sustainable Development Goals (SDGs)** among which climate change features prominently.



- The **OECD** has been commissioned to assess the previous commitment of a [\\$100 billion fund](#) by 2020 to help developing countries cope with climate change.
- The [Breakthrough Energy Coalition](#) of technology leaders is providing \$1 billion for innovation to the public research pipeline.
- 260+ companies have committed to developing [science-based targets](#).



B. DRIVERS OF BUSINESS PERFORMANCE

- ❖ Increasing availability of alternative and renewable energy.
- ❖ New technologies and innovation.
- ❖ Setting targets and having a climate strategy.
- ❖ Communicating and advocating on climate.
- ❖ Supportive governance.
- ❖ Leadership from the top.
- ❖ Committing and delivering real results.
- ❖ Reviewing products and services for climate impacts.

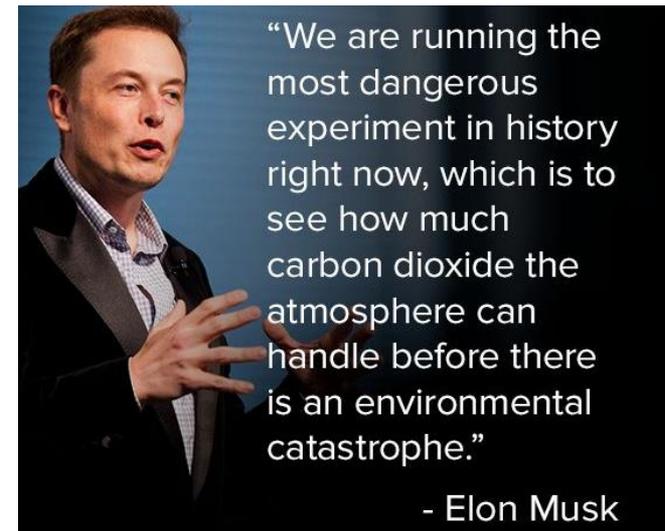
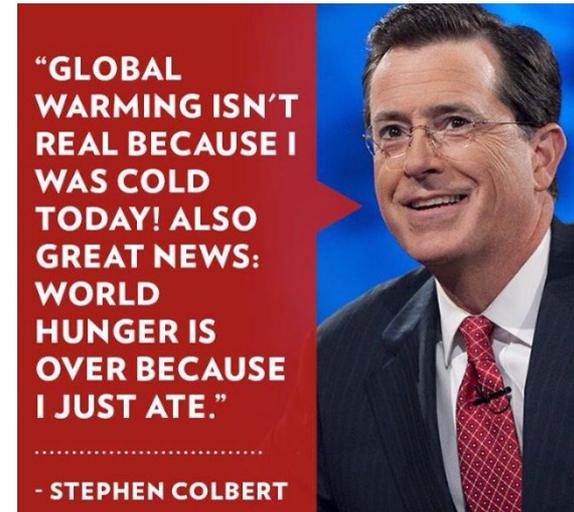
Furthermore, **climate change is being deemed financial**: The Financial Stability Board introduced the [Task Force](#) on Climate-related Financial Disclosures to develop voluntary consistent climate-related financial risk disclosures for companies to give the right information to investors, lenders, insurers and other stakeholders.

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C. IMPLICATIONS FOR BUSINESS

It is no longer a matter of *if* business should act on climate change, but *how* and *how fast* they can deliver change.

1. **Companies are solution providers:** they are expected to be part of the solutions, from new energy models to efficiencies in the production and distribution of goods.
2. Based on recognized **international agreements that set limits for global greenhouse gas emissions**, businesses are required to adopt clear, ambitious, measurable reduction targets.
3. **Investors and global markets** are also interested in climate disclosure. London Stock Exchange Group (LSEG) released their new requirements for ESG reporting in February 2017 and further international requirements will follow.





D. BUSINESS EXAMPLES: CLIMATE ACTION IN PRACTICE



Until 2020 Ikea plans to invest 1 billion euros into renewable energy and communities affected by climate change. The company has integrated a low-carbon strategy into their main business strategy and manages to fulfil its ambitious commitments. Ikea also integrates sustainability into products it manufactures and sells and this way helps its customers to save money, energy, waste and resources. It aims to be energy independent by 2020.

Link: 2016 Ikea Group Sustainability Report is available [here](#).



Tesla has made a commitment to invent new renewable energy technologies and it connects smart design with low emissions. The company is gaining an increasing portion of the global market with electric cars and also forces the rest of the car industry to react on the increasing demand for electric cars. Tesla also invests in the infrastructure needed for effective use of electric cars.

Link: Tesla's website dedicated to new energy technologies is available [here](#).



Google invented a tool that allows its users to watch the impacts of climate change around the world. Global Forest Watch monitors 100% of all tropical forests around the world and provides the most actual information on their state, including almost real time notifications about any suspicious tree loss. The company also builds solar farms that will generate their own electricity and in 2017 it will get to the point when all of their energy will be renewable. Google data centres also consume on average around 50% less energy than other typical data centres (compared with a sector average).

Link: Google's website dedicated to environment is available [here](#).

More information on other businesses acting on climate change is available in the **2015 Climate Survey** called [Leadership on Climate Change: COP21 & Beyond](#).



E. HOW TO IMPROVE YOUR BUSINESS

- Develop a **clear and concise narrative of the vulnerability of your organization** in light of climate change and the shared challenge it presents.
- Learn what you can from **best practice**, but ensure you reflect on your **materiality analysis** and the aspects of climate change most relevant to your sector and organization and improve data, metrics and reporting accordingly, e.g.: If the emphasis is on your supply chain, your priority might be understanding the risks in your supply chain and calculating your scope 3 emissions. If your products and services influence the energy use and emissions of others, their design and delivery may be most powerful.
- Set and achieve **long-term business strategy** based on the right data such as greenhouse gas emissions, waste generated or innovation goals. Make use of science-based targets.
- Determine how to **align the interests and activities of reporting organizations on governments**, given national plans on climate change and the multinational nature of many reporting organizations
- **Focus on behaviour change**: what will individuals and organizations need to do differently to meet the challenges around energy consumption and emissions?
- Do not forget to **keep yourself up-to-date**. Educate yourself in order to better anticipate the direction of customer preferences and to understand in what way the climate change is connected to other sustainability topics.



HUMAN RIGHTS



A. CURRENT SITUATION

Human rights protection presents a **significant and growing societal problem, especially in the light of ongoing conflicts** (in Syria for example) or migration and refugee crises. Despite of all the progress corporations have made in the past years, human rights abuses are still common. Many businesses still face concerns about their supply chains - worker abuses take place in the seafood industry or on palm oil plantations and there are concerns of Syrian refugee child labour in garment factories in Turkey or of the modern slavery in Great Britain.

Human rights have, however, seen a fundamental development towards transparency and accountability:

- Human rights are embedded across the **Sustainable Development Goals**: the Danish Institute for Human Rights suggests we can “...use human rights as a driver for realising the SDGs...and use the SDGs to realise human rights...”.



- A number of nations – currently including the UK, Italy, Spain and Colombia – have developed **National Action Plans specifically for human rights**.
- **The UK’s Modern Slavery Act** was seen as landmark legislation, affecting an estimated 17,000 businesses: large UK-based firms are required to publish evidence on their websites demonstrating that their operations are not reliant on international slavery.

HELP FREE THE UK FROM MODERN SLAVERY

MODERN SLAVERY INCLUDES:

- SEXUAL EXPLOITATION
- FORCED LABOUR
- DOMESTIC SERVITUDE
- CRIMINAL EXPLOITATION

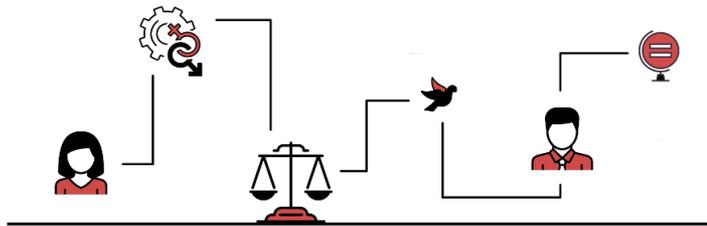
Modern Slavery is the illegal exploitation of people for personal or commercial gain. Victims are trapped in servitude, which they were deceived or coerced into, and cannot leave.



B. DRIVERS OF BUSINESS PERFORMANCE

There are two megatrends that will significantly impact business operations and that demonstrate the interconnectivity of sustainability trends.

- ❖ **The rise of hyper-inequality and opportunity of shared prosperity:** Business plays a fundamental role in the way in which wealth is created, but also in how wealth is distributed. Respecting and protecting human rights is fundamental to the equal distribution of resources.
- ❖ **The worsening ecological crisis:** The need to transition to a low carbon economy creates an opportunity to find solutions that also benefit the most vulnerable – those often left unprotected environmentally or ecologically also often experience a lack of human rights and social protection, especially in long and complex supply chains.



C. IMPLICATIONS FOR BUSINESS

Increasing interest of investors, regulators, rating agencies and consumers in human rights issues has resulted in the topic being also increasing important in non-financial reporting. Analysis of human rights impacts is now a needed minimum for all businesses.

- 1. Greater mandatory transparency and due diligence:** This has become evident around the world based on societal and consumer requirements and increasing regulations. The European Union is for example implementing new regulation ([EU Conflict Minerals Law](#)) aimed at increased traceability of some precious metals used in electronic devices. The extraction of minerals such as tin, tungsten, tantalum or gold is often linked with forced labour or slavery in health threatening conditions that often finance armed conflicts in high risk areas. Similar legislation, [Dodd-Frank Act](#), has already been implemented in the United States.
- 2. A focus on labour rights is essential:** Modern slavery is a new form of severe labour abuse, and is leading to a broader movement from a focus on audit and compliance to due diligence and collaboration. Stakeholders are emphasising the need for minimum living wages, thus affecting brands and unions, industrial collective agreements and potentially

making wages pre-competitive. Health and safety, freedom of association and the right to collective bargaining also remain concerns.

- 3. Conflict over natural resource wealth:** Land rights are increasingly disputed and, as water scarcity worsens, disputes are expected to grow. Extreme air pollution is also gaining attention. As the world moves to low carbon economies, support is needed to ensure that the transition is fast and fair. Finally, corporate tax and tax havens have a role to play to ensure tax is paid where resource wealth is extracted.
- 4. Emerging areas of strong corporate advocacy:** A number of corporations have spoken and acted to end discrimination by gender or sexual orientation, for instance, while in some sectors – such as manufacturing, extractives and technology – advocacy for the respect of basic rights throughout the supply chain remains a priority.



D. BUSINESS EXAMPLES: TAKING ON HUMAN RIGHTS

The latest Corporate Human Rights Benchmark (CHRB) [Report](#) released in 2017 has revealed some corporations leading on the issues of human rights:

MARKS &
SPENCER

M&S is dedicated to monitor the state of human rights protection in all of their value chain. It has implemented a clear human rights policy and regularly evaluates its results. One of their projects Emerging Leaders has involved 20,000 of workers from all over their supply chain. The results are life changing: household savings amongst participants have increased by 161%; 82% of participants have set up income generating projects; 84% state their health has improved; and 65% have set up community projects to address issues such as poor sanitation, security, access to education and good nutrition. More detailed information on their activities is available in their latest Human Rights Report.

Link: M&S Human Rights Report 2016 available [here](#).

Unilever

Unilever supports equal rights and empowerment for women. It has pledged to help 5 million women until 2020. Since 2014 it has been using its Responsible Sourcing Policy and it also cooperates with Oxfam that evaluated labour conditions in its Vietnam factories in order to learn how to effectively implement the UN Guiding Principles on Business and Human Rights. Unilever issued their first Human Rights Report in 2016 summing up their human rights policies and goals.

Link: Unilever Human Rights Report 2015 available [here](#).



E. HOW TO IMPROVE YOUR BUSINESS

- Map the **risk of human rights abuses in your company** and throughout your whole value chain, set up policies where human rights abuses might occur.
- Ensure **effective transparency of all company activities** and set up effective grievance mechanisms.
- **Building awareness and spreading knowledge** throughout a company and its supply chain is fundamental. Integrating respect for human rights throughout the supply chain is seen as the biggest challenge.

UNILEVER SUSTAINABLE LIVING PLAN



- Seek **collaboration with other businesses or NGOs** to help you improve within your company. Hundreds and thousands of suppliers in any one supply chain cannot be monitored or audited by a single organisation effectively.
- **Communicate your results** and help others build on your know-how in this area.

WEALTH INEQUALITY



A. CURRENT SITUATION

According to [Oxfam](#), since 2015 the richest 1% now has more wealth than the rest of the planet. Eight men now own the same amount of wealth as the poorest half of the world - 3.6 billion people. 60% of food and beverage industry workers live in poverty. Smallholder farmers produce 80% of world's food but along with agriculture workers they are the majority of those who face hunger.

The OECD defines wealth inequality as “*economic inequality, the difference in how wealth and income is distributed among individuals and/or populations*”. It is also described as the difference between the rich and the poor, or income inequality. **Solving wealth inequality is one of the fundamental prepositions to sustainable economy** and attention turns to how inequality affects financial resource, education, or health.

Many businesses react insufficiently to the growing trend of inequality, but it is them, who are best able to



influence the employment rates, income distribution or the methods of resource extraction. According to the Global Reporting Initiative (GRI), **corporate sustainability reports rarely address inequality as a current megatrend** or its wider contextual impact on their operations.



B. DRIVERS OF BUSINESS PERFORMANCE

There are three key areas demanding attention of businesses:

- ❖ **An increasing share of the value of our global economy is going to capital**, rather than labour, which speaks to the disparity between lower income workers and high wealth individuals. Many tax systems do not ensure the fair distribution of wealth from capital or profit generating activities to the rest of society – not only in developing markets, but also in mature ones.

❖ **Inequality is reflected in the way that power, privilege and influence are used in the inter-linkages in supply chains.** This was illustrated by the Oxfam [Behind the Brands](#) campaign.

❖ **Increasing pressure for transparency and ending of tax havens.** According to [Oxfam](#), there is approximately 7.6 trillion dollars held in offshore tax havens. If taxes were paid fairly from these incomes, an extra 190 billion dollars would be available to governments every year.

International institutions also give out clear signals that lead to growing interest in wealth inequality.

✓ Sustainable Development Goals (SDGs) and especially [Goal 10](#) is focused on reducing wealth inequality and sets specific goals for 2030, including progressively achieving that income growth among the poorest 40 per cent of the population in every country is more rapid than its national average.

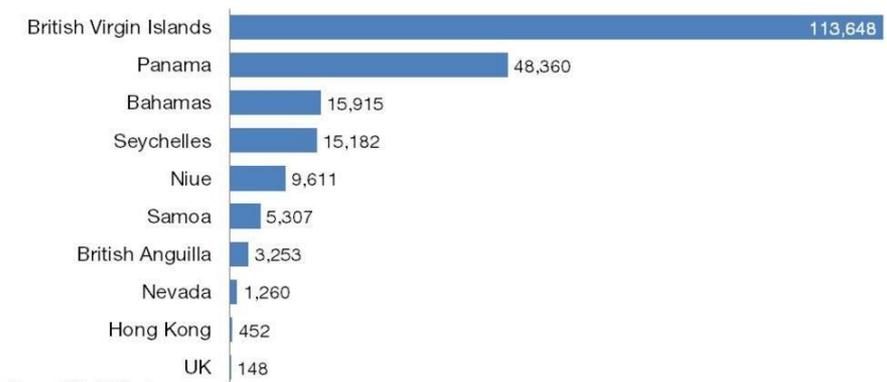
✓ [World Economic Forum](#) also identified wealth inequality as a top trend in 2015 and undertook a regional analysis of the issue to better understand which inequality-related aspects are priorities in which regions (e.g. corruption, education, urbanisation).



C. BUSINESS IMPLICATIONS

1. **Radically increasing the share of value captured by workers and small-scale producers.** For instance, achieving living wages for laborers (and living incomes for small-scale producers).
2. **Eliminating economic gender inequality and gender discrimination.** Ensuring equal opportunities for everyone.
3. **Calling for an end to the era of tax havens.**
4. **Breaking market concentration and addressing the unequal distribution of power.** For example, new business models should be rapidly established to share value more equitably in supply chains.

Panama Papers: The 10 most popular tax havens



Source: ICIJ, h/t Quartz





D. EXAMPLES OF BUSINESSES TACKLING WEALTH INEQUALITY

FERRERO

Ferrero demonstrates increasing transparency and extensive reporting at country level, demonstrating how business operations have an impact on local economies. They report by country on wage ratios (as well as type of worker), local managerial hires and local supplier spend.

Link: Ferrero 2015 Corporate Social Responsibility Report is available [here](#).

NOVARTIS

Novartis diversity and inclusiveness strategy is aimed at influencing patient, consumer and supplier diversity, as well as recruitment diversity and the subsequent training and development of diverse professionals. It initiates programs that support easier access to necessary medication for low income patients and creates additional patient assistance programs and other philanthropic activities.

Link: Novartis 2016 Corporate Social Responsibility Report is available [here](#).

ERNST & YOUNG

EY supports diversified talent. After learning that white men have much bigger chance to receive a grant than women or ethnic minorities, it launched several projects that aim to ensure more equal opportunities for all (e.g. EY Unplugged or Inclusiveness Leadership Program). Furthermore, it supports microfinance projects in Haiti, where it helps people (especially women) in extreme poverty to gain access to finance. Microfinancing is supported by other educational projects in health, entrepreneurship or education. EY also offers professional support to Fonkoza, the biggest microfinance provider in Haiti. It assists Fonkoza with financial management, accounting and employee training.

Link: EY's commitment to diversity and inclusiveness is available [here](#).





E. HOW TO IMPROVE YOUR BUSINESS

- **Identify unequal distribution of opportunities in your organization and your wider supply chain.** Ask yourself: are there disparities in the way in which the company values people and activities in the supply chain? Consider what your company's most material impact related to wealth inequality may be and develop impact-related KPIs.
- Consider how your company already **does, or can, influence access to essential products and services** (e.g. food, water, energy) on a global basis or in the local communities in which you operate.
- Explore **impact and outcomes-based measurement**, despite the challenges of intermediaries in supply chains, different jurisdictions, different activities, etc.
- Create **employment opportunities**, that will allow for basic needs to be covered and ensure more equal opportunities for all employees and suppliers.
- Invest in **social projects and support legislation** changes aimed at social responsibility.



Sources:
<https://www.oxfam.org/>
<https://howmuch.net/articles/the-worlds-wealth-inequality>

howmuch.net

DATA & TECHNOLOGY



A. CURRENT SITUATION

Data and technology are part of an ever-growing field of developments. **More data has been created in the past two years than in the entire previous history of human race.** The speed of creation of new data accelerates and technology is an important part of all business operations. More and more things we use have some kind of electronic equipment or internet connection allowing for new methods of manipulation and expanded use of its services.

Yet many corporate reporters point to a need for more correlation between data (and technology) to understand impacts. Indeed, for the world to meet SDG target 12.6 – to *“encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle”* – we will need to better understand and use data.

We know almost implicitly that **better collection of and access to data** (often through technology) **enables reporting that is based on more and better data.** Better data enables stakeholders to understand a company's



performance and in turn make better decisions. Technology can also enable stakeholders to access data more effectively.



B. DRIVERS OF BUSINESS PERFORMANCE

- ❖ Increased availability of **big data and the growing pressure of competition.**
- ❖ **Measurable and financial benefits** coming from using data and technology to identify areas for improvement, to increase positive impacts, decrease the negative impacts and ultimately increase business value.



C. IMPLICATIONS FOR BUSINESS

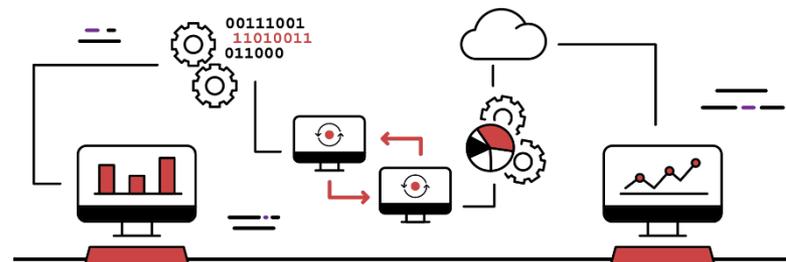
When it comes to corporate reporting, data and technology are often seen as an opportunity and a challenge in equal measure.

Challenges

- **Promoting the culture:** creating awareness for good use of the internal systems that deliver high-quality, comparable data.
- **Availability of sensitive and confidential data.**
- Need for **more analytical tools** to better understand data.
- **Manually collating data** across spreadsheets or decentralised systems, or transitioning to **new, more innovative systems** to manage data and information.

Opportunities

- **Online reporting** as an innovative tool to communicate data effectively.
- Embedding sustainability data (including collection and timely submission) into **targets and performance management systems.**
- **Monitor** – and provide **feedback loops** to data providers – both the positive and the negative impacts of sustainability issues tracked.
- **Understand the dynamics** and other demands on the same data to improve the information channels and lower the burden for colleagues, where possible.





D. BUSINESS EXAMPLES: TAKING ADVANTAGE OF DATA AND TECHNOLOGY



Nike uses big data to fulfil its vision of decoupling growth from constrained resources like fossil fuels and water. Nike works with the Internal Materials Sustainability Index that registers 60,000 materials and allows for better overview of sustainable qualities of every one of them – it includes information on water consumption, energy, chemicals used in manufacturing and waste data. The company also introduces new products that reduce manufacturing waste (Flyknit technology reduces manufacturing waste of around 60% compared to standard manufacturing process) or new, more sustainable, manufacturing processes such as ColorDry, a water free dyeing technique.

Link: More information available on Nike website [here](#).



In their 2015 Sustainability report, Telecom Italia transforms complex data into easy to read format visualizing their business activities leading to easy navigation between topics of social innovation, environmental protection and digital culture. It also introduces its report with a short video. Furthermore, the report is based on effective use of available data demonstrating results of company sustainability activities supported by the so-called TIM Shared Value Model.

Link: Telecom Italia Sustainability Report 2015 is available [here](#).



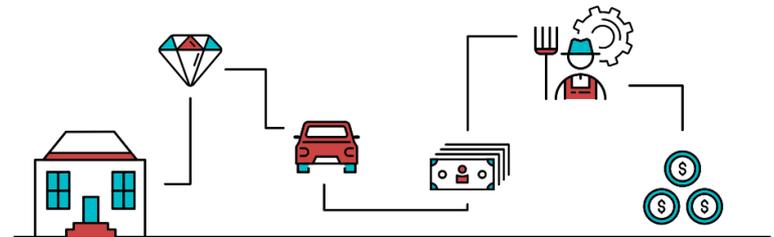
Ford made a good use of big data and climate change models while designing one of their best selling trucks F-150 – they manufactured a model that was 700 pounds lighter due to a recycled aluminum alloy normally used in military or aviation and added a new EcoBoost V6 engine equipped with a start-stop technology. Analysts agree that due to exceptional volumes of trucks sold (760,000 in 2013), the aluminium technology could result in much greater environmental impact than all of their electric vehicles. Ford also plans to make use of GPS and sensor data to design the so-called “green routing” optimizing journeys with respect to traffic, distance, energy economy and emissions. Around 98% of car carbon footprint comes from the tailpipe. Future Ford hybrid vehicles should be able to make use of available data on air pollution and specific location and automatically switch over from gasoline to electricity near schools or hospitals.

Link: Ford Sustainability Report 2014/2015 is available [here](#).



E. HOW TO IMPROVE YOUR BUSINESS

- Use data and technology to approach stakeholders in different ways.
- Use technology to ease the collection of data by moving towards more sophisticated and centralised data systems.
- Explore and better understand the needs of different stakeholder groups and tailor the presentation of data accordingly.
- Present information to stakeholders (e.g. infographics, report microsites) more effectively.



3. ABOUT FLAGSHIP

This case study was prepared by Flagship CSR Consultancy, first specialised sustainability consultancy in the Czech Republic focused on sustainability strategy, corporate responsibility and non-financial reporting.

Flagship belongs to the pioneers of responsible business in the country and is the data partner of Global Reporting Initiative (GRI), international non-financial reporting standard organisation, in the Czech Republic and Slovakia. Our company is also a proud certified B Corporation, a movement that brings together companies that use their businesses to solve social and environmental problems, act transparently and responsibly.

Apart from corporate sustainability strategies and non-financial reporting, Flagship also implements CSR management systems into all types of businesses – ISO 26000, UNGC, OECD Guidelines, SA 8000 and others.

“We make responsible business happen and change the world for the better.”

We will be happy to work with you, please feel free to get in touch with us at info@flagship.cz or call us at +420 222 317 685.

www.flagship.cz/en

Resource: This case study is inspired by and based on the Future Trends in Sustainability Reporting [study](#) published by the Global Reporting Initiative in collaboration with SustainAbility.