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Sustainability Reporting: The principle of comparability

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When I received my first copy of what was then the 'Exposure Draft' of the Global Reporting Initiative (GRI) Guidelines back in 1999, allowing for feedback prior to their official 2000 launch, I was intrigued less by the actual indicators the GRI was recommending, and more by its principles. In short, the GRI was by its very design, attempting to ensure that environmental, social and economic information would be presented by companies in a manner that achieved a parallel sense of standardization, comparability and consistency to what financial reporting had already achieved. This was because stakeholders of some of the world's largest corporations were disillusioned by the rise of annual environmental and/or corporate responsibility reports.

When the Exxon Valdez crashed in Alaska's Prince William Sound in 1989, and when Ken Saro Wiwa was killed in 1995 for attempting to force the Nigerian government to hold Shell accountable for environmental degradation in the Niger Delta, people wanted more information.

When television newscasts were giving average consumers access to information about mining disasters, chemical plant explosions, contamination spills and other corporate environmental scandals, people previously disinterested in protecting our planet began demanding that companies tell them… tell us… what they are doing to avoid creating harm.

Consumers, investors, government agencies and several other stakeholders were demanding that an environmental and social equivalency to the annual financial report be expected of companies profiting off pristine natural environments and/or on the backs of deep rural workers who were yet unfamiliar with fair labour practices. In effect, stakeholders were calling for a reporting framework that mirrored financial reporting in credibility and rigour. But the reports needed to be more than an endless string of platitudes and hollow assertions. Photographs of a CEO playing with disadvantaged children in a poverty-stricken community – what we called "poverty pornography" – had to be replaced with statements that could be backed up by measured performance.

This is where the GRI came in, as a response to the trust gap.

The GRI established a set of guidelines, the "GRI Guidelines" to be exact (now the "GRI Standards"), that helped authors of reports determine what information ought to be included in a sustainability report. Back in 2000, and for several iterations of the Guidelines after, reports were classified in three levels – A, B or C – with a C-level sustainability report including a bare minimum number of indicators (one per category, such as Labour, Safety and Environment), while an A-level report included all of the indicators. The content of a B-level report – infrequent in comparison to C and A – offered more than C and less than A.

In addition, the Guidelines recommended that sustainability reports ought to be assured by an independent third party, often one of the global accountancy firms, but increasingly a service provider with specialist and/or niche skills. In the UK and Europe, for example, many boutique environmental consultancies offered a more nuanced approach to assurance than the likes of PWC and KPMG because they weren't hindered by audit standards laid out by IFAC: the International Federation of Accountants. The GRI reinforced their recommendation for independent assurance by expanding their ranking system to C, C+, B, B+ and A, A+, where the 'plus' indicated that assurance had been acquired, citing that many users of sustainability reports wanted additional confidence that the information presented could be trusted as fair and factual.

The new problem?

Nobody was providing standardized training and/or certification for sustainability assurance, leading to a wide range of claims by assurance providers regarding what could, or should, be believed.

This is where AccountAbility became helpful.

With their suite of AA1000 Standards, the SES Stakeholder Engagement Standard, AP Accountability Principles and AS Assurance Standard, AccountAbility (UK) initiated a programme to train persons to become certified sustainability assurance practitioners, or CSAPs. Through multi-session courses, a current set of 17 licensed training providers, including myself at Integrated Reporting & Assurance Services (IRAS), help learners understand the important difference between 'verification' and 'assurance'.

In simple terms, 'verification' only requires that an independent third party check a reporting entity's maths.

If, for example, a casino was to state in its sustainability report that they consumed 12 000 megawatt hours (MWh) of electricity during the reporting period, then the verifier should ask for the source documentation that led the company to conclude that yes, indeed, they consumed 12 000 MWh of electricity. The verifier could perhaps obtain 12 invoices from the casino's municipal electricity supplier and add up the monthly consumption total for each of the 12 months. If every month the company used precisely 1 000 MWh, as per the invoices, then 'Bingo', they have now verified that the statement of *"We consumed 12 000 MWh of electricity"* is correct, because the sum of 12 monthly volumes of 1 000 MWh equals 12 000 MWh.

However…

Just because a number is "accurate" doesn't mean it's "correct".

Let's suppose that the casino is in a city like, for example, Cape Town, and that the casino was built on a piece of land that was home to a municipal ice rink, where members of the community could visit the rink to go ice skating.

Let's then suppose that the deal struck by the casino with the city to use the land to build a casino included a clause that required the casino to continue to offer the community a place to go ice skating, even though the casino has zero experience running an ice rink.

No problem.

The casino can let someone else operate the ice rink as their own business sitting on the same property as the casino. We call these sorts of businesses "concessionaires", the same thing we'd call a KFC or a McDonalds if they also operated a business either next to, or perhaps in, the casino's building.

Let's then suppose that the city is the only supplier of electricity, and that the city can only provide one point of entry for any/all electricity to be used at the casino, including by the concessionaires. This would mean that because the casino is the primary business on that site, the city would bill the casino for ALL electricity that comes onto the property housing the casino and its concessionaires, including the ice rink, which happens to use bucket loads of electricity on a daily basis to keep the ice frozen.

In this case, whatever electricity the casino pays the city for would not be its "electricity purchased", not its "electricity consumed".

To get to a figure for "consumption", one would need to look for meters that measure a few things:

1. One or more meters used to measure ALL electricity coming from the city via an "incomer line".
2. All meters used to measure electricity being distributed to each of the concessionaires.
3. Meter reading logs in which someone has recorded daily/weekly/monthly readings for each of the meters.
4. Invoices issued by the casino to each of the concessionaires.

The incomer meter readings would be used to confirm or refute whether the amount of electricity purchased is correct, while the rest of the meter readings would be used to determine how much of that electricity should be subtracted from "purchased" in order to calculate "consumed", thereby testing something other than "accuracy", this would test for "completeness".

In assurance, all data has to be tested beyond mere accuracy.

It must be tested for accuracy, consistency, completeness and reliability.

Because we've already discussed accuracy and completeness, let's note that "consistency" is what the GRI Guidelines were all about.

When someone is writing a sustainability report, they might use the GRI to identify a definition of what electricity consumption is, in hopes that they would be guided to note that just because electricity is purchased, it may not necessarily be consumed.

If every casino were to apply the GRI's indicator definitions for electricity consumption, then the consistency of their reporting of electricity consumption should allow users of multiple sustainability reports to assume that what has been reported has met reasonable expectations of consistency.

If I use the GRI's definition of electricity consumption, and you use the GRI's definition of electricity consumption, then the electricity consumption data we've measured, regardless of the amount of electricity, should be consistent.

Whether data is "reliable" or not is a different matter altogether.

You cannot quantitatively "measure" reliability, but rather qualitatively "assess" it.

To do so, you would need to ask a series of questions about how the casino ensures that the electricity consumption data that's collected, collated and reported – ultimately in the sustainability report – to determine whether or not sufficient controls are in place to guarantee accuracy.

Does, for example, the person who reads the meters and enters the meter readings into the log books submit their work to a supervisor for review and sign-off, or does the casino assume that the person reading the meters could never possibly make a mistake?

Does, in addition, the top dog at the casino – perhaps a General Manager – review any/all data collected, collated and reported within the casino and sign off on it before it's sent to their head office for group consolidation and reporting, or is the same meter reader being trusted by the head office to not make any mistakes?

Funny thing about humans…

We're fallible.

We make mistakes.

The only way to avoid mistakes getting into the public domain is to make sure that there are enough quality control steps in the collection and collation of sustainability performance data before it gets reported to the world.

Question: Why would a sustainability assurance provider ever need to test electricity consumption data for a casino?

Retracing our steps a bit, let's go back to 1999, when the GRI released its Exposure Draft of the GRI Guidelines.

While the initial quest was for standardization, comparability and consistency, the Guidelines also provided recommendations for how to make sure sustainability reports didn't become 400-page diatribes on every possible sustainability issue and/or performance indicator. The GRI introduced the principle of "materiality".

Materiality requires that reporting entities undertake a process to identify and prioritize the risks and opportunities that are most important to their ongoing survivability: the Materiality Determination Process. They're expected to not only consider the things that could impact directly on them, but also things they do that might impact on one or more of their stakeholders and/or society and/or the physical/natural environment in which they operate.

In today's world of consultants being able to fool clients into thinking that "Double Materiality" is a new concept, the inward impacts on a company are assumed to be "Financial", while the outward ones are deemed "Impact" (as if to assume that companies don't have financial impacts on stakeholders). However, those of us who've been around since the early days of the GRI know that "materiality" has always been "double", because only a fool would ignore either the inward or outward impacts.

The real problem with "materiality" is that assurance providers (not verifiers), particularly those assuring in accordance with AccountAbility's AA1000AS v3 Assurance Standard, are expected to determine whether the reporting entity has sufficiently applied the principle of materiality when producing their sustainability report, but AccountAbility doesn't explain how to do that.

To address the gap, IRAS has developed a data-driven approach in which we compile a database of over 60 000 data points per annum to determine which of the companies listed on the Johannesburg Stock Exchange (235 in our 2025 population) report on how many of our list of 264 sustainability data performance indicators. We call this our Sustainability Data Transparency Index (SDTI), and we try to annually publish a report outlining our findings as a means of recognizing excellence in sustainability performance data transparency.

Should a JSE listed company come to us for assurance over their sustainability report, we can dig into what is now a database of over 900 000 potential data points to determine…

- What indicators they've been reporting data for and for how long?
- What indicators their industry peers typically report on, and whether they also report that data?
- If they've reported data, how does their data compare from one year to the next (i.e., are they getting better or worse)?
- If they've reported data, how does their data compare to data reported by their peers (i.e., is their performance better, worse, or similar)?

For companies other than JSE listed ones, IRAS calculates a Sustainability Data Completeness (SDC) score for our client and at least five of their peers.

Because these companies are not listed on the JSE, regardless of whether they're listed on a different exchange (e.g., London, New York, etc.) many of the 264 indicators in our South Africa-specific SDTI are irrelevant. To address this, we take a similar but client-specific approach to our benchmarking.

Step 1 Find ALL of the data points (i.e., "numbers") the company disclosed in their prior sustainability and/or annual report and enter these numbers into a spreadsheet… grouping indicators by category: Financial, Governance, Labour, Health & Safety, Environmental and Corporate Social Investment.

Step 2 Check Peer Company 1's annual reporting to see if they have also provided data for the same set of indicators and enter that information in the next column of the spreadsheet.

Step 3 Find ALL additional indicators the peer company provided data for and add them all to the spreadsheet, increasing the total number of indicators.

Step 4 Repeat Steps 2 and 3 for all of the other peer companies.

Step 5 Count up the total number of indicators each company has provided data for and then divide it by the total number of indicators in the compiled list of 'ALL data points' to calculate a SDC score.

NOTE: Because the indicators are grouped in defined categories, we can also calculate category-specific scores for each company (e.g., a Governance SDC score, or a Health & Safety SDC score)

For example…

IRAS provides assurance for two UK based companies in the Oil & Gas sector, of which one is a listed company (Tullow Oil) and the other isn't listed (Trident Energy).

Because these companies are considered "peers", our research overlaps between them, although the database we compile for the listed company includes financial indicators while the one we compile for the non-listed company doesn't. This is because non-listed companies aren't expected to publish annual financial statements, so we exclude financial indicators when conducting the analysis to ensure a like-for-like analysis and thereby avoid penalizing Trident Energy for being non-listed.

Also noteworthy is that we've been providing assurance for Tullow Oil for five years, and Trident Energy for four years, ultimately expanding the total number of peer companies under review to a total of 17 (i.e., our clients plus 15 additional peers, all selected by one or the other client), despite the table below only depicting the Top 8 SDC scores in the peer group.

	Tullow	Capricorn	Harbour	Santos	Trident	Energean	Aker BP	Brava
Overall	71.83%	59.86%	59.86%	58.45%	56.34%	56.34%	54.23%	52.82%
Standard Disclosures (5)	80.00%	100.00%	80.00%	100.00%	60.00%	100.00%	100.00%	40.00%
Production & Assets (9)	44.44%	33.33%	22.22%	33.33%	33.33%	44.44%	11.11%	55.56%
Governance (18)	77.78%	72.22%	83.33%	66.67%	83.33%	77.78%	77.78%	44.44%
Labour (18)	83.33%	27.78%	55.56%	66.67%	50.00%	44.44%	38.89%	50.00%
Health & Safety (18)	66.67%	61.11%	61.11%	61.11%	77.78%	66.67%	61.11%	44.44%
Environment - Energy (12)	58.33%	33.33%	16.67%	8.33%	91.67%	41.67%	58.33%	25.00%
Environment - Carbon Emissions (21)	76.19%	76.19%	76.19%	57.14%	38.10%	76.19%	76.19%	57.14%
Environment - Water (16)	68.75%	75.00%	50.00%	87.50%	31.25%	50.00%	6.25%	75.00%
Environment - Waste (16)	87.50%	56.25%	81.25%	50.00%	56.25%	18.75%	75.00%	75.00%
Environmental Management (6)	66.67%	100.00%	50.00%	66.67%	33.33%	83.33%	50.00%	50.00%
CSI & ED Expenditures (2)	50.00%	50.00%	50.00%	50.00%	50.00%	0.00%	0.00%	50.00%

Not to brag, but we believe (based on our interaction with both companies) that at least one of the reasons why analysts can find data for 123 of the 176 scored indicators in the consolidated benchmarking list for Tullow Oil (68.18%), and 80 for Trident Energy (56.34%), is because both clients followed at least some of our disclosure transparency advice. From the outset, in the early stages of our first year's assurance work, IRAS developed a company-specific Comprehensive Sustainability Performance Data table we believed the companies ought to include in their annual reporting. While the tables are similar for both companies, using the same baseline set of indicators to select from, the table for Trident Energy is shorter given their status as a non-listed company.

NOTE: In our experience, private/non-listed companies tend to lag well behind their listed peers in terms of sustainability performance transparency and accountability, which has not been our finding with Trident Energy.

It's perhaps even more important to note that during our assurance process, IRAS uses the Consolidated Sustainability Data Table (and overall SDC database) to conduct reasonability tests of ALL of the data our clients publish.

Using the historical dataset we've compiled, IRAS reviews each data point and asks whether it is "reasonable" in the context of not only what was previously reported, but also in terms of whatever operational changes occurred within the company during the reporting period.

If, for example, IRAS were to identify a 30% decrease in average electricity consumption for the month of July over the five-year period, we'd first ask for the source data for all 12 months of the period for all operations to assess where the anomaly occurred, and then interview the person(s) responsible for collection, collation and reporting of electricity consumption data to explain what might have happened. We'd then seek to determine if whatever information was used to explain the anomaly for electricity consumption in July could also explain whether July data for other indicators demonstrated a similar anomaly (and if not, why not?).

Ultimately, the SDC process links sustainability performance data directly to identified material issues.

If a company were to state that water consumption is, for whatever reason, a material issue for the company, directly and/or indirectly via the company's impacts on its communities and/or the physical/natural environment around their operations, then stakeholders ought to reasonably expect to be given annual updates on the company's water use. Specific data points should be presented for the volume of water consumed, treated and/or discharged, as well as any measurements taken to test the company's impact on the quality of water it interacts with (e.g., Chemical Oxygen Demand, Particulate Matter Discharge, etc.). The SDC helps IRAS assess whether sufficient data is provided, as well as whether any of the data ought to be interrogated to determine if problems exist with the water being used and/or affected.

In addition, IRAS uses the SDC process (and SDTI process) to compile a database of material issues for all companies within the peer group. We use the resulting list of material issues reported on by one or more of the companies in the group to compare what a company deems "material" with what their peers do, to assess whether all relevant material issues have been appropriately considered and/or discussed in annual reporting. However, this is only one component of IRAS's broader materiality assessment approach.

During 27 years of sustainability report authorship and assurance services experience, IRAS has identified several effective methods for evaluating whether a company's list of material issues is "reasonable":

- Interview the top and/or senior executive team that was responsible for compiling the list of material issues and ask about the process the ***Materiality Determination Process*** employed, whether they used a formal process for ranking the issues from "most" to "least" material, and whether stakeholder input was at least considered during the process.
- Conduct an ***Internal Materiality Scan*** by reviewing (page by page) the company's Board and Committee Packs – the information prepared for Directors of the company prior to each Board and/or Committee Meeting. An assurance provider should review the packs for all meetings conducted during the prior 12 months to identify ALL issues that are discussed in detail and/or frequently enough to assess whether an issue should be deemed "material".
- Review the company's ***Risk Register*** – typically compiled by the Risk Committee, Audit Committee or Risk & Audit Committee (if this exists) – and copy & paste the top risks (possibly all the risks) into the list of material issues, noting that members of the finance and/or accounting team will have deemed these risks "material" in the context of potential impacts on cash flow, access to capital and/or the cost of capital.
- Conduct an ***External Materiality Scan*** by reviewing any/all media articles within the public domain that mention the company due to an issue that may be considered material (e.g., court cases, accidents, letters to editors with complaints, etc.) and record all issues that are of a level of severity to warrant being considered material.
- Facilitate a ***Materiality Determination Workshop***, if necessary and/or if the company hasn't already conducted one, to allow key members of the leadership team, from a wide array of departments and/or parts of the business – including top executives and department heads – to identify and prioritize the company's most material issues.
- Complete, as described above, a ***Sustainability Data Completeness*** assessment of the company and a key set of its peers, noting that indicators with data reported by the majority of the peer group are likely connected to a material issue.

NOTE: For JSE listed companies, this is where the Sustainability Data Transparency Index (SDTI) becomes an extremely useful tool, because our research includes a robust analysis of what material issues are discussed by what company(ies), and what issues are unique to one or more industry sectors. This analysis can be useful for companies wanting to test their own assumptions prior to producing an annual report.

Comparability is not only a foundational principle of effective reporting, as demonstrated by the early activities of CERES and the GRI, but an incredibly important tool for use in the provision of meaningful sustainability assurance, even though none of the current assurance standards specifically identifies comparability as something to be considered. It's not a principle that most assurance providers currently assess in the course of their assurance processes, nor something mentioned in assurance statements other than those produced by IRAS (to our current knowledge). However, we believe it is critical to answering the underlying expectation of ALL stakeholders who are deemed a user of a sustainability report:

"Is the information contained within the sustainability report fair and factual?"

Stakeholders not only need to know that information isn't riddled with errors, just as they need to know whether a sustainability report discusses the issues they want answers to, so is "fair" in relation to their expectations. They need to know that the information can be compared against similar information provided by similar organisations in order to conclude who, if anyone, is doing a good job (or a horrendous job).

If data is king, then the comparability of data must be its queen!

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