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Strategic Approaches to Sustainability Reporting

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Acronyms and Terms

ASEAN:	Association of South East Asian Nations
ASR:	Asian Sustainability Ratings
CSR:	Corporate Social Responsibility
ESG:	Environment, Social, Governance - often used in the context of investment and financial services
GRI:	Global Reporting Initiative
IR:	Integrated Report
IIRC:	International Integrated Reporting Council
NCSR:	National Center for Sustainability Reporting (Indonesia)
NGO:	Non-Government Organization
SDGs:	Sustainable Development Goals
TBL:	Triple Bottom Line
UNGC:	United Nations Global Compact

Executive Summary

Companies that are serious about sustainability report on their activities to support internal decision-making and communicate their progress to stakeholders. This report explains the rationale for sustainability reporting, providing examples of how it adds financial and other value to palm oil companies and supports the development of new strategic directions.

In response to both regulatory and voluntary interest, sustainability reporting is becoming more common, even expected, in many sectors. The financial sector plays an important role driving environmental, social, and governance (ESG) disclosure, including climate-related disclosures and third-party assurance, pointing to increased demand for transparency and credibility.

Focusing on Asia, and particularly the palm oil sector, this document discusses guidelines for sustainability reporting content, as well as issues to address when considering sustainability reports and management systems, including examples from the Palm Oil sector and global best practices.

The following is the first in a series of three documents that can be used to understand the rationale and context for reporting (Report 1), sustainability report content and appropriate metrics (Report 2) and specific considerations for the palm oil sector (Report 3). Together these reports provide a starting point to consider internal approaches and provide resources to use as needed to produce materials that suit your particular organisational needs.

1 Introduction

The private sector must play a significant role in the transition toward a more sustainable economy. For firms, this can be a matter of survival -- continued access to raw materials, natural resources, and productive landscapes requires responsible stewardship. Meanwhile, sustainable economic development depends on safe and healthy workforces whose rights are protected and whose livelihoods are supported. Global efforts, such as the Sustainable Development Goals, reflect these objectives and are among the drivers increasing demand for corporate transparency related to social and environmental impact.

Many firms turn to sustainability reporting to meet these demands. Reporting allows companies to demonstrate commitment to sustainable practices, and progress towards their goals. In the past decade, the percentage of the world's largest corporations that provided reporting related to corporate responsibility (including one or more dimensions of sustainability) rose from 80% to 92%¹. Sustainability reporting is becoming essential for organizations' competitiveness and market credibility. As indicated in a 2018 review of sustainability reporting in the ASEAN countries, "For companies to continue thriving in the business world, it is increasingly essential for them to disclose their commitment and initiative in making the world a better place."²

The rapid uptake of sustainability reporting has left some organizations wondering how it might benefit them, or why and how to start. Sustainability reporting comes in diverse formats, and firms have many different reporting strategies and styles, so it can be challenging to decide what content, design, and data are best suited to your organisation. This document gives you a place to start by:

- Section 2: Providing context on the emergence of reporting on sustainability issues
- Section 3: Discussing the rationale for and benefits of reporting
- Section 4: Reviewing content and design considerations
- Section 5: Introducing current reporting trends
- Section 6: Presenting examples from leading organizations, specifically from the palm oil industry

Given the numerous tools and resources available, this document provides a starting point to introduce, set the context, and provide links to further useful resources.

¹ Ernst & Young, 2013.

² Loh & Thomas, 2018.

2 Background and Context of Sustainability Reporting

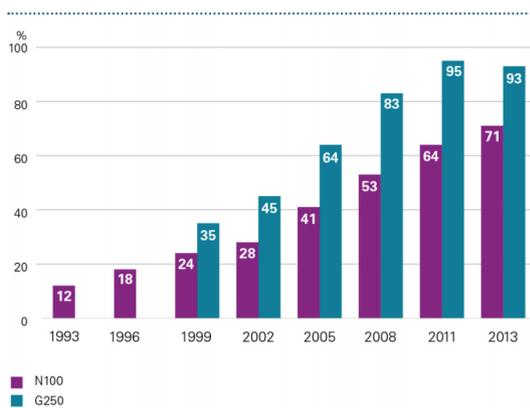
2.1 Evolution and Sustainability Reporting

Sustainability reporting is not new, but in the words of one of the co-founders of the Global Reporting Initiative, “Sustainability reporting has gone from the extraordinary, to the ordinary, to the expected.”³ Sustainability reporting emerged in the late 1980s to mid-1990s, alongside Corporate Social Responsibility (CSR) efforts, as a means to communicate connections between social and environmental issues and corporate activities. Sustainability reports’ content and details have evolved with market trends, consumer demands, and the regulatory environment.

In the late 1980s and early 1990s, social and environmental issues became a key focus of non-financial reporting for many companies due largely to increased public scrutiny arising from various industrial catastrophes, such as Bhopal, Chernobyl, and the Exxon-Valdez oil spill. The mid-90s also saw the proliferation of various frameworks for non-financial reporting, such as the Triple Bottom Line’s integration of social, environmental and financial considerations. Early adopters of these tools argued that only firms that were conscious of their ecological and social impacts would be economically in the long run.

In recent years, sustainability reporting uptake has been significant. Between 1999 and 2013 the share of world’s largest corporations that provided some sort of standalone sustainability report rose from 35% to 93% (Figure 1). In that same time period, the focus of sustainability expanded from risk avoidance to proactive efforts, such as net zero greenhouse gas emissions, 100% supply chain traceability, and circular economy innovations, among others. Such targets, regulations, and policies raise the bar for all organizations, since those lagging behind must reach new minimum standards, and those that lead the way in both sustainability reporting and performance align with and exceed international sustainability goals.

Figure 1



Base: N100/G250 companies
Source: KPMG International, [The KPMG Survey of Corporate Responsibility Reporting 2013](#), December 2013, p. 22.

3 Ernst & Young, 2013.

International agreements including the Paris Climate Accord, and the UN Sustainable Development Goals (SDGs) give firms frameworks for setting priorities and to publicize their progress. Since many international agreements are developed and negotiated primarily by government actors (though the private sector plays a key role), the UN Global Compact was created specifically for and by business leaders to take action on sustainability issues, with reporting playing a key role. Membership in the Global Compact has grown to over 12,000 global members across 160 countries. There are currently 84 members from Indonesia, including small and medium-sized enterprises, larger companies, academic institutions, public sector organizations, and NGOs. Joining the Global Compact means that organizations commit to uphold the Compact's ten principles, which are categorized into Human Rights, Labour Standards, Environment, and Anti-Corruption (Figure 2).

Figure 2: Principles of the UN Global Compact. Source: UN Global Compact



In joining the UN Global Compact, organizations commit to the principles and are expected to:

- **Assess** risks, opportunities, and impacts across Global Compact issue areas
- **Define** goals, strategies, and policies
- **Implement** strategies and policies through the company and across the company's value chain
- **Measure** and monitor impacts and progress toward goals
- **Communicate** progress and strategies and engage with stakeholders for continuous improvement

To maintain membership in the Global Compact, organizations must complete a communication of progress related to the ten principles that must be publicly available⁴. Through the communication of the progress through the steps above (assess, define, implement, measure, communicate), we note that reporting is not simply the final step. Reports provide evidence that an organization has conducted all of the other steps, where each element to assess and measure data is required in order to possess the appropriate information for a sustainability report.

Box. Sustainability Reporting and related terms

A variety of terms may be used to describe components or intended to represent similar issues to what we refer to as Sustainability Reporting. Triple Bottom Line (TBL) reporting, non-financial reporting, and environmental, social and governance (ESG) reporting are frequently appear in reports and articles. Corporate Social Responsibility (CSR) reporting may also appear, covering the range of internal and external activities by an organization. CSR in its original conceptualization referred primarily to efforts undertaken by businesses to achieve positive social impact through philanthropy and community involvement, i.e. external efforts. In contrast, in this report we focus on the core functions of a company's operations that have been designed, aligned or improved to produce positive social, environmental and economic outcomes (e.g. efficient resource management, research and development efforts to reduce the footprint of products, ethical supply chain sourcing). For this reason, we prefer the use of the term Sustainability Reporting in this document.

2.2 Voluntary vs Mandatory Reporting

As seen in Figure 3, both voluntary and mandatory sustainability reporting is on the increase. For companies that excel in the area of sustainability, legally mandated reporting may serve as guidance on the essential elements of a report, but are generally not considered as sufficient or comprehensive. In setting goals for sustainability in organizations in these settings, many organizations do not see legal compliance as an end point but a point of departure.

Figure 3: Growth of both mandatory and voluntary reporting in past decade. Source: [KPMG, 2016](#)

Trends in sustainability reporting instruments

		2006		2010		2013		2016	
Reporting Instruments	Mandatory	35	58%	94	62%	130	72%	248	65%
	Voluntary	25	42%	57	38%	50	28%	135	35%
	Total	60		151		180		383	
Countries & Regions		19		32		44		71 (64 with instruments)	

⁴ Overview of the communication of progress and links to examples can be found here: <https://www.unglobalcompact.org/participation/report/cop>

Several regulations and voluntary alliances promote sustainability reporting through different mechanisms. The European Union has released several directives addressing non-financial reporting, including the EU Accounts Modernisation Directive (mandatory 2004 directive) and 2014 Non-Financial reporting directive (mandatory for organizations with more than 500 employees). The European directives have ramifications across the globe because of European firms' global supply chains. Individual countries, particularly in Europe, also are imposing stricter regulations on companies reporting and due diligence requirements (e.g. France's Supply Chain Due Diligence Regulation⁵).

The UN [Sustainable Stock Exchanges initiative](#) is collaboration between the UN Global Compact, the UN PRI (Principles on Responsible Investing) and the UNEP Finance Initiative. It is an alliance of stock exchanges committed to improving transparency and practices on non-financial reporting amongst publicly listed companies. At present 85 of the 95 global stock exchanges are listed as members. A select but growing number of stock exchanges (currently 17) have begun imposing mandatory disclosure requirements related to sustainability for issuers. Thirteen of the seventeen exchanges requiring mandatory disclosure provide written guidance for reporting expectations (see Annex 1 for a list of reports). Mandated reporting in the context of stock exchanges or other regulatory bodies tends to refer to a "report or explain" policy. This means an organization provides data on specific metrics outlined by the regulatory body, or provides an explanation of why they do not or cannot report on the issue⁶.

2.3 Asian context

Several voluntary and regulatory measures have emerged in Asia to promote sustainability reporting. Government regulations often require reporting for state-owned companies, providing examples others in the same industry can follow or measure themselves against. In 2008, China's State-owned Assets Supervision and Administration Commission released a rule mandating sustainability reporting for state-owned companies. India's Ministry of Heavy Industry and Public Enterprises released a similar rule in 2013, alongside their Guidelines on Corporate Social Responsibility for Sustainability of Central Public Sector Enterprises (see Annex 1).

A study on reporting trends by the ASEAN CSR network in 2016 found⁷:

- Higher quality of disclosure generally observed when countries used GRI framework
- Companies see the relevance in sustainability but majority of them are unable to identify its key impacts, risks, and opportunities
- Companies appear to increasingly recognise the importance of sustainability reporting and make progress to improve on the quality of disclosure

⁵<https://www.supplychaindive.com/news/France-supply-chain-human-rights-reporting-audits/437191/>,

Original law (french): <http://www.assemblee-nationale.fr/14/ta/ta0924.asp>

⁶ GRI, 2013

⁷ ASEAN, 2016

A follow up survey in 2018 on ASEAN sustainability reporting trends showed that 64.5% of Malaysian companies surveyed provided sustainability reports⁸.

59.2% The overall disclosure rate for all five ASEAN countries



Malaysia took the lead in level of sustainability disclosure closely followed by Singapore and Thailand

The same report also found⁹:

- The extent of companies producing sustainability reports is trending upwards across the region, a pattern expected to continue
- Reporting uptake is a response to regional regulations, and sustainability policies from within and external to regionally based organizations.
- Topics with highest disclosure rates were economic value generated, philanthropy, and occupational health and safety, while the lowest disclosure rates were: economic impact from climate change, biodiversity, human rights.

Regulations in Financial Markets

Financial market regulations have driven a global increase in sustainability reporting. A growing number of stock exchanges have implemented recommendations on what sustainability information companies must disclose in order to be listed. This is often the starting point for firms' decisions to report on sustainability, and guidance from the stock exchange in question (see examples below) can help determine what to report.

Southeast Asia is a leader in stock-exchange-mandated sustainability reporting. Of 17 exchanges requiring ESG disclosures as of 2017, 4 were in Southeast Asia, all of them providing written guidance on report contents. Such regulations have an impact: among the largest 100 companies in Malaysia, a recent survey identified 97% reporting on sustainability, compared to the 72% global average¹⁰. We include the four Asian stock exchanges with mandatory reporting as well as Indonesia below, with a description of current regulations, indices where relevant, and links to their guidance materials.

Malaysia (BURSA)

Regulation: Mandatory. Malaysian Code on Corporate Governance.

Index: FTSE4Good Bursa Malaysia Index

Guidance: [Sustainability Reporting Guide](#) , [Guidelines on Sustainable and Responsible Investment Funds](#)

⁸ Loh & Thomas, 2018

⁹ Loh & Thomas, 2018.

¹⁰ KPMG, 2017.

Singapore (SGX)

Regulation: The Singapore exchange policy statement sets the baseline reporting, including corporate governance as well as social and environmental aspects. Their intent in producing this guidance is to generate interest among listed companies, leading to acceptance of and commitment to sustainability as an operating principle.

Index: SGX Sustainability Indices

Guidance: [The Guide to Sustainability Reporting for Listed Companies](#)

Thailand (SET)

Regulation: Mandatory

Index: N/A

Guidance: [CSRI's Guidance for Sustainability Reporting](#) (in Thai)

Hong Kong (HKEX)

Regulation: The HKEX has had a comply or explain policy since 2016, expecting that ESG reports will include desired data or reasons for not reporting ("comply or report").

Index: N/A

Guidance: The listing requirements are in [Appendix 27 of the Main Board listing Rules](#), and includes Key Performance Indicators across 8 topic areas.

Guidance: ESG Reporting guide. Consultation paper regarding the evolution of reporting guide can be found [here](#).

Indonesia (IDX)

Regulation: Does not require sustainability reporting for listing on the IDX, however, the Financial Services Authority of Indonesia (OJK) plans to mandate sustainability reporting among publicly listed companies according to their sustainable finance strategy, which will have a significant impact on the level and extent of reporting in Indonesia¹¹.

Index: KEHATI-SRI Index. This sustainable responsible investment (SRI) index was formed in cooperation between the Indonesian Stock Exchange with the Indonesian Biodiversity Foundation (KEHATI). This index represents the top 25 scoring companies on the exchange across: financial eligibility and six ESG parameters: corporate management, environment, community involvement, business manners, human resources, human rights.

Guidance: None

¹¹ The Regulation of the Financial Service Authority No. 51/POJK.03/2017 requires financial services institutions, issuer companies and public companies to prepare sustainability report covering the economic, financial, social and environmental performance of the reporting company. Source: <http://forestsandfinance.org/wp-content/uploads/2017/09/POJK-51-Unofficial-English-Translation-2017.pdf>

Asia Sustainability Reporting (ASR) Rating

The Indonesian Sustainability Reporting Awards began in 2005 and evolved into the Sustainability Reporting Awards in 2013 with the inclusion of Malaysia, Singapore, India, and the Philippines. The Asia Sustainability Reporting (ASR) Rating was introduced in 2018, as an evolution from the ASR. While previously top companies were recognized individually, with the introduction of the rating system (Platinum, Gold, Silver, Bronze) more companies can be recognized as a means to encourage broader participation and recognize more organizations for their efforts.

Star Energy Geothermal Wayang Windu Ltd [[2017 Report](#)]

Silver Rating:

PT ABM Investama Tbk [[2017 Report](#)],

PT Bank Rakyat Indonesia (Persero) Tbk [[2017 Report](#)],

PT PELNI [2017 Report].

Bronze Rating:

PT Bank Pembangunan Daerah Jawa Timur Tbk [2017 Report],

BPJS Ketenagakerjaan [2018 Report]

PT Sarana Multi Infrastruktur [2017 Report]

3 Benefits of Reporting (Why bother?)

3.1 Direct Benefits: Creating value for a company

Sustainability Reporting can create value for companies in a number of ways. Assessing and sharing quantitative and qualitative data associated with environmental and social issues can:

- Inform strategic direction
- Highlight areas of opportunity for efficiencies or cost savings
- Increase customer loyalty
- Generate positive publicity about the company
- Enhance corporate reputation
- Identify points of weakness/areas of improvement
- Improve coordination between disparate work functions across a large organization
- Establish common goals, common language among employees and stakeholders

Additional potential benefits for companies that engage in disclosure and reporting:

- *Productivity Improvements* - There are a direct and indirect ways data and reporting associated with sustainability can influence productivity. Measuring and reporting worker injury rates, for example, can motivate improving health and safety procedures and employee health and happiness.
- *Risk Minimization* - The more a company considers the environmental and social impacts it has on the communities in which it operates and globally, the more deftly it can handle the risks associated with those impacts. The more comprehensive a picture a company has through its operation and its total impact, the lower the chance it will be taken by surprise, unforeseen events. For example, companies reporting water and energy related information can directly benefit from the disclosure process. It can lead to increased awareness and understanding of associated financial risks and opportunities, better risk management for these areas, and consequently more informed strategic planning.
- *Lending and Capital Acquisition* - Disclosing sustainability efforts is associated with lower equity costs and increases in borrowing capacity¹². Internally, engaging in activities can reduce costs by helping to identify and plan for otherwise unforeseen risks. For example, investment in management control systems that reduce waste and other non-value added expenditures produce financial benefits, often quickly exceeding the cost¹³. Good climate-related disclosure that reflects strong governance and strategy on issues related to climate change can help firms secure capital at lower costs and recruit more diverse investors.

¹² Abernathy et al. 2015

¹³ Abernathy et al. 2015

Companies that do not appropriately consider their business model in light of environmental factors may produce negative effects on the environment and experience negative impacts on their business, such as lost profits, debt financing, future regulatory burdens, and loss of a “license to operate” due to a bad reputation. For example, the consequences of climate change could negatively impact a company’s expected return on capital or cost of capital over the medium or long-term rather than the usual short-term horizon of financial planning. As an agricultural industry, palm oil is concerned with changing environmental conditions, many of which are directly impacted by climate change, including precipitation, droughts, and unseasonable temperature fluctuations. All of these changes can affect yields, suitability of soils for planting, overall plantation health, and ultimately the economic bottom line. On the other hand, identifying new climate-related opportunities can have the opposite effect, and strengthen companies business models and earnings outlook. Business practices can influence or contribute to mitigating GHG emissions and addressing climate concerns. For example, companies make choices of fertilizer, plantation practices and commitments associated with deforestation, burning, and peat management.

United Plantations note in their sustainability report several ways their sustainability activities also lead to cost savings. A new compost strategy for recycled material has reduced fertilizer consumption by 39,565 MT, worth RM35.48 million at 2017 fertiliser prices. In Indonesia 131,079 MT of biomass was recycled onto plantation land, equivalent to adding 76,026 MT of organic carbon to enrich the land, leading to both yield and carbon storage (GHG reduction) benefits. There are similar cost and environmental advantages to the reduced need for fertilizer.

3.2 Indirect benefits

Adding value to company processes and outcomes is a primary focus of sustainability-oriented management practices and reporting, though there are also several indirect benefits to reporting, beyond the traditional mechanisms for adding value identified above.

- *Legitimacy* - Many firms, industries, and organisations are experiencing greater difficulty obtaining and maintaining firm legitimacy within the communities they operate. In theory, when corporations acknowledge the shared responsibility between economic and societal needs, the expectation is that over the long haul, firms can experience growth and innovation¹⁴.
- *Transparency and becoming a preferred supplier* - As demand for responsible procurement practices increases, so too will the demand increase for greater accountability among all actors in the supply chain. Whereas sustainable supply chain management had traditionally stopped at tier 1 (direct) suppliers, there is a growing demand for monitoring and oversight of tier 2 and tier 3 suppliers. This could present significant opportunities for downstream suppliers who take a proactive approach to assessing and documenting sustainability practices.

¹⁴ Abernathy et al., 2015

- *Favourable ratings and access to capital* - Prior research has found companies with superior sustainability performance that initiated sustainability reporting had future lower costs of equity capital, were more likely to attract analyst coverage, had more accurate analysts' forecasts, and attracted more institutional investors. Similarly, there is evidence investors will increase investment in a company that expended funds on sustainability initiatives even though the expenditure reduced the company's current-year financial performance.
- *Fostering Partnerships* - Sustainability reporting and management is increasingly becoming a condition for partnering with multinational companies and therefore, more organizations, even small- and medium-sized, face CSR requirements. By being ahead of the curve in terms of reporting, a firm can benefit from access to new markets via external partnerships. Since a report is the most visible way to communicate sustainability to stakeholders, it can be an effective tool for signalling intentions to conduct business in a sustainable fashion.

3.3 From Shareholders to Stakeholders

Sustainability reporting began as an extension of financial reporting, which is concerned primarily with **shareholder** interests. By incorporating non-financial considerations in a familiar format, it can allow for new perspectives within a familiar tool to reach a broader set of key **stakeholders**. By focusing on key issues stakeholders are aware of current activities, and the report additionally serves the purpose of informing critical decisions.

Reporting can be for internal communication, shareholders, third party auditors or evaluators assessing sustainability performance, or the broader public. A report's design and content may shift depending on the audience (and there may be more than one). Being mindful of why and how stakeholders' benefit from this information can inform the usefulness and strategy for their production.

A few of the relevant stakeholder groups include:

Internal Stakeholders (Employees)

Sustainability reports are not only for public consumption. In large organizations with wide-ranging functions it may not always be known what efforts toward sustainability are being undertaken by employees in different areas. Reporting provides an opportunity to consider sustainability efforts as a whole, by looking across the various functions of an organization that may more frequently operate in relative isolation. The framework of a report provides the ability for all to see how specific activities fit into a larger structure and broader goals. Observing at a cross-organizational level, reporting can be a mechanism to perceive opportunities for connection, cost savings, or alignment of goals. Meeting standards or certification can require a range of additional practices and documentation of specific activities, and reporting can encourage employee compliance by making the purpose of new procedures clear.

Clients/Customers

Despite their increasing complexity, the visibility of and interest in sustainable practices across supply chains is growing. Upstream and downstream firms are becoming more proactive in working with suppliers to improve their sustainability practices, and improved sustainability reporting is a key component of this trend. Buyers want to know how well suppliers are doing on sustainability, and reports are a key source of information for interested parties. Whether through internal audit or third-party supply chain evaluators, customers and clients will use these reports as proxy measure for how much a company is progressing on sustainability. “Progress” is a key point and highlights the need for benchmarking. Documented improvement over time can be perceived as more meaningful than a snapshot without benchmarks and embedding data collection into management practices is a cornerstone of sustainability reporting.

Local Communities

A key component of a business’s sustainability is how it affects the lives of the people in the communities in which it operates. Whether that is through providing high quality, meaningful employment or seeking to improve local biodiversity, there are many ways companies can improve the lives of local communities, and these actions need not be perceived as a zero-sum game. Consequently, community members are key stakeholders in the reporting process, and consulting a range of stakeholders as a means to identify and target key issues ensures that effort is put toward the highest priority concerns.

4 Content and Design Considerations

Guidance related to the creation of a sustainability report are the focus of Report 2. The objective here is to introduce common content elements, resources from which to seek guidance, and some examples to provide inspiration.

4.1 Critical Content for Inclusion

When considering what to include in a report, more is not necessarily better. Report 2 goes into greater detail regarding specific requirements of reporting standards along with processes and tools, but as a starting point, the following covers topics and questions to consider when developing content, and help focus on the most critical issues:

- Who/what is most impacted by your business?
- Who/what can you most impact through your actions?
- What risks exist within the supply chain or your own operations?

The first two questions cover what is referred to as “materiality”, that is, what is material (i.e. critical, essential) to how an organization functions. The third question goes beyond internal operations and considers the organization’s broader footprint.

The following categories cover the most common content associated with sustainability reports and are reflected in GRI standards. These issues are covered in existing reporting guidelines, such as those associated with stock exchanges as well as the UN Global Compact:

General

- Sustainability policies and goals, e.g. milestones, plans for achieving goals, and long-term aspirations
- Corporate accountability and seniority of decision-making on sustainability issues
- Assessment of sustainability impacts, risks, or opportunities
- Risk management policies and processes associated with environmental and social concerns
- Relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to the organisation and its stakeholders

Environmental

- Climate change disclosures (i.e. carbon footprint of operations,
- Biodiversity management - how operations impact biodiversity, policies and practices to improve conditions
- Environmental management systems

Social

- Diversity and inclusion
- Programmes and practices that assess and manage the impacts of operations on communities
- Product responsibility policy and practices
- Labour practices and relations
- Human Rights
- Corporate Ethics

Most organizations already track some of this information in some capacity, though perhaps not as inclusively. Sustainability reporting guidelines (see Annex A) provide appropriate indicators, metrics, and at times appropriate baseline targets to work towards. As a starting point, an organization can look to existing initiatives and partnerships related to the above themes, as they have likely been initiated to address a specific need that is already of interest to the business.

4.2 Additional Considerations

Beyond topic areas for data collection, the following questions and considerations can support overall thinking regarding a sustainability reports content.

Internal Improvements vs. External Impact

When considering an organization's sustainability issues, the starting point is often what is easiest to control. Many organizations start internally with physical capital, and look at energy consumption, water use, and waste management, before moving to operations and production. Measuring energy and water use on a plantation (and usually multiple plantations) can be complex, and becomes even more so when transport, processing, and production is included. Fortunately, there are existing management systems that can be adopted, along with indicators to help track areas with the most impact. Overall, as one moves from internal process of a single building or plantation to suppliers, and upstream and downstream supply chains, complexity increases. Fortunately, a benefit of approaching sustainability from multiple angles is greater overall progress toward goals. For example, collecting new data on plantations, and adjusting procurement practices, can inform policies on reducing both water and waste. Improving labour practices and engaging employees on sustainability can support retention as well as attract external investors.

Reporting Relevance & Quality "Relevant vs. Good"

Ensuring that your sustainability report covers all material issues is one of the hallmarks of quality reporting, but in many cases, it can lead to sacrifices in other areas. For instance, an overly expansive sustainability report, containing detailed presentation of methodologies used, scientific data captured, and the events that have occurred in your organization may form a complete report, but it may also amount to a report that is difficult to read and follow for many interested stakeholders. Alternatively, reporting only on global KPIs, key sustainability events and the most material topics in your

organisation might create a good snapshot of your company's sustainability efforts over the past year, but will likely be insufficient to inform stakeholders of the risks your organisation faces and the measures in place to address them.

Therefore, in deciding on what to include in a report, 'informational quality' is a useful concept. Informational quality is an "average sum of relevance, comparability, clarity, and verifiability"¹⁵. Considering these parameters as they relate to report content can help determine if your coverage is satisfactory. Monitoring the informational quality in your report will help make your report relevant and material to all stakeholders, and sufficiently complete so as to present a balanced picture of company performance for more sophisticated interested parties (such as investors and NGOs). Additionally, consistent engagement with key stakeholders throughout the reporting process can provide your company with up-to-date feedback on reporting quality¹⁶.

Governance & Management

When considering which aspects of your organisation's operations are relevant to include in a sustainability report, it is important to keep in mind the differing corporate governance and management structures that may be in place across the company. While governance structures usually consist of policies that specifically restrict or direct how people can act, management systems refer to the actions a company takes. In the context of sustainability reporting, both structures are vital elements of the overall sustainability strategy and the capacity to put it into action.

Report Frequency

As sustainability reporting is a long process, especially if new data is collected, considering how frequently sustainability reports will be published can impact design and management of sustainability systems. In most cases sustainability reports are published as part of or alongside annual reports. However, some organizations also produce more frequent updates on ongoing progress. Such updates may highlight specific successes or milestones. The latter can serve as internal motivation across the company, in addition to being a demonstration of commitment and regular reminders to keep sustainability issues front of mind. For example, Cargill produces quarterly "updates" on sustainability issues, often focusing on a specific issue, whereas the annual report covers much more. This addresses one of the drawbacks of mandatory reporting and the range of issues covered in reporting frameworks, that breadth may come at the cost of depth.

4.3 Key References

There are a range of tools, guidelines, and reference points that can help outline and complete a report. The principles and guidelines provided by multi-stakeholder groups such as the UN Global Compact, the GRI, have benefitted from global input, and multiple iterations to evolve with trends and the needs of organizations. Further tools and specific resources can be found in [M2] outline a few of those most pertinent to global reporting guidance and the palm oil sector in particular.

¹⁵ Abernathy et al., 2015

¹⁶ Rasche et al., 2017

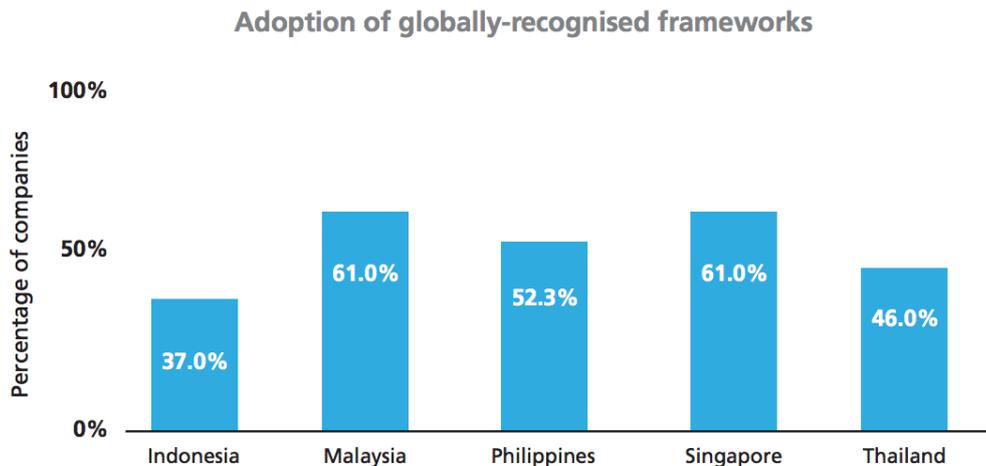
Global Reporting Initiative (GRI) Resource Library

The Global Reporting Initiative produces the most commonly used guidelines for standalone sustainability reports in the world¹⁷. The GRI guidelines, developed by CERES (Coalition for Environmentally Responsible Economies) for sustainable development reporting, and by UNEP (United Nations Environmental Programme) for environment protection, are the most popular systems of sustainability reporting¹⁸. GRI also works with auditors, accountants, enterprises, public organisations and institutions to provide for continuous improvement of the guidelines, which are thus becoming a reliable instrument of information policy management adapted to the changeable reality, universally applied and allowing for diverse comparisons. The GRI guidelines have been published by GRI since 2000. They are developed with broad participation and input, similarly to ISO-standards, but with a more open process for public commenting.

As an organization, the GRI seeks to:

- advance the use of integrated reporting
- standardize sustainability reporting
- advocate and provide support for sustainability reporting
- promote a “report or explain” approach to sustainability reporting ([GRI, 2016](#)).

Figure 4



CERES Reporting Guidance for Responsible Palm

CERES, along with NGO and industry partners, has produced specific guidelines for key data to report in the palm oil sector. They provide key 21 indicators for the environmental and social sector for growers, producers, and traders specifically, and indicate subsets of these indicators that also apply to manufacturers and retailers. The themes covered by the CERES indicators include:

- Scope
 - Whether the company’s palm oil policy applies to:

¹⁷ KPMG 2015

¹⁸ Marková et al. 2014

-
- a. the physical oil the company produces, purchases, and/or trades;
 - b. the company's direct suppliers and all of their operations; and/or
 - c. the company's subsidiaries, joint ventures, and/or investments¹⁹

- Supply Chain Transparency
- Monitoring and Engagement
- Land Acquisition and Development
- Environment
- Human Rights
- Smallholders
- Compliance
- Third party Initiatives (e.g. certifications)

Details and links to further guidance materials discussed in this document, such as those associated with the ASEAN stock exchanges, and on reporting trends in general can be found Annex 1.

¹⁹ CERES, 2017.

5 Reporting Trends

Transparency and credibility are the core of strong sustainability reporting. Standard frameworks (such as the GRI) and regulation are increasing the ubiquitousness of reporting, which is concurrently increasing the need to provide evidence that what is being reported is credible, as is the intended future progress. Board Participation and oversight, assurance, and push toward integrated reporting are all mechanisms through which companies are demonstrating commitment to addressing sustainability alongside the highest levels of decision making, and on par with financial decisions.

5.1 Board Participation and Oversight

A clear way to signal the importance of sustainability and the seriousness with which an organization addresses its commitment is through a mandate from senior leadership. Taking sustainability processes to the next level -- whether reaching new certification standards, developing a sustainable procurement policy, or changing practices on the ground -- requires investment and growing pains that can emerge from changing ingrained processes. Directives and new policies from the highest levels signal to the rest of the organization that sustainability is a priority and let external stakeholders know there will be support -- human or financial resources, or both -- to deliver on commitments.

This is why assessment companies often use board participation is often used as an indicator of sustainability efforts and demonstrating board commitment can improve firm's sustainability scores. Buyers and other members in the supply chain also take note. As highlighted by the CDP's report on Palm Oil, board oversight was seen to be critical for deforestation commitments to be taken seriously,

*"In 2018, 86% of the companies **sourcing** palm oil from Indonesia reported board-level oversight of forest related-issues within their organization, an increase from 2017, when 69% of companies implemented this measure. Governance at the highest level of the organization is a clear indicator that deforestation risk and response have been prioritised. If the corporate ambition set out in a company's zero deforestation commitments is to be met, the company must have the backing of its senior leadership"²⁰.*

Several palm oil companies signal board participation and the role of senior leadership in sustainability policy and programming in their sustainability reports. Sime Darby highlights that the Main Board is accountable for sustainability strategy and performance, while the President and Group Chief Executive is responsible for overall operational performance. SIMP indicates the Board of Directors validates material ESG factors and oversees management and monitoring of sustainability issues. United Plantations has a Board supported Executive committee led by the Chief Executive Director, which reviews and approves sustainability objectives and monitors progress and sustainability developments. The Group Sustainability Reporting Team is led by the Executive Director, Finance & Marketing, and includes personnel from Finance, HR, Environment, Safety & Health, Share Registrar and Marketing.

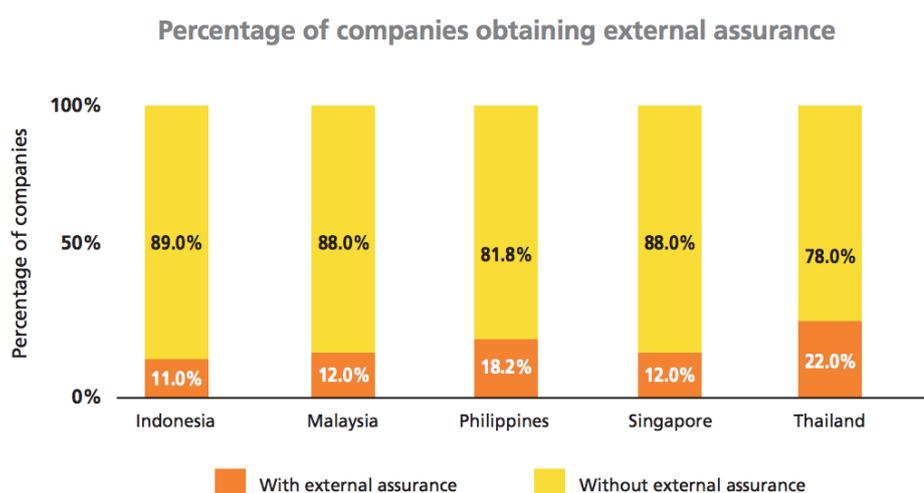
²⁰ CDP 2018

5.2 Assurance

Assurance refers to third party verification of sustainability report findings. Similar to the third-party accounting procedures that certify the validity of financial statements, assurance for sustainability reports signals that the claims made in a report are legitimate. Assurance is not yet commonplace in sustainability reporting, though it significantly improves reports credibility, which is important in an arena where stories and data can be perceived as a public relations strategy²¹. Assurance can also take place internally, though a limiting factor can be lack of expertise in existing internal audit departments, where dealing in non-financial disclosures is less familiar territory²². As procedures are institutionalized, the assurance process can also provide a means to improve the processes through which sustainability data are obtained²³.

The 2018 ASEAN survey of sustainability reporting indicates an increase in interest in assurance, reflecting a shift in how much this influenced the perceived credibility of a sustainability report. That said, third party verification was found to be relatively limited in sustainability reporting in their survey (Figure 5).

Figure 5



5.3 Stand-alone vs Integrated Reporting

The range of different audiences and uses for sustainability reports has led to different types of reports and reporting styles. Subsequently, different modes for reporting and frameworks that facilitate comparison have emerged. At the most fundamental level, a decision needs to be made on whether sustainability will be part of a broader report (such as an annual report) or a stand-alone document.

An Integrated Report is a “concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term”²⁴. The objective of Integrated Reporting (IR) is to reallocate investment capital to entities whose strategy, governance, performance, and prospects are integrated to enhance value in the firm’s

21 Jones and Solomon 2010

22 Abernathy et al., 2015

23 O’Dwyer et al., 2011

24 www.integratedreporting.org

financial, manufactured, intellectual, human, social and relationship, and natural capital²⁵. There is evidence to suggest IR facilitates focusing on the impact of firms' sustainability efforts²⁶.

The IIRC was formed in August 2010 to encourage mainstream sustainability reporting and develop a framework for a periodic report including financial and non-financial data, and integrated reporting²⁷. There appears to be momentum towards greater use of IR in stock exchange requirements and international regulation. For example, South Africa, an early adopter of IR, began in 2010 requiring public companies listed on the Johannesburg stock exchange to use IR or to disclose why they did not²⁸. In 2012 New Britain Palm Oil (since acquired by Sime Darby) became the first palm oil company to produce an integrated report according to IIRC guidelines.

Considerations for the Different Strategies:

Stand-Alone

- Rapidly find detailed information people seek
- Less likely to be overshadowed by other content
- Tends to be longer and more detailed than a particular sustainability section within larger annual report
- Demonstrates commitment -- emphasizes importance of sustainability by not simply referencing in a few paragraphs or pages in a regular annual report.

Integrated Reporting

- The foundation for IR is the belief that combining sustainability performance alongside financial reporting data will focus stakeholders on the long-term value of the firm²⁹
- Demonstrates commitment -- by placing sustainability considerations at the same level of financial reporting
- Easier to make connections between financial results and sustainability practices
- Can effectively communicate how a company intends to strengthen its positive impacts and eliminate or mitigate its negative impacts on sustainability issues and connect them to financial outcomes if and where possible.
- Integrated reporting helps to demonstrate an enterprise has a strategy of sustainable development based on real commitment to social responsibility and takes into consideration needs of all stakeholders³⁰.

25 GRI, 2016

26 Abernathy et al, 2017.

27 Busco et al., 2013.

28 Burke & Clark, 2016.

29 Adams, 2015.

30 Eccles and Krzus, 2010

6 Palm Oil Leaders and Global Leaders in Sustainability Reporting

Given the range of possible objectives associated with reporting, and the variety that exists across sectors, looking to examples of leading organizations in particular regions or in specific sectors can be a useful way to understand the benefits of reporting, and be inspired by stories of how changes to management and practice have resulted in attaining sustainability goals.

In the palm oil sector, the majority of large players, both producers and retailers, conduct sustainability assessments and produce reports to reflect progress. Given the reputational risk associated with negative environmental and social impacts, producing transparent evidence with respect to how an organization avoids pitfalls, or changing practice to reduce impact, it's a key mechanism means to provide confidence that the issues are being taken seriously, and the subsequent risk to clients or investors are reduced.

Here we provide some examples of how palm oil organizations, as well as non-palm oil but globally recognized leaders in sustainability reporting, integrate reporting in their work, and use the process of developing metrics for data collection, collecting data, and reporting on it to change practice.

Palm Oil Examples

Sime Darby

Integrated into programme of work

- Role of Senior Leadership -- The Board is accountable for sustainability strategy and performance while the President and Group Chief Executive has overall management responsibility for sustainability

Changed practice

- Technology for Traceability and Transparency
 - Open Palm is Sime Darby's online dashboard, providing customers with access to key data on the origin of the raw materials used to produce all palm products by refineries. It includes information on the supplying oil palm mills to the plantation level, as well as third party plantations.
 - Hotspot Alert Dashboard and Hotspot Monitoring
Fire is a key concern, and the Hotspot Alert Dashboard is Sime Darby's initiative to be transparent about the occurrence of hotspots in concession areas. They have committed to prevent and monitor hotspot occurrence in concession areas, and also within a 5km radius from their boundaries. The dashboard, available on Sime Darby's website (<http://www.simedarby.com/hotspotalerts/>), provides public information on the number of hotspots recorded throughout the year and actions that have been taken by the respective estates if the hotspots are confirmed to be a real fire.

Wilmar

Integrated into programme of work:

- Leadership and infrastructure for sustainability. Significant human resources have been invested in ongoing sustainability improvements. The sustainability division has 60 employees worldwide, which helps to harmonize activities across the company and business units. It is led by a Chief Sustainability Officer (CSO) head global strategy, whereas on site managers are responsible for implementation.

Changed practice:

- Improved Monitoring and Transparency
 - Wilmar maps emissions for all operations using the RSPO Palm GHG calculator and the GHG Protocol accounting standard. The data collected will help us to monitor our progress in reducing the carbon footprint of our plantation and industrial operations.
 - Wilmar monitors pesticide usage, placing specific focus on tracking the use of herbicides as these are applied as part of good agricultural practice.
 - In response to allegations associated with child labour in North Sumatra, Wilmar discloses independent interviews with teachers from nearby schools, and comparisons between Wilmar's census data and school attendance records, found that 327 children were attending school daily, and that the few who were not accounted for were not likely to be missing school to work with their parents. Interviews with union representatives undertaken by independent assessors also indicated that children were not present on the plantation to help their parents, and that the rule that children cannot accompany parents is well understood by workers.

The above palm oil companies above all follow GRI guidelines and make reference to other sustainability commitments that may be broad -- such as the SDGs, as well as several palm oil specific commitments, such as the NDPE, RSPO, HCV, discussed in greater detail in report 2.

Annexes

Annex 1: Resources

Guidance Documents:

GRI Resource Download Center:

Includes guidance documents for the GRI standards, how to link to other frameworks and standards, as well as additional supporting documents.

[Available Online](#)

CERES Reporting Guidance For Responsible Palm Oil

[Available Online](#)

BURSA Malaysia Reporting Guide:

Material related to the guide [Available Online](#)

Guide itself: [Available Online](#)

CDP 2018. From Risk to Reward: Accelerating corporate action in the palm oil sector.

[Available Online](#)

Reports on Growth of Reporting and Trends:

Ernst and Young. 2013. Sustainability Reporting - The Time is Now. Data from GRI 2013 Annual General Meeting. [Available Online](#)

GRI. 2015. Sustainability and Reporting Trends 2025: Preparing for the Future.

[Available Online](#)

GRI. 2016. Forging a Path to Integrated Reporting: Insights from the GRI Corporate Leadership group on Integrated Reporting.

[Available Online](#)

GRI. 2018 The Next Era of Corporate Disclosure.

[Available Online](#)

KPMG. 2013, 2015, 2017. Survey of Corporate Sustainability Reporting.

[Video summary and download of full reports here.](#)

KPMG. 2016. Carrots and Sticks. Global trends in sustainability reporting, regulation, and policy.

[Available Online](#)

KPMG 2017. The Road Ahead. The KPMG survey of Corporate Social Responsibility Reporting 2017.

[Available Online](#)

Tomorrow's investment rules 2.0: emerging risk and stranded assets have investors looking for more from non-financial reports, EYGM Limited

[Available Online](#)

Annex 2: Full list of Asia Sustainability Rating companies in 2018

Platinum Rating:

PT ANTAM Tbk, City Developments Limited (Singapore), First Philippine Holdings Corporation (Philippine), PT Pertamina Hulu Energi ONWJ (PHE ONWJ), PT Perusahaan Gas Negara Tbk, PT Pupuk Indonesia (Persero), PT Pupuk Kalimantan Timur, Sime Darby Plantation Berhad (Malaysia), Telekom Malaysia Berhad TM (Malaysia), PT Vale Indonesia Tbk

PT Wijaya Karya (Persero) Tbk

Gold Rating:

PT Agincourt Resources, PT Austindo Nusantara Jaya Tbk., Bank Asia Limited (Bangladesh), PT Bank Bukopin Tbk, PT Bank CIMB Niaga, PT Bank Maybank Indonesia Tbk, PT Bank Pembangunan Daerah Sumatera Selatan dan Bangka Belitung, PT Bio Farma (Persero), PT Bumi Resources Tbk, CapitaLand Limited (Singapore), CIMB Group Holdings Berhad (Malaysia), Energy Development Corporation (Philippine), PT Garuda Indonesia (Persero) Tbk, PT Indocement Tunggul Prakarsa Tbk, PT Indonesia Power, PT Indo Tambangraya Megah Tbk, PT Kaltim Prima Coal, Lembaga Pengembangan Masyarakat Amungme dan Kamoro (LPMK), Malaysia Airports Holding Berhad (Malaysia), PT Perkebunan Nusantara XI, PT Pertamina (Persero), PT Pertamina EP Asset 4 Poleng Field, Prime Bank Limited (Bangladesh), Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi (SKK MIGAS), Singapore Telecommunications Limited (Singapore), SM Investments Corporation (Philippine), Star Energy Geothermal Wayang Windu Ltd, PT TIMAH Tbk, PT United Tractors Tbk

Silver Rating:

PT ABM Investama Tbk, PT Bank Rakyat Indonesia (Persero) Tbk, Cenviro Sdn Bhd (Malaysia), First Gen Corporation (Philippine), Halcyon Agri Corporation Limited (Singapore), Keppel Corporation Limited (Singapore), PT PELNI (Persero).

PT Reswara Minergi Hartama

Bronze Rating:

Asia Pulp & Paper, Aboitiz Equity Ventures, Inc (Philippine), PT Bank Pembangunan Daerah Jawa Barat dan Banten Tbk, PT Bank Pembangunan Daerah Jawa Timur Tbk, BPJS Ketenagakerjaan, Genting Berhad (Malaysia), PT Pupuk Kujang, PT Sarana Multi Infrastruktur (Persero).

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About NEPCon

NEPCon (Nature Economy and People Connected) is an international non-profit organisation that works to build capacity and commitment for mainstreaming sustainability. For almost 25 years, we have worked to foster sustainable land use and responsible trade in forest commodities. We do this through innovation projects, capacity building and sustainability services.

We engage in innovation projects and initiatives that drive and support nature conservation and sustainable land management around the world. These activities range from donor-financed, international projects to capacity building and own-financed non-profit activities.

We have supported the establishment of over 100 protected areas. We make our risk assessments, tools and other information freely available. To date, we have evaluated forest legality in more than 60 countries.



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