## Accountability at the cross-roads?

*Paul Davies, Principal, Banarra*

After 20 years of sustainability reporting – triple bottom line (TBL), environment, social and governance (ESG), and corporate social responsibility (CSR) reporting - are we rapidly approaching a cross-road that may fundamentally change the accountability landscape of the future?

As a consultancy with significant involvement in corporate reporting and sustainability assurance over the past decade, Banarra has been in a privileged position to both engage in and contribute to recent trends in corporate accountability first hand.

Several of Banarra's clients are now questioning the strategic intent, or business-value adding proposition, of reporting. Some feel they are now on a 'treadmill of reporting', where it has become more habitual than purposeful. They feel compelled to continue, or otherwise be seen by stakeholders as backing away from their accountability commitment. At the same time they are suspecting that their current reporting approach is not addressing stakeholders' expectations. They also know that reporting for them is labour-intensive, costly and challenging, and want to better understand and be able to internally justify the value proposition of continuing as they are, or to at least understand what alternatives exist to honour their accountability *commitments.*

For many companies the first few years of reporting are the most valuable, as developing a reporting approach provides a platform for them to consider and organise their sustainability data, and to identify key gaps in their management and performance in non-financial areas. This is often reinforced by the 'typical' next step in the reporting journey of having their report independently assured. This process provides some key external input into the report and the process that sits behind it, adding confidence around what they are doing or identifying further areas for improvement. But again, after the first couple of years for some reporters, assurance, like reporting, often becomes less valuable in relation to improving business accountability and more about the getting the assurance statement 'stamp'.

We are also seeing fundamental shifts in where reporting sits in the sustainability agenda of many organisations. When Banarra first engaged with our reporting clients in the early 2000's, producing an annual sustainability report was the centre-piece of their sustainability focus and efforts. It often consumed most of their limited 'sustainability' budget and resources, and was driven by a focus on having a clear deliverable (the report), peer pressure, internal expectation and direction, and just plain 'what else can we do to demonstrate our sustainability intent?' Large and often inaccessible, reports also reflected the challenges around applying materiality, so that the information presented was of relevance, interest and therefore value to the reader. GRI application levels (A's, B's and C's) were (and still are) often seen as badges of achievement and one-upmanship, and producing a GRI compliant report became *the* corporate sustainability objective, rather than a means to an end.

For many companies this is still the case, but Banarra has watched (and often helped) them grow their suite of sustainability initiatives to encompass social impact, human rights, strategic organisational change and shared ownership of sustainability within their value chain. This is not to suggest that reporting is no longer relevant or important, but that reporting companies are now looking to find an appropriate place for it in the corporate toolbox of processes that enable a more responsible, more transparent, more sustainable and more accountable business. It is around this repositioning that Banarra is currently engaging a range of reporters, exploring with them the value proposition of either starting, or continuing, to report.

At the same time, there are changes and potential new directions around accountability emerging in the landscape, most notably the next generation of the GRI guidelines and the integrated reporting framework. Although their final manifestations are yet to be made public, this is now imminent. The timing of this, relative to the shifts in accountability thinking mentioned earlier, is interesting. Reporters are likely to view the opportunities presented in either one of two ways – embrace them as possible alternatives to what they are doing now, or see them as yet another challenge to address in a process that they are already questioning.

The GRI has clearly sought to step up reporting through the latest iteration of its globally embraced reporting guidelines. G4 is not just a 'tarted up' G3.1, but represents a real intent to pull reporters up by their bootstraps to the next level of accountability, in terms of materiality, boundary setting, governance, supply chain, ethics and management disclosures. Seemingly it is a brave step for GRI to throw this gauntlet down to reporters, many of whom are just (or still) coming to terms with meeting the intent of the existing GRI guidelines.

In particular, the G4 'ask' around supply and governance disclosures may simply be a 'step too far' for some reporters, big and small, who will now question more than ever whether further investment of resources and effort is justified to deliver a G4 compliant report. With the arrival of the new guidelines, could we see an exodus of new and mature reporters, and what would be the message and practical implications of that for accountability (and for the future of the GRI)?

In spite of this risk, it makes sense for G4 to be a significant step up for reporters if the GRI is to retain its global recognition as a key driver of accountability practices, at least around non-financial performance. Successive iterations of the GRI guidelines need to have that longer term focus and durability. They don't change every one or two years, so when they do they have to take the 'big step' to remain relevant several years into the future. Small incremental changes to such guidance just do not make sense when it is expected to span longer timeframes. The challenge is to ensure that these big steps are seen and understood by businesses and their stakeholders to be intrinsically valuable additions to the accountability process rather than, as one of my colleagues put it, "evangelical desires". To have them accepted by businesses, they must clearly connect with key drivers such as competitive advantage, innovation, reputation and licence to operate.

The other likely step-change that has the attention of corporates, investors and fund managers alike is integrated reporting. It presents both exciting opportunities and significant potential challenges. Promoted and talked about with much gusto and enthusiasm, but sometimes with little real understanding of its true nature, integrated reporting is not just sticking your sustainability report and your financial report inside the one cover. It is truly attempting to connect the dots between a company's financial and ESG performance, and articulate how a company's management of those aspects adds value for the business and its investors.

Integrated reporting presupposes a number of things, the biggest of which is that a company can produce an integrated account of its performance, using integrated data and managed by an integrated business strategy. This raises the question of whether you can truly deliver an integrated account of your performance if you don't have an integrated management system and an integrated business strategy in place. Would it be incorrect to stay that integrated business thinking is still not commonplace in the corporate world?

Yet companies are jumping on the idea of integrated reporting and many have made their first attempts to produce one. Some stock exchanges (such as South Africa's JSE) are even mandating that listed companies produce one. But have they asked the same questions as some business reporters are now asking - what is the value proposition for my business of producing an integrated report, and for whom? Are our most important stakeholders investors? Are investors even amongst the key stakeholders we want to account to? Have we truly connected the dots in readers' minds about where we add value to our goods, our society, our environment, our employees, our intellectual property, or have we just re-arranged the numbers that we used in our annual and sustainability reports? Can we truly claim to have successfully added significant value through our careful and integrated management of those aspects, or did we really just get lucky and have a good year?

Even if we agree that integrated reporting is for us, how do we address the challenges of measuring our performance across a myriad of aspects and impacts and how do we distil these measurements into comprehensible, meaningful outputs for the report user?

There is no intended cynicism in these questions, but rather a genuine concern that history has a curious habit of repeating itself. Several key business 'movements' over the last 30 years, such as the quality movement of the eighties and the environment movement of the nineties, gathered a significant momentum on a wave of enthusiasm, but failed to reach their full potential because their value propositions were not sufficiently unpacked and examined for individual businesses. They were suitably hyped as universally applicable business 'essentials' and embraced or mandated without much thought across the business landscape. Yet, with both these movements, a certain disenchantment set in after the honeymoon period, as they became burdensome propositions for many companies without an obvious return on investment. There was much wishful thinking applied, often pushed by those with a vested interest in uptake but who, themselves, did not have to resource or implement them within their own business.

Unless we are willing to seriously examine and, where needed, challenge both the underlying intent and practical value of such business 'givens' they are unlikely to reach their true potential as transformative business tools. Accountability is probably the most important of all such tools as it embraces at its core the proposition of businesses behaving in a socially, ethically and environmentally responsible manner. It is demonstrably a key enabler of substantive business improvement, as it has the ability to significantly influence and enhance corporate governance, ethics, values alignment, decision-making, stakeholder trust, reputation and risk evaluation. Transparent, accessible and materiality-driven reporting can successfully underpin true corporate accountability, but it also should be embedded in a clear value proposition for individual companies and their stakeholders.

Where to then with accountability and reporting?

There is little doubt that both G4 and integrated reporting will find their places in the accountability toolbox of many organisations in the next two to five years and beyond, hopefully bringing substantive benefits both for the reporter and for the user of the report. It is still too early to predict with any certainty what the step up will be in terms of enhanced accountability versus the investment required to produce such reports.

There is also likely to be some backing down on reporting by many companies, either partially or completely, where neither G4 nor integrated reporting can deliver a sufficiently compelling value proposition for the business. What the impact of this will be on their actual or perceived commitment to accountability is also difficult to quantify. For some, the value of reporting is not in the report itself but in the internal discipline, alignment and commitment to be more accountable for business performance, externalities and impacts. This in itself can be culturally transformative for the organisation, whether or not the printed report itself is widely read by stakeholders.

Is there a next big step forward in accountability that is neither dependent on, on even linked to, producing a public report? This is what Banarra is exploring with its reporting clientele, their stakeholders and other practitioners at the moment. The challenge is to identify, understand and share what other mechanisms exist that can complement or, where needed, replace traditional reporting, yet still drive accountability deeper into the organisational ethos.