6 for 2016: Sustainability Reporting Megatrends

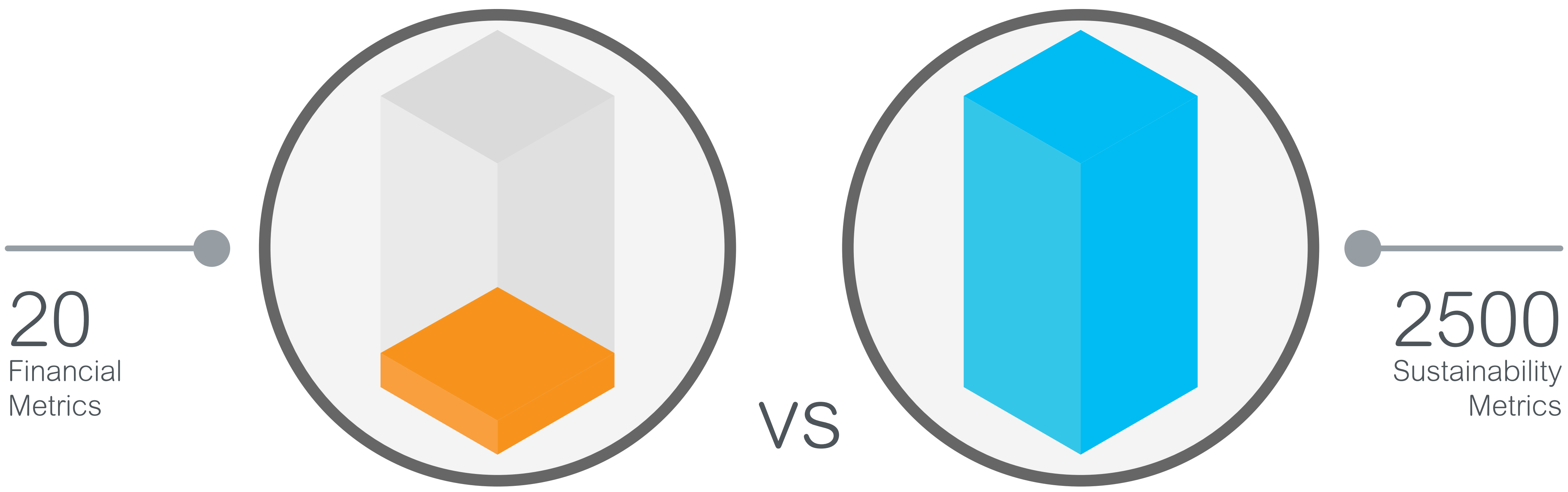
Life Is On | Schneider Electric

1 Data becomes more visible

There are

2,500

unique metrics that corporations use for sustainability metrics



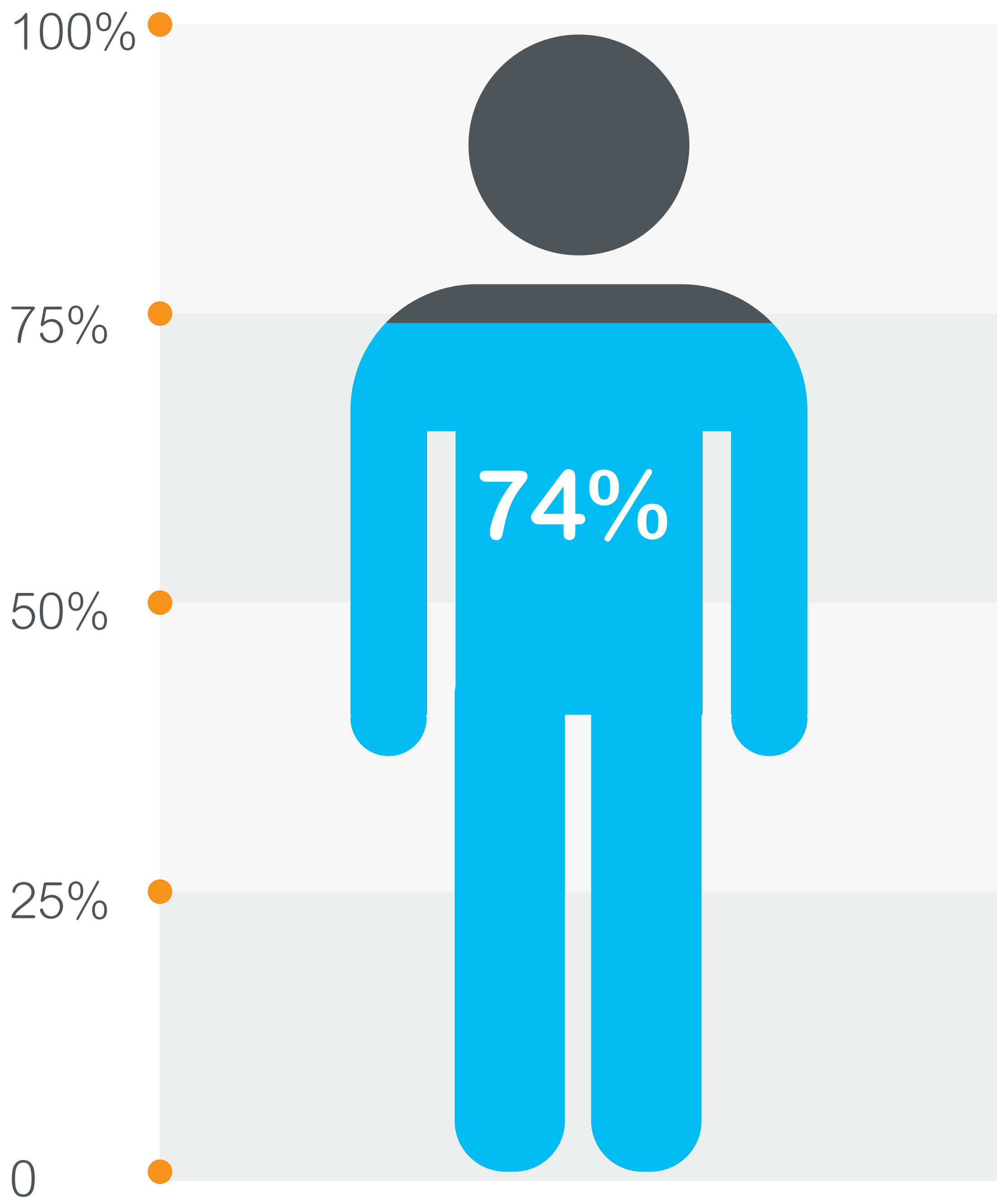
Compare that to the 20 common metrics used in financial reporting.
Are you reporting on the right metrics?

According to research firm Verdantix, organizations have adopted more than 2,500 unique metrics for use in sustainability reports. The importance of selecting consistent, relevant and measurable performance indicators is paramount.

Challenge: More than 70% of companies across the globe still use spreadsheets to track data used in reporting, according to a 2012 survey by Oracle and Accenture. And that has led to reporting errors — a University of Hawaii study found that as many as 88 percent of spreadsheets contain inaccuracies. Many organizations are still suffering from the glut of data and haven't yet created a centralized database that ensures precision and visibility.

Solution: Technology is emerging that seamlessly integrates information systems together and makes data visible and actionable.

2 CFOs become sustainability advocates



74%

of CFOs believe sustainability reporting contributes to long-term success

As sustainability programs increasingly demonstrate cost-savings and operational efficiency, CFOs — not just environmental advocates — are pushing for better reporting. In fact, 74 % of CFOs now believe measuring and reporting their total financial and non-financial environmental and social governance impact contributes to long-term success, according to a 2014 PwC survey.

Another dramatic shift: CFOs are embracing renewable options like wind and solar like never before, as new financing options, rapidly declining technology costs and incentive programs deliver financial benefits that outweigh buying energy off the grid. Companies reap both sustainability and fiscal benefits — truly a watershed moment.

Challenge: As CFOs and other top executives become more invested in sustainability and renewables, reporting accuracy and reliability are essential. However, many companies have not yet developed the systems and processes to provide these types of reports. They may also have trouble connecting financial benefits to green energy and sustainability goals.

Solution: Make sure financial data is presented with sustainability metrics. In other words, you want to not only track greenhouse gas emissions, but also the cost and savings from reducing them, and how they relate to the products or services provided by a company. Contextualize the information so the connection between the adoption of renewable energy and other sustainability initiatives, and the bottom line is clear.

3

Reporting becomes more prevalent

Less than 27%

of public companies are not publishing sustainability reports

73% Green companies reporting

27% Not reporting

More than 50

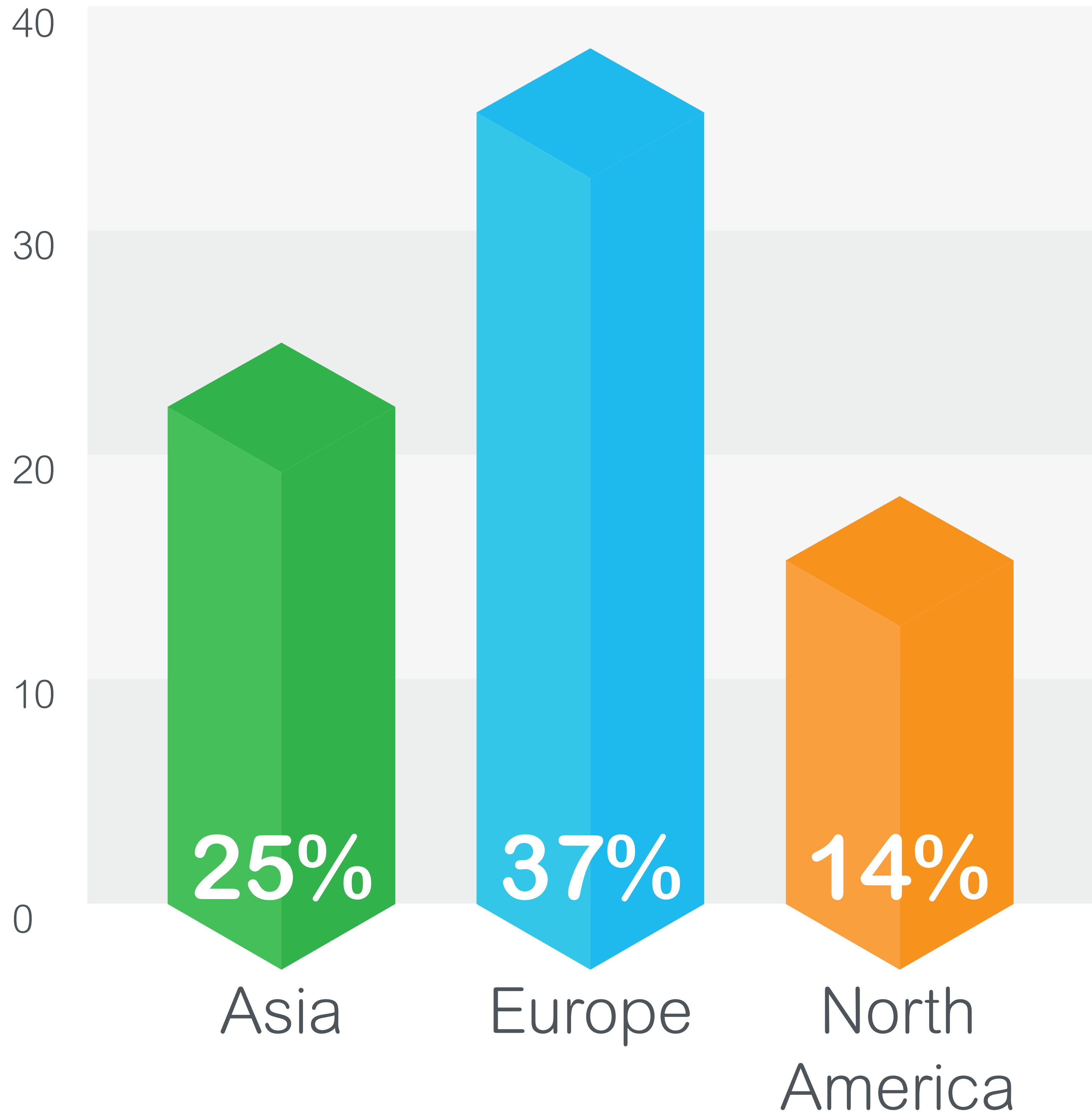
different global reporting programs, and growing

Worldwide reporting requirements have been multiplying, often unbeknownst to companies. The White House just announced 68 new signatories to federal climate action programs. The EU is now extending the scope of reporting beyond carbon to human rights. Even China is entertaining a cap and trade scheme.

Challenge: Unlike the past, skirting sustainability requirements leads to more than just a slap on the hand. Rankings and indexes such as the DJSI, GICS and STOXX have become important to company valuations. Google Finance now shows a publically traded company's CDP score alongside its stock price — one of several key performance metrics. Meanwhile, third-party audits and journalists have added an extra layer of scrutiny to the data behind these indexes. Just look at Volkswagen to see what can happen when a company releases incorrect or inaccurate reports.

Solution: Integrated systems that supply reliable, verifiable data will make audits easier and mistakes less likely.

4 Transparency becomes the norm



Europe leads GRI reporting

37%

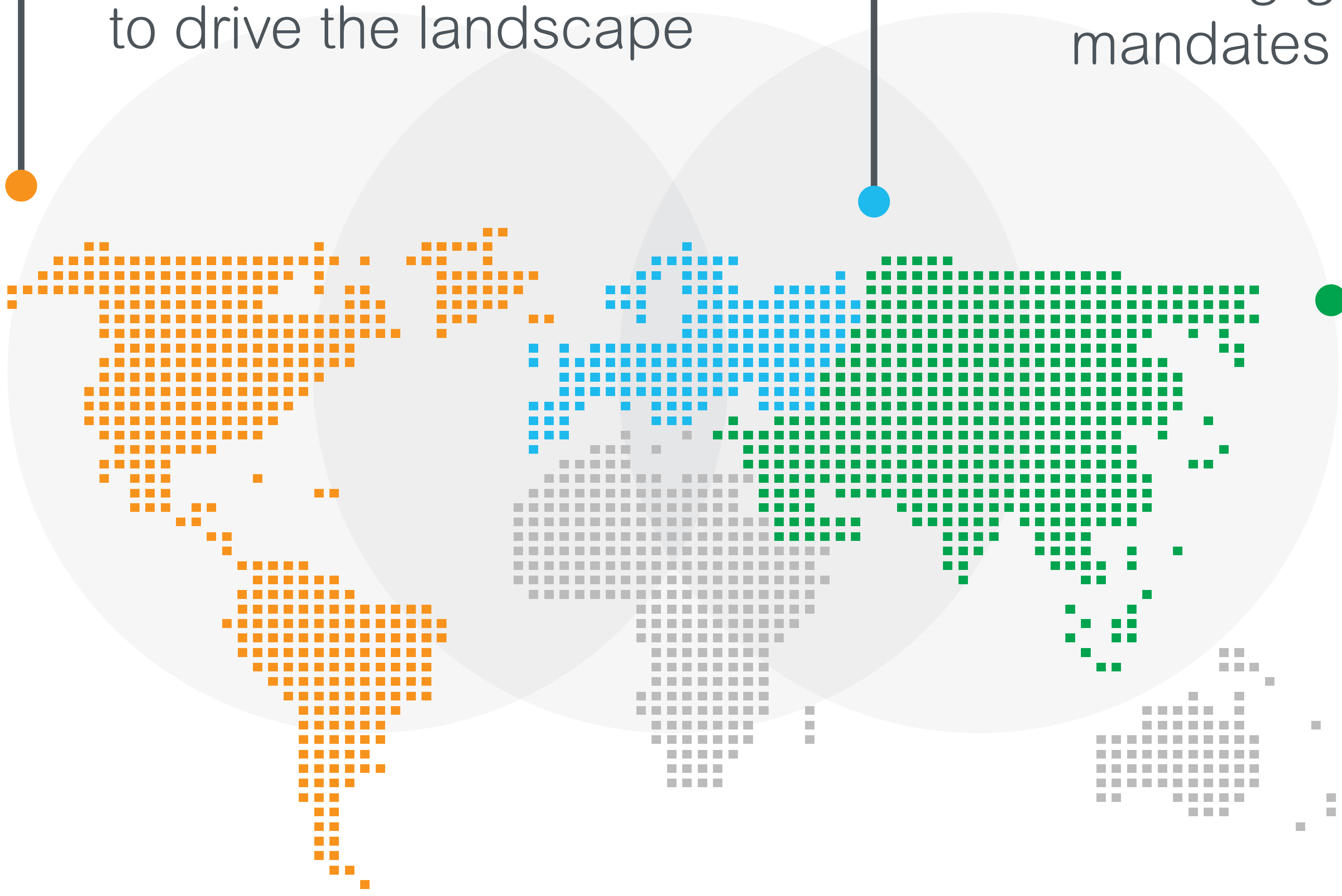
of voluntary disclosures

Sustainability reports are becoming as important — and as widely viewed — as quarterly financial statements. That means companies have to become more and more transparent about how their reports are created and what the results are based on. Voluntary disclosure activities have boomed, and the top three regions that report under the GRI are Europe (37 percent), Asia (25 percent) and North America (14 percent).

Challenge: As investors see the financial benefits of sustainability, they're now making decisions based on what their company reports. And as climate action becomes tied to company brands, a larger and larger microscope will be used to review reports. Both challenges demand a standard that sustainability reporting hasn't been held to in the past. Sustainability executives must be able to ensure data accuracy to keep both boards and consumers satisfied.

Solution: Create an inventory management plan that governs and structures reporting mechanisms across the enterprise. The plan, which can be developed with the aid of an unbiased third party, needs to clearly identify roles and responsibilities of the various sustainability team members and the methods by which they collect their data and produce their reports.

5 Regional differences become amplified



Sustainability is now a global concern, but the approach and reporting requirements differ from country to country. So it's important to understand the differences, and address regional needs and norms in reports. For example:

Asia-Pacific – In this region, climate change discussions in major commercial hubs now include topics such as adaptation and resilience, not just mitigation. Taking a broader view requires policy responses — and sustainability actions — that address everything from infrastructure reliability to supply chain disruptions to food security. One consequence: It is likely that companies listed on the Hong Kong Stock Exchange will have to include "comply or explain" codes of practice in ESG reporting at the start of 2016.

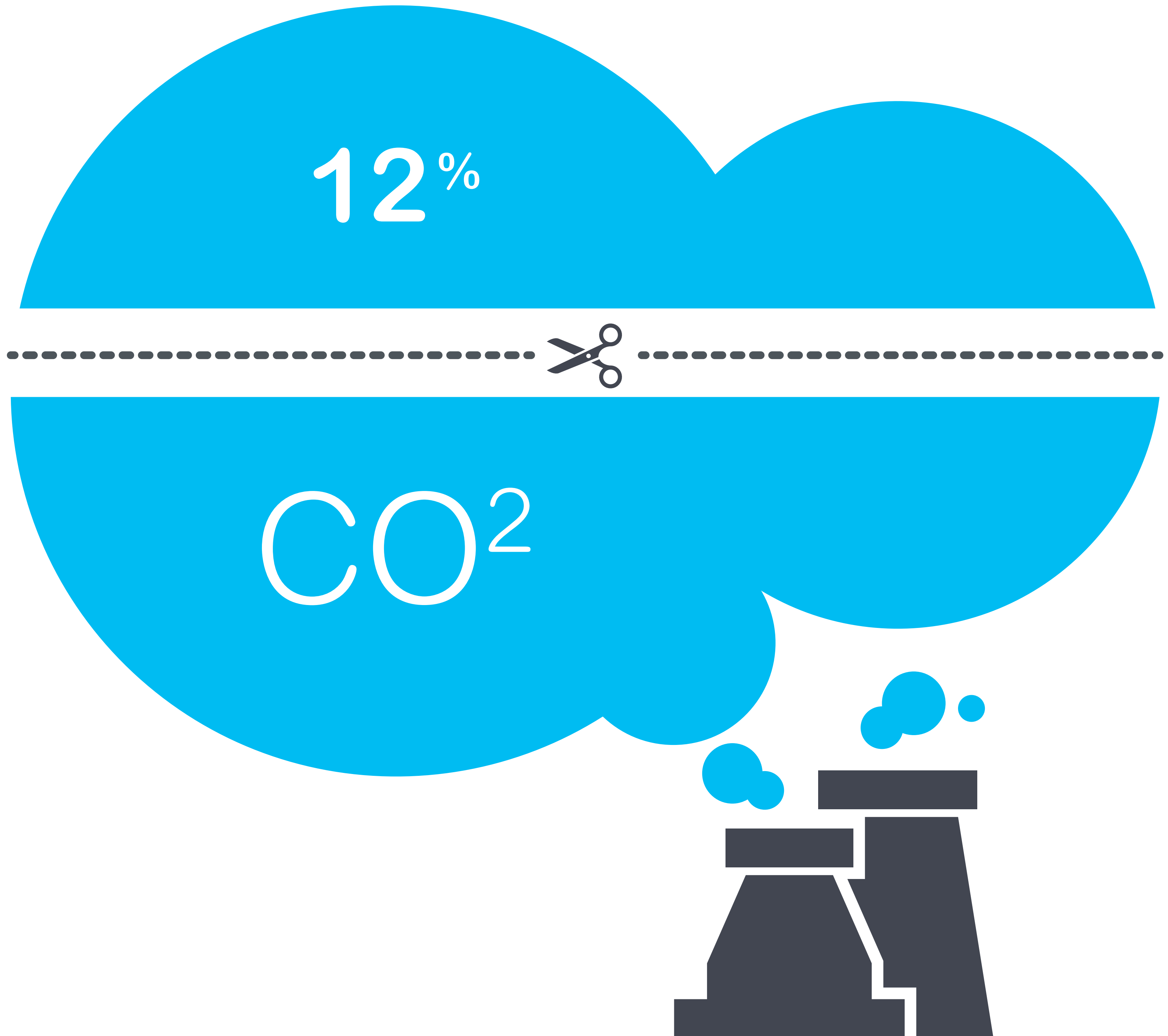
Europe – Meeting mandates continues to be the focus across Europe. With EED regulations at the European Union (EU) level, along with country-level policy like the GHG reporting rule in the U.K. and the Grenelle Act in France, corporations will devote their attention to these requirements.

North America – Investors and consumers are demanding greater transparency in the U.S. While regulations are beginning to take shape, the vast majority of reporting still comes from companies looking to generate trust and goodwill with their customers, shareholders and employees.

Challenge: Multinational companies need to understand the drivers and obligations in each market and refine their sustainability and reporting efforts accordingly. At the same time, these businesses must determine how to communicate these actions to consumers who increasingly expect organizations to demonstrate global corporate responsibility.

Solution: Ensure you have people on your team who understand what is driving the demand for global transparency or reach out to experts that can help. Consider working with a trusted partner that offers a global perspective to help guide your strategy — and makes you a sustainability leader.

6 Legislation becomes a force for good



Europe has the most extensive environmental laws, and has reduced emissions by

12%

Policymakers are enacting sustainability-focused statutes faster than ever before and that is expected to significantly increase after COP21. The EU is an example of how a political structure can become an agent of change and drive the response to climate change. EU is considered to have the most extensive environmental laws of any international organization. As a result, average emissions of the 28 member states that make up the EU have declined by 12.2 percent compared to base-year levels. The EU has overdriven its commitments by approximately 236 metric tons of CO2-equivalent per year (5.5 percent of base-year emissions).

Challenge: It can be extremely difficult for companies to know the rules they need to comply with in every region they operate. And the complexity is set to compound with a new wave of rules and regulations.

Solution: Monitor the legislative landscape or partner with an expert that knows the terrain, and engage with policymakers who are catalysts for positive change.

While complex, sustainability reporting shouldn't be an albatross. It takes a pragmatic approach that combines the right people, perspective and technology. As attitudes and the marketplace continues to evolve, and the demand for social responsibility reaches critical mass, sustainability initiatives and reporting will deliver dividends and a competitive advantage to companies that lead the pack.