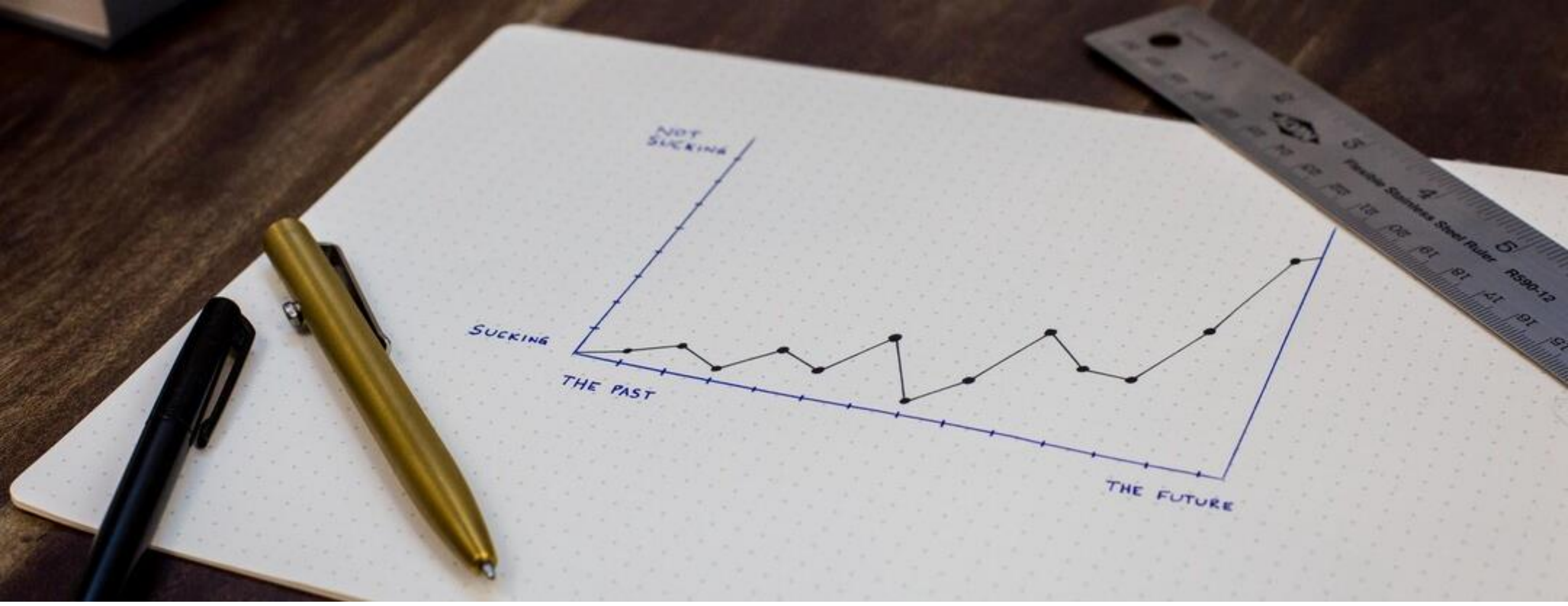

A-B-C-D-E-S-G…
The Evolution of Sustainability Reporting

he mining industry is no stranger to regulatory reporting, most industry participants are familiar with the rigors of the reporting cycle and have in some way been drawn into the often-arduous process of data compilation during the reporting season. In the era where “shareholder value” was the sole measure of corporate performance, Annual Financial Reports were the yard sticks used to compare corporate performance. In keeping with the growth of sustainable development principles, companies began including safety, health, environment and community (SHEC) sections in their then integrated annual financial reports. This later developed into compiling standalone SHEC reports which further evolved into standalone sustainable development reports. The ESG report is the continuation of this evolution in corporate communications.

The ESG reporting phenomenon is an organic response to the increased need for corporate transparency and accountability.

Reported information can be used by;
- Organizations in their internal decision making
- Investors to assess financial risk and opportunity
- Academics and researchers for market research and benchmarking
- Policy makers to inform policy

The real driver behind the ESG reporting “revolution” is the realization that variables previously viewed as externalities to corporate performance actually have consequences and occasionally even define the holistic health of an organization. Consensus intrinsically acknowledges that at a fundamental level ESG performance has a direct relationship with risk and fair value. Contemporary thinking is thus convinced of the multitude of direct benefits that could be derived from ESG reporting. This gives ESG reporting the unique advantage of having transitioned from a compliance task, to a tool that can be used to attract investors, financing and many other positive benefits. Although in the big picture of sustainable development, ESG reporting should only be a catalyst for change towards a sustainable future, it would be window dressing to deny the fact that companies are driven by self-interest. This may be the initial lure for most companies towards ESG reporting, however once commencing on the journey, the act of reporting itself establishes a basis that spurs and inspires stakeholders to innovate and create new ways of doing business as usual. Having embarked on the journey, companies begin to shape their purpose, business model and strategies to deliver positive impacts that contribute to the goal of sustainable development.

However, not all ESG reports are equal. A poorly executed ESG report or weak ESG proposition could lead to reputational damage resulting in massive value destruction.

The biggest pitfall to avoid is the failure to include all stakeholders through meaningful engagement and connections during the reporting process.

ESG investors apply a discount rate on expected returns based on shortcomings evident in the ESG report, however ESG reporting frameworks are still in the propagation stage and are yet to be comprehensively consolidated.

It is our opinion that current frameworks focus on impacts rather than risks, causing ESG solutions to be more reactive when we are at a stage in sustainable development where proactivity is required.

This begs the question of whether existing ESG reporting frameworks create sufficient investment knowledge?
A PWC survey found that less than 40% of investors trust the ratings agencies' accounts of ESG reports because the pace of change in this nascent practice has resulted in the production of copious amounts of data without a common infrastructure. The future consolidation of reporting frameworks will be driven by the current data end-users as they provide feedback and consensus around definitions and objectives. Functional consolidation and standardization can only be achieved by moving from qualitative to quantitative hard metrics such as output per baseline, electricity use, waste costs, water usage, carbon footprints, econometrics etc.

*At **XMS** we put our clients at the cutting edge of the discourse by providing a roadmap for the scientific upgrade of their ESG reporting through materiality profiles anchored by objective measures, backed by science and driven by data.* **Joshua Kilani, XMS MD**.

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