Sidebar

Sustainability Data Are Driving Disclosure

Environmental law now sits at the busy intersection of "we manage what we measure" and "sunlight is the best disinfectant." These are the directional signs for the task of directing businesses and conserving the Earth's resources through sustainability.

Participants in the global capital markets, the vehicle through which significant private, semi-public, and government money will be allocated, have already begun to engineer, and then label, the way that companies with leading, comprehensive sustainability strategies can be recognized and rewarded. Inevitably, part of this effort entails massive, and pioneering, data gathering and disclosure, of the type championed by the Global Reporting Initiative.

More recently, it has inspired the transparent and collaborative efforts of the Sustainability Accounting Standards Board, which has created industry-specific metrics tied to the SEC-driven definition of materiality — information whose omission or disclosure would have been viewed by a reasonable investor as having significantly altered the total mix of information available in decisionmaking.

The related banking and investment management infrastructure has also proliferated. There are over 1,400 signatories to the sustainability-driven U.N. Principles for Responsible Investment, and over 700 asset management firms incorporate some elements of sustainability into their decisionmaking and portfolio mix. New entities such as Cornerstone Capital make sustainability the explicit focus of their investment, money management, and research activities. Dynamic benchmarking firms such as eRevalue allow instant evaluative access to the disclosure practices and histories of companies throughout global markets. And dozens of sophisticated niche funds, such as Generate Capital and Sustainable America, focus on small-scale energy, food, and water-related investments that do more with less resources for which supplies are constrained or for which the true cost of externalities has yet to be incorporated in the product.

More broadly, the pivot toward sustainability has given rise to listing requirements adopted by multiple international stock exchanges. Almost inevitably this will lead to collaboration among all exchanges on universal standards relating to sustainability as a ticket to market entry.


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More broadly still, so-called "integrated reporting," in which sustainability data will be disclosed on an equal footing with more familiar financial information, will continue to mature and gain traction. Institutionally, long-term investors such as CalPERS and other global pension funds have become vigilant watchdogs and advocates for increased transparency and, on occasion, plaintiffs in securities-law cases, when financial harm can be linked to contradictory corporate messages on sustainability issues.

In the global supply chain, multinational companies such as Unilever, the Tata Group, Wal-Mart, Nike, and GE have manufacturing, raw material, and workforce needs and markets throughout the world, as well as connections to both the last mile of demand from local companies and to consumer needs and preferences in those markets. They have begun to surround the old command-and-control regulatory enforcement and standard-setting mechanisms with a growing network of decisions and investments made for reasons other than regulatory compulsion. Entrepreneurial companies such as Coclear create the analytic power and facility for sustainability-driven business decisionmaking across both geographic and corporate boundaries that were previously insurmountable.

If you want to reduce the carbon footprint of the chocolate chip cookies you make for the EU market, for example, full life-cycle and product-cycle analyses clearly presented in real time will let you do that. Similarly, for a company considering siting a facility in a region in which water may be scarce, Trucost plc can provide data analytics on current and future water pricing and likely competitors for that resource that will inform their decision.

This multifaceted evolution will lead both to standards that are recognizable, reliable, and accessible — the sustainability equivalent of the Good Housekeeping Seal — and to a nuanced and readily available drop-down menu of sustainability metrics that will satisfy the emerging demands of the 21st century reasonable investor.

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