Integrated Sustainability Framework for SDG Governance and Reporting

FINAL PROJECT REPORT

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Table of Acronyms

ASX150	The top 150 public-listed companies on the Australian Securities Exchange
CEO	Chief Executive Officer
CFO	Chie Financial Officer
CSR	Corporate Social Responsibility
CSO	Corporate Sustainability Officer
ESG	Environmental, Social and Governance
G250	The world's 250 largest companies by revenue based on the Fortune 500 ranking
GRI	Global Reporting Initiative
HR	Human Resource
ICMA	Institute of Chartered Management Accountants
IFRS	International Financial Reporting Standards
IMS	Integrated Management Systems
IR	Integrated Reporting
ISF-SDGGR	Integrated Sustainability Framework for SDG Governance and Reporting
ISSB	International Sustainability Standards Board
MDGs	Millennium Development Goals MSA: Modern Slavery Act
SDGs	Sustainable Development Goals
TCFD	Taskforce on Climate-related Financial Disclosures
UN	United Nations
UNGC	United Nations Global Compact
WBCSD	World Business Council for Sustainable Development
ASX150	The top 150 public-listed companies on the Australian Securities Exchange

EXECUTIVE SUMMARY

Corporate sustainability reporting is being re-shaped. Businesses now face the added challenge of demonstrating accountability to the sustainable development goal (SDGs). The promulgation of the 2030 Agenda for Sustainable Development by 193 member states of the United Nations (UN) in 2015 included 17 SDGs across environmental, social and economic areas. Collectively, these goals serve as a global framework for taking actions for sustainable development. Businesses are both major consumers of natural, physical and human resources as well as suppliers of financial, technological and knowledge resources. They thus play a critical role in realising the SDGs, and stakeholder expectations have clearly grown for more information and better sustainability performance by businesses.

However, there is a wide variability in the content and quality of SDG disclosures within corporate sustainability reports, calling into question the management processes associated with SDG governance and reporting. How businesses prioritise, measure and report on their contributions to the SDGs remain largely opaque. Improving business reporting on the SDGs is by no means an easy task as corporate sustainability is highly complex with many inter-related and at times conflicting issues across environmental protection, social well-being and economic outcomes. Further, the lack of a standardised reporting framework for the SDGs presents a major limiting factor for consistency and transparency of corporate disclosures. While the recently established International Sustainability Standards Board (ISSB) by IFRS Foundation in 2021 is tasked to develop globally comparable sustainability reporting standards, the presence of an integrated and reliable internal governance system is vital for operationalising such standards.

This Report

This report provides evidence on the factors affecting the uptake, management and disclosure of SDGs from a multi-stakeholder perspective. Our study draws on the lived experiences of 30 participants who have knowledge and governance expertise on sustainability across business, non-profit, accounting profession and management consultancy areas. In-depth participant interviews and two focal group discussions formed the basis for capturing the perceptions, attitudes and insights of expert governance stakeholders such as CEOs, corporate sustainability officers (CSOs), CFOs /management accountants, professional consultancy experts, and related knowledge experts on sustainability.

Data analysis is guided by integrated management systems thinking as set out in the UN Global Compact Integrated Sustainability Roadmap (UNGC, 2015) where alignment across the strategic, operational and cultural dimensions within different functional units are seen as critical for effective corporate sustainability. The findings of this study highlight the importance of the role of information and knowledge management systems and the under-tapped capacity of accounting systems for SDG integration. A more holistic framework, titled, “Integrated Sustainability SDG Governance and Reporting Framework”, is proposed for guiding business support of the 2030 Agenda on sustainable development.

Highlights of Findings

Perceived Importance of SDGs and Corporate Values

- SDGs provide a more comprehensive view for linking corporate sustainability with the global sustainable development agenda.
- Views on the importance of SDG integration into business models tends to vary, commonly seen as a risk management strategy, public relations exercise, meeting social license expectations, or an extension of corporate social responsibility (CSR).
- Level of knowledge and expertise of the SDGs among managers and other governance stakeholders within organisations is generally perceived to be low.

Strategic and Operational Governance Issues

- Integration of SDGs within business materiality analysis is limited, limiting alignment and prioritisation of key SDGs with business imperatives.
- The translation of global goals to business settings can be difficult with industry sectoral idiosyncrasies.
- The process of selecting and committing to SDG targets and indicators remains difficult and unclear. This is further linked to lack of data pertaining to sustainability, as well as the absence of integrated data and information systems for determining sustainability impact outcomes in relation to the set SDG goals.
- Accountants' role and financial information related to costs and benefits of business investments in sustainability activities remain limited.
- Project management need multi-disciplinary teams with requisite knowledge and expertise in SDGs and corporate sustainability.

Reporting Challenges

- Lack of a standardised reporting framework. Difficult to compare company approaches, actions and performance on the SDGs.
- The real impacts of sustainability initiatives on the environment and communities difficult to ascertain due to availability and rigour of extant data, making performance reporting challenging.
- Having assurance processes in determining the rigour of sustainability data and processes will help enhance the content and reliability of SDG disclosures.

1.0 INTRODUCTION

The expectations on businesses to be responsible and transparent on their contributions and impacts on sustainability development has notably heightened in recent years. The 17 SDGs as agreed to by all 193 UN member states in 2015 represent a blueprint to end poverty, protect the planet, and to achieve peace and prosperity through effective partnerships. See Figure 1. Each member state has committed to country-specific goals and targets and are expected to regularly report on their progress. Business organisations on the other hand are expected to voluntarily embed the SDGs within their business strategies, set, monitor and report progress on their targets and indicators as part of their corporate sustainability plan. The business case for SDG integration is largely premised on the opportunities offered by technological innovations and new markets as well as stabilising present markets and resources through enhanced sustainable development. SDGs can thus be seen as critical guideposts for business planning and management of their sustainability goals and activities to be aligned with the broader agenda on sustainable development.

Increasingly, investors, customers, suppliers, employees, and other organisational stakeholders are ever more vigilant in making investments in companies that are responsible and committed to sustainable development, and are calling for greater clarity on business environmental, social and governance (ESG) performance. The notable growth in corporate sustainability reports in the last two decades clearly signals the increasing demand for such information (PWC, 2018; KPMG, 2021; Rosati and Faria, 2019a). However, corporate sustainability has also attracted much scrutiny and criticisms(Martínez-Ferrero & García-Meca, 2020; Curtó-Pagès, Ortega-Rivera, Castellón-Durán & Jané-Llopis, 2021).

Recent studies reveal substantial variances in SDG disclosures within corporate sustainability reports, raising concerns over the popularly termed prospect of ‘SDG-washing’ or ‘rainbow washing’ where businesses fail to fully account or even misrepresent their impacts on the SDGs (Subramaniam et.al., 2020). Reports that merely place or sprinkle the SDGs can potentially mislead report users and undermine investment decision-making in sustainability. It is also asserted that the lack of knowledge and experience in the SDGs among management themselves may serve as a barrier for SDG disclosure quality. For example, a KPMG (2020) study of sustainability reporting from 5,200 companies and the G250 (world’s largest companies by revenue as defined in the Fortune ranking 500) concludes: “SDG reporting is mostly unbalanced and often disconnected from business goals.” and “corporate reporting on the SDGs focuses almost exclusively on the positive contributions companies make towards achieving the goals, and lacks transparency of their negative impacts” (p. 49).

Given that sustainability issues are highly complex, inter-related, multi-disciplinary, and long-term oriented, identifying and prioritising goals sustainability through business materiality analysis, and agreement on targets and indicators can be highly challenging. While information technologies and can be potentially leveraged for enhancing current processes around SDG governance and reporting, there is limited empirical evidence on how such integration can be achieved. The UN Global Compact’s (UNGC, 2015) recently called for functional integration of the sustainability policies and processes across the strategic, operational and cultural dimensions of different functional areas e.g. marketing, production, human resources. However, the role of technology and knowledge management support mechanisms for coordination and integration is less explicit. Activities in different functional areas of an organisation can each independently and collectively impact sustainability goals. Traditional internal governance mechanisms such as accounting information and control systems can potentially lead to better integration and strengthen sustainability outcomes. A deeper understanding of factors that can shape and support integrated SDG governance frameworks is thus timely and much needed.

Based on the preceding discussion, the overarching objective of this study is to identify and understand the key external environmental and internal organisational factors including strategic, operational and cultural features that affect SDG integration and reporting by business. In doing so, we also aim to further inquire into the role of technology and accounting information and control systems in promoting a more integrated SDG governance and disclosure framework.

Section 2 of this report provides a literature review on the SDGs, evidence from past studies on the factors associated with SDG embedment in businesses, and an overview of integrated management system approach, namely the UN Global Compact's Roadmap for Integrated Sustainability (UNGC, 2021).[1] Sections 3 and 4 provide the research method and the findings of the present study, respectively. The final section, Section 5 discusses the conclusions and suggestions for the way forward for enhancing for SDG governance and reporting through the lens of integrated sustainability management.

Figure 1: The Sustainable Development Goals

[1] https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2Flead%2Froadmap%2Froadmap-general-briefs.pdf

2.0 LITERATURE REVIEW

2.1 SDG Background

The notion of sustainable development as being "… development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987) highlights the intrinsic inter-relationships between environmental protection, social justice and economic growth. This definition of sustainable development became prominent in public consciousness subsequent to the release of the Brundtland Report in 1987 (WCED 1987) which comprised an international group of scientists, politicians, environmental experts, and civil servants.

In 2000, the millennium development goals (MDGs) were launched with the focus on improving living conditions in developing countries. However, progress in developing nations was seen deficient, and that many environmental and societal challenges such as lack of gender equality, climate crises, reduced inequality were also present as much in developed countries. Subsequently, a larger vision for the global community on sustainable development through the SDGs came into being acknowledging member nation states alone will not be able to solve such problems, and that business actions were highly critical. The idea of having a systematic framework of goals, targets and indicators aligned with sustainable development appeared to bode well with the expectation for localisation to occur with business leadership.

The critical tri-partite association across environment, social and economic imperatives is also mirrored in corporate sustainability where the performance in all three areas are linked to organisational value creation. The business case for SDG integration was made in terms of a lowering of organisational risk profiles and increasing growth opportunities while enhancing business reputation, stakeholder engagement and trust. As such, the SDGs are seen as an over-arching framework for key stakeholders including investors to better understand the effects of business investments in the environmental, social and economic areas.

2.2 Empirical Research Evidence

Early evidence on SDG embedment in business were mainly focused on sustainability reports. Several studies point out that there is a growing trend in SDGs reporting globally. For instance, PWC (2019) assessing 1,142 different sustainability reports across 31 countries identified that 72% of the reports mentioned the SDGs. Similarly, KPMG (2021) assessing the world's largest organisations by revenue defined by in the Fortune 500 ranking identified that SDGs reporting significantly increase from 43% in 2017 to 72% in 2020.

Several studies have also paid closer attention to the quality and nature of SDG reporting with findings indicating a wide variance in the approaches used and level of information disclosure. An analysis of the 2020 sustainability reports of the top 150 public-listed companies on the Australian Securities Exchange (ASX150) by Subramaniam et al. (2021) found 62% of companies mentioned the SDGs, and 59% disclosed prioritised SDGs, but there was limited information on how SDGs were prioritised in relation to business materiality analysis, and the performance on set targets. Other studies highlighted the risk of "rainbow washing" because of the superficial engagement with the SDGs for some organisations. According to these studies, these organisations are mentioning the SDGs in their sustainability reports without providing details of the progress on SDG targets and indicators, as well as not fully describing the SDGs impact on their business strategies and sustainability performance (Heras-Saizarbiotori et al. 2021; Curtó-Pagès et al. 2021; Ionascu et al. 2020).

In the same vein Calabrese et al. (2021) investigating SDGs reporting of European electricity companies identified that these companies need to improve the measurement and monitoring of their contributions to the SDGs agenda. Erin and Bamigboye (2021) evaluated the quality of SDGs reporting in Africa and identify that there is a strong drive for SDGs performance from African organisations. However, SDGs disclosure by African organisations is very low level and most of the organisations show little or no concern to report on SDGs, except for South African organisations. This study also identified the need for organisations to improve integration of SDGs information into reporting cycle, as well as to increase adoption of more sustainable practices.

Sustainability is a complex, inter-related, multi-disciplinary area, and identifying and managing data related to the SDGs can be highly challenging. The tone set at the top is just as critical as the shared values as both potentially affect managerial and employee actions on sustainability.

- Existing evidence on the motivations, barriers and facilitators of SDG reporting is largely dependent on archival data, and the role of accounting in SDG reporting remains opaque, despite the enormous potential for accountants and accounting information to make a difference. Yet much of the empirical evidence is based on reporting trends undertaken voluntarily in the corporate annual reports. There is a lack of understanding of the dynamic interplay of internal organisational and external environmental factors affecting SDG reporting practices.

- A more integrated approach to conceptualising sustainability and the SDGs is vital. This necessitates developing more innovative and critical thinking on how businesses currently approach and engage with the SDGs as opposed to how businesses need to approach and engage with the SDGs for value creation.

2.3 Global Guidelines for SDG embedment by business

With the announcement of the SDGs came two other notable guidelines to help business take action on the SDGs: *SDG Business Compass Guide* and the *Business Reporting on the SDGs*. These documents were developed collaboratively by the UN Global Compact, the Global Reporting Initiative (GRI) and The World Business Council for Sustainable Development (WBCSD). The SDG Compass presented a five-step pathway as a guide to aligning business strategies with the SDGs, and managing the measurement and communications of the contributions made to the SDGs. Figure 2 illustrates the five-step framework.

In relation to SDG disclosures, Adams, Druckman, and Picot (2020) proposed a set of conceptual guidelines, based on a set of Fundamental Concepts and Principles that were drawn from the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD, 2017); the GRI Standards; and the International <IR> Framework (IIRC, 2013). The fundamental concepts pertain to acknowledging the positive and negative impacts of SDGs in value creation, the contextual setting of the reporting entity and materiality as any issue that may make a difference to value creation and stakeholder assessment of risks and opportunities. The principles of SDG disclosures relate to the characteristics of the information disclosed such as consistency and comparability, timeliness, connectivity of information, reliability and verifiability.

Figure 1: SDG Compass Framework

The Five Steps of the SDG Compass guide

01 Understanding the SDGs
Develop awareness and understanding of the SDGs.

02 Defining priorities
Seize the most important business opportunities presented by the SDGs and reduce risks.
Define priorities based on an assessment of the positive and negative, current and potential impact on the SDGs across the companies' value chains.

03 Setting goals
Align company goals with the SDGs, the leadership can demonstrate its commitment to sustainable development.

04 Integrating
Integrate sustainability into the core business and governance, and embed sustainable development targets across all functions within the company. Pursue shared objectives or address systemic challenges, engage in partnerships across the value chain.

05 Reporting and communicating
Report information on sustainable development performance using common indicators and shared set of priorities.
Build the SDGs into the company's communication and reporting with stakeholders.

Based on consultation with a wide set of stakeholders that include sustainability experts, standard setters, management consultants, accounting and finance professionals, managers, asset owners and civil society, Adams (et. al., p.6) recommended the following four key themes for reporting on the SDGs:

· **Governance -** the board's governance around sustainable development risks and opportunities and oversight of processes to integrate sustainable development considerations into the organisation's processes.

· **Strategy –** changing both what business is done and how business is done to maximise long term value for both the organisation and society.

· **Management approach –** management's approach to considering sustainable development risks and opportunities across all aspects of the organisation.

· **Performance and targets –** qualitative and quantitative performance and targets.

2.3 Integrated Sustainability Thinking for the SDGs

This study is guided by integrated sustainability thinking as espoused in the UN Global Compact's Roadmap for Integrated Sustainability[2] (UNGC, 2015), and the concept of integrated management systems (IMS), where integration is defined as a process of putting together different function-specific management systems into a single and more effective IMS (Beckmerhagen et al., 2003). The Roadmap for Integrated Sustainability aims to synchronize the sustainability priorities and goals of the overall entity with those of its functional sections or departments e.g. production, marketing, human resources, etc). As shown in Figure 1, the Roadmap (UNGC, 2015, p. 6-7.), proposes the use of three distinct lenses i.e. Strategic, Operational and Culture as described below for understanding and managing functional integration of sustainability within organisations.

Strategic Integration

Incorporating sustainability into the core strategy of an organization (enterprise, business unit or function). In this context, "strategy" is used to describe the deliberate or emergent choices (purpose, priorities and goals) that are made to distinctively position the enterprise, brand or product for "sustainable" (enduring) competitive advantage and value creation. It's about "Doing the right things".

Operational Integration

Executing and reviewing the performance of sustainability related strategies in the regular routine of an organization. This lens describes the processes, policies and practices put in place to improve the execution of strategy or sometimes called operational effectiveness. It's about "Doing things right".

Cultural Integration

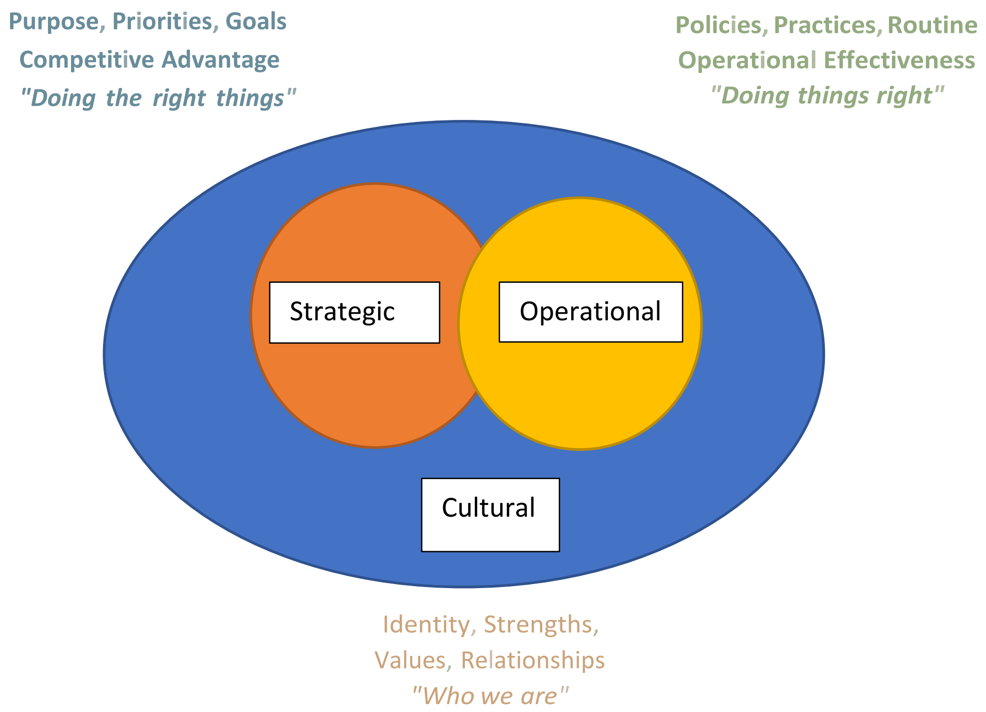
Leveraging the unique identity, culture, purpose and strengths of an organization to advance sustainability and corporate success. To achieve a business's potential, strategic and operational integration must consider the unique culture, identity and strengths of the organization and their components. Culture can be a significant barrier or powerful amplifier of executing strategy.

In essence, the Roadmap advocates the importance of aligning strategic intent on sustainability with operational policies and activities taking into consideration the cultural context of the organisation. As such, the quality and efficacy of coordination, innovation and cooperation among different functional units or departments of an organisation needs to be systematically aligned for value creation through integrating sustainability.

[2] https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2Flead%2Froadmap%2Froadmap-introduction-functional-integration.pdf

Figure 1: Three Lenses on Sustainability Integration

Source: Adapted from UNGC (2015)



3.0 RESEARCH METHOD

3.1 Data Collection

A qualitative data collection approach was undertaken. A total of 30 participants were interviewed. We conducted two focus groups and individual i.e. one-to-one interviews with expert governance stakeholders such as CEOs, corporate sustainability officers (CSOs), CFOs /management accountants, professional consultancy experts, and related knowledge experts on sustainability with the aim of capturing their perceptions, attitudes and insights of SDGs governance. Nineteen (19) individual interviews were conducted, complemented by two online focus group discussions, comprising six and five participants respectively in each group.

The focus group discussions and individual interviews were undertaken online via Microsoft Team from June 2020 to Oct 2021. All interviews were recorded and transcribed (with permission, and subject to the conditions of RMIT University's ethics approval) for analysis. The interviews ranged from 55 minutes to 1 hour and 15 minutes.

3.2 Participants

The participants represented a mix of organisations including nine (9) public-listed companies, five (5) large private companies, two (2) Big-Four Firms, two (2) international sustainability think-tanks, and one (1) public institution. The participants of the two focus group discussions are predominantly from international accounting associations and public institutes. The interview participants from the 14 companies, (public-listed and large private) were mainly CSOs, while others are senior consultants on SDGs/sustainability.

All participants had a minimum of two years work experience in sustainability-related roles, and had knowledge of the SDGs. Around ten participants have been involved actively in corporate sustainability policy debates and advocacy. An overview of the participant sample is provided in Table 1.

3.3 Data Analysis

Nvivo was used to analysed and code the transcribed interviews. The coding process involved labelling and assigning symbolic meaning to the descriptive or inferential data compiled, through which themes could be discovered based on the core content or meaning of the code. When performing the coding analysis, we categorised recurring phrases/codes, as these repeated phrases are good leads, pointing to regularities or patterns in the setting (Miles et al., 2014). The categorised codes are then classified into themes as patterns emerged within the data (Neuman, 2003; Patton, 2002). The key themes are discussed in section 4.

Table 1: Participant Sample

Interviewee	Organisation Type	Industry	Participant Role
1	Public-Listed company	Industrials	Head of Sustainability,
2	Public-Listed company	Consumer Staples	Head of Sustainability
3	Public-Listed company	Industrials	Head of Sustainability
4	Public-Listed company	Healthcare	Head of Sustainability
5	Public-Listed company	Industrials	Head of Sustainability
6	Public-Listed company	Industrials	Senior Sustainability Manager
7	Public-Listed company	Financial	Head of Sustainability
8	Public-Listed company	Real estate	Senior Manager
9	Public-listed company	Manufacturing	CFO
10	Large private company	Materials	Senior Manager
11	Large private company	Retail	Head of Corporate Affairs
12	Large private company	Real estate	Senior Sustainability Manager
13	Large private company	Transport	Head of Sustainability
14	Large private company	Consultancy	CEO
15	International Sustainability Organisation	Not-for-profit	Head of Standards Board
16	International Sustainability Organisation	Not-for-profit	Senior Manager
17	International Accounting Association	Professional Body	CEO
18	International Accounting Association	Professional Body	Senior Advisor - Corporate Policy
19	International Accounting Association	Professional Body	Senior Manager
20	International Accounting Association	Professional Body	Senior Technical Advisor
21	International Accounting Association	Professional Body	CEO
22	International Accounting Association	Professional Body	Management Accountant
23	International Accounting Association	Professional Body	Head of Department
24	International Accounting Association	Professional Body	Senior Sustainability Manager
25	Public Institution	Education	Head of Sustainability
26	Public Institution	Education	Head of Corporate Governance
27	Public Institution	Education	Management Accountant
28	Public Institution	Education	Management Accountant
29	Big Four	Consultancy	Sustainability Senior Manager
30	Big-Four	Consultancy	Senior Sustainability Consultant

4.0 FINDINGS AND DISCUSSION

In this section, following the SDG Compass framework for SDG embedment within business, we present interview data analysis on participants' perceptions, attitudes and their work experiences on corporate sustainability and the SDGs. The findings are provided on their understanding of the SDGs, strategic and operational issues that may either hinder or facilitate SDG integration, and on factors that need to be developed to enhance SDG embedment and outcomes. Direct quotes from participants are also provided as sample evidence supporting the observed findings.

A: Understanding the SDGs

There was general consensus among participants that it is vital for businesses to address and embrace the SDGs and sustainable development in general. Most participants felt that SDGs uptake by businesses is '*unavoidable*'; and used the term '*social license'* as a rationale for SDG integration. Pressure from external factors such as investors, regulators, professional organisations, and civil society were seen as the main drivers of business wanting to engage with the SDGs.

The perceived benefits of embedding and reporting on the SDGs

- SDGs are an '*excellent communication device'* that promote a '*common language'* that '*everyone can easily relate to*' for understanding sustainability and sustainable development.
- The global goals help to frame and make sense how their company is making *'meaningful'* changes to society and the environment.
- The SDG framework facilitates capturing multiple sustainability goals and values that are important to the organisation in a succinct manner.
- SDG disclosure helps to enhance or gain external awards and certifications e.g. environmental management ratings; corporate sustainability ratings, etc.
- Embedding SDGs enhances corporate reputation and encourages commitment to investment in sustainability.
- SDGs help companies to identify and manage key risks and new business opportunities.

Participant Quotes:

SDGs *"...(is) a huge material topic for us, but it's not just sustainability, it is much broader than just that…. Our company does find incredible value in making sure these considerations* (global development issues*) are integrated into our decision making. ...umm - now I'm not saying we've solved every single problem, but I think realizing that value just means that we continue to see our (sustainability) teams grow in different places.*

"I think the main driver is the investors community asking companies to be more accountable. The stakeholders are pressing the companies to be more accountable (to) sustainability…"

"If you take the SDGs seriously, they can help you identify new business opportunities, as well as help in managing risks".

One sustainability manager sincerely expressed --- "I do love SDGs."

"I found that the goals have been incredibly good as an engagement tool. We don't necessarily say SDG5, we say gender, or we don't necessarily say SDG10, but we talk about inclusion, so we're using the terminology that comes out of the goals as a really good communication tool."

General Lack of Awareness and Knowledge among stakeholders

Participants also generally felt that the awareness and knowledge on sustainability among all stakeholders needed to increase to improve business commitment to the SDGs. They were concerned that the awareness level of SDGs was still low within organisations and among their key external stakeholders. Senior managers, sustainability managers, and institutional investors were seen as having higher awareness and knowledge on SDGs than other stakeholders e.g. customers and suppliers. Some saw the level of SDG awareness and knowledge as a function of company size, with smaller organisation seen to still lag behind. A clear need for knowledge dissemination about the SDGs throughout all managerial levels and functional areas was viewed as important for advance business interests as well as organisational actions on the SDGs.

Participant Quotes

"If I stepped outside that 'sustainability bubble' of my LinkedIn, I don't know many people who talk about SDGs…. SDGs don't come into the conversation".

"There's not a lot of interest in terms of making that connection to the SDGs for a consumer. I think that is the challenge. It's not translating into a consumer relevant message at the moment, which is what would give opportunity for a company like us. So, I worry."

"I see it (SDGs) as a quite a mature set of disclosures for large organisations, and I think that the majority of small organizations are yet to understand what the acronym is."

B: Defining SDG priorities

In this section, we present participant insights into business strategy in relation to stakeholder materiality assessment, selection and prioritisation of SDGs, and sectoral specific issues.

Linking Business Materiality with SDG goal identification

Materiality analysis brings together internal and external stakeholders in order to map the material areas of the business strategy against the stakeholders' areas of concern and interest. Further, a culture of active stakeholder engagement is seen necessary for identifying focal sustainability issues from both the company and the broader societal and environment interests. Embedding SDGs within business strategies based on materiality analysis will ideally facilitate a more holistic approach for sustainability governance.

While participants see this process to be highly critical and a valuable exercise to align sustainability and business goals, it is also viewed as being highly time consuming and varying in its frequency. Only in a few cases such analysis was reported to be undertaken annually, with the preferred time interval by respondents to be every 2-3 years for practical reasons. Interestingly, one participant indicated a preference to undertake materiality analysis every 6 months.

Several participants reported simply prioritising SDGs without going through the formal materiality analysis where the material sustainability themes are matched with the relevant SDGs by the sustainability team. The formality of the SDG prioritisation also appears to be influenced by the area or corporate section in which the sustainability team functions from or reports to. Areas such as CEO office and risk management departments are seen to be concerned over identifying risks focusing on economic outcomes (e.g. climate risks) and appeasing investor information needs. By contrast, corporate public relations and communications functional areas are seen to be more worried about how SDGs would affect corporate image. No doubt, the underlying motivation and alignment of sustainability risks, SDG prioritisation and business strategy need to be clear so as to avoid sub-optimal outcomes e.g. choosing ill-fitting sustainability initiatives in terms of business goals.

Direct Quotes:

"Materiality is something that we do constantly and formally every year. The findings of the materiality assessment allowed us to identify which of those SDG's we intersected with directly and indirectly."

"Our annual sustainability materiality assessment process is extensively done. As part of that process, we embed the SDGs just to make sure that the priority goals that we have are still material to us as a business. We talk to a number of different stakeholders as part of that process and stakeholder engagement is incredibly important. We ensure that the questions that we are asking all of our stakeholders have the goals embedded in them. And we use that as a process to check, are these the right goals still for us, so it's definitely integrated."

"So, we subsequently changed our sustainability strategy to be driven by the goals. And yes, we went and got Board endorsement for that, but we'd already started action on the SDG's before we actually changed our sustainability strategy. So now our strategy is very clearly aligned with the goals."

"We developed a matrix for the external analysis. For internal analysis we also do surveys. We seek input not only from a central perspective, but also looking to get local feedback in terms of what issues are. The analysis should be undertaken frequently, really. In our case, we update and publish the matrix every two years. In future, considering how often external variables move, I would say that the exercise we do, we're looking at probably every six months."

Sectoral idiosyncrasies

Sectoral idiosyncrasies also pose difficulties for unilateral policies for a given goal. In other words, how an SDG is interpreted and actioned upon will vary across different industries. For example, approaches to waste management inputs and outcomes may widely differ between service and mining companies. Thus, the actions needed and the impacts expected in relation to SDG12 Responsible Consumption and Production goals will need to take into consideration industry specific opportunities and limitations. There was also a strong view that SDG leadership at the sectoral level where people with expert knowledge and common industry understandings is needed on setting relevant and realistic SDG performance targets and indicators.

Direct Quotes:

"We can see direct impact on certain SDGs for example, in the energy sector. Probably it's more clear for them to identify some SDGs that are more related to their business which have more direct impact on environmental and social issues."

"I think some of them are really Governmental goals. For example, Zero hunger or No poverty - it's really governmental driven. It's more like trying to translate the how those targets can be applicable to businesses. And it's kind of hard work to do and with all the rest of the sustainability agenda it's probably not the priority for the companies."

C: Setting goals, targets and indicators

In this section, we present participant observations on how SDGs are aligned with corporate level business goals and issues surrounding the selection of SDG targets and indicators.

Aligning corporate goals with the SDGs

A major difficulty for goal alignment between the SDGs and business goals is the translation of the global level goals (generally specified at country level policy setting) to the corporate level (where the goals are set from an organisational outcome perspective). Consequently, some participants were unsure of the association between across goals, targets and indicators, questioning as to whether meeting the goals set by the company will deliver any real impact for the company and for society itself. Some participants suggested national governments ought to break up the SDG targets to public sector and private sector, and then further break down to the targets to industries levels as well. There were also concerns over the practicality of acting on all SDGs, and that selecting few and targeted goals may yield better actions.

Externally produced guidelines, namely the GRI standards provided some, albeit limited, understanding of how to link GRI indicators with the SDGs. Within a corporate reporting context, GRI standards were seen to be helpful. However, in relation to mapping SDGs to sustainability performance, such standards were perceived limited as they do not clearly recommend how to set targets, nor choose the appropriate indicators to measure performance. On a more positive note, there was also feedback on how the process of SDG embedment had led to process reviews and identification of areas for improvements and innovation opportunities.

Direct quotes

“Businesses need to go beyond tagging a goal to a program, and they need to start drilling down into the targets and indicators.”

“I don't think businesses are doing enough at this point in time - really getting down into some of the detail that is required…to understand what are the one or two or three key targets and indicators that are related to the goal that our organization will be able to contribute to.”

“We've had discussions internally about the SDGs and we are continuing to have them. We have a Board SDG Committee, and they are interested in how we are reporting against the goals. It’s evolved a bit simply because there was an initial mapping against our objectives. The company has come out with its own sustainability approach, and we mapped the goals to that. We then used the guidance that aligns the GRI indicators to the SDGs and reassessed it on that basis and then published a single list of SDGs that we feel that our existing approach contributes to and that's where we sit at the moment.”

“I think it's (SDG integration) helped influence our future direction in a range of areas, like for example, becoming aware...to do more work on the material side of things, but with specific focus. For instance with SDG 12, it's encouraged us to perhaps accelerate some of our efforts in that area (of recycling), understanding that we need.

Identification and quantification of relevant data is difficult

The SDGs cover a wide range of themes, and the management of information related to the sustainability initiatives across organisational activities in different functional areas and projects can be highly complex. The identification of appropriate qualitative and quantitative data for goal and target-setting was seen as a major burden and that only some of the early adopters of SDG reporting appear to have a handle over the governance structure and processes needed for performance management.

Participants noted improvements were needed in regard to the quality of the data and the capacity of organisations to manage how well information from different internal systems can be integrated e.g. from HR, finance, environmental protection / management committees, etc. Communication and alignment between sustainability and financial/accounting processes and data were also seen as an area that could be better designed. While some participants viewed that the development of SDG governance systems cannot be done overnight, they also acknowledged that change may need to be undertaken incrementally and that it takes time and resources.

Further, there also appears to be information that is held manually by managers, in informal records (i.e. data that accounting and other management systems may not formally capture). Some examples include inability to capture all carbon emissions, negative environmental impacts of community group well-being and negative consequences of

Direct Quotes:

"That's (SDG data collection) probably one of our biggest challenges. If I think about the fact that we're trying to get to net zero carbon by 2030, one of the biggest questions we have is how do we measure that across all our projects? Things like community investment data, so you know whether we're doing donations or have events or whatever else, how do we roll that up into a number? Then there's biodiversity - how do we measure biodiversity impact? How do we get that kind of data? So, the short answer is it's probably one of the biggest challenges."

"We have a proliferation of different systems. They don't necessarily always talk to each other in the most effective way."

"There's definitely room for improvement there. We have some great data that's incredibly robust and managed really well. And then we we're trying to manage with some data that is, you know, still very manual."

D: Integration – Structure and Processes

In this section, participants identify elements relating to corporate culture, governance structure and accountability processes towards corporate sustainability and the SDGs.

Structural Mechanisms related to SDG Governance

The Governing Board: Participants observed that the support and interest expressed by the governing board of the business on sustainability issues to be a critical resource for SDG uptake. CEO support was also seen to play an important role, particularly in resourcing the sustainability team and having the authority to roll out sustainability initiatives. Participants in general felt that once the topic of SDGs is lifted to the board level of strategic importance, finding internal resources becomes easier to support the SDGs.

Sustainability Committee / Team: An independent corporate sustainability committee (sometimes referred to as CSR or ESG committee / team) was the most common structural mechanism established for coordinating sustainability and SDG initiatives. However, some participants reported that the manner in which sustainability team approached their work including integration of SDGs depended upon the functional section that they are responsible to e.g. risk management; the corporate affairs; or the corporate responsibility departments. The culture or shared values inherent in the functional area overseeing the sustainability team are seen to affect the approach to risks and benefits associated with the SDGs.

SDG Champions: The presence of staff or knowledge specialists / experts who champion for organisational initiatives and programmes are often helpful for integrating new ideas and processes.

- When asked about who the SDG Champions, if any, in the organisation –the common responses were: the CEO, directors or senior management with sustainability management experience, and in few cases the participant him or herself as the head of the sustainability unit.

- A number of respondents noted ***'investors'*** including institutional investors play an important role in affecting deliberations on SDG adoption. As noted by a participant, it is "*when our important investors ask questions about* SDGs that had triggered management's own interest in SDGs".

The shared knowledge and connections among different governance stakeholders, including directors, senior management and sustainability staff and champions is vital for SDG governance. The cultural tone at the top is just as important as hearing the innovations and shared values on the SDGs from the operational level, and this two-way process require support from sustainability knowledge experts for capturing SDG-relevant data.

Participant quotes

"We were very blessed in the sense that a couple of our group board members have come from companies that have a very strong sustainability presence. Some of them actually pushed us to do more. When we brought our prioritised SDGs to the board they were incredibly supportive. We had a very robust discussion around the five that we selected to ensure that they were the right five and so getting their sign off from that process was very valuable."

"A critical and proud moment for one participant was when *"...the business agreed to release our first SDG focused report. Yeah, and now it's embedded. You know, as part of the reporting suite on an annual basis. ...that means that there needs to be a certain discipline within the organization to update it annually and to continue to strive to make progress".*

E: Reporting and communicating

In this section, we present a summary of participant perceptions on the quality and issues related to SDG reporting.

Perceived quality of SDG reporting

When asked to rate on the quality of their SDG reports (from poor to excellent, with moderate as a mid-point rating), majority of the respondents from public-listed and large private companies interestingly rated their company's reports to be moderate.
Further queries regarding the reasons for their rating and the areas that they believe reports could improve on, commonly yielded responses such as:

i) Setting targets in relation to SDGs at business level is not easy.
ii) SDG reports need to focus both on inputs and outputs. This includes costs relative to impacts e.g. social and environmental impacts.
iii) SDGs are a recent development and there is lack of knowledge experts
iv) Poor communication within organisations as those in charge of reporting are not fully connected with operational level managers
v) Too many options to measure impact, need more understandable and relatable performance metrics

One participant with the corporate sustainability office headquartered in Europe reported that his overseas colleagues seem to be highly well-versed and knowledgeable on the SDGs, including taking a lead on the design of the report itself. The participants from the management/professional consulting entities in particular strongly felt that SDG reporting is still in its infancy, and that it requires considerable industry-led leadership and investments in human resources to fully account for sustainability and SDG impacts. There were also concerns around the ability of extant information and accounting control systems to capture relevant and reliable data, as well as capturing all positive and negative impacts of the organisations.

Participant quotes

"I believe companies in Australia are still in the early stages of SDG reporting. Most of the companies are still in the first stage committing and identifying relevant SDGs, but there is still a long way to go to embed SDGs into strategies and identifying good metrics to measure performance."

"I don't get the sense that there's a lot of engagement or thought or work sitting behind what they're publishing. There may be, but they're not disclosing it, so when they're putting up, well, here's our 5 SDG's that we're going to focus on, they're not giving a lot of detail about what, how, and why they've chosen those. There's not a lot of detail going down to target level, and there's even less detail about indicator level."

Too many reporting guidelines

Participants had also expressed concerns over the multitude of sustainability-related reporting standards and guidelines that are available, and some in the process of development. For example, the GRI Standards, Integrated Reporting, other related reporting requirements such as Modern Slavery Act (MSA) and the TCFD are some of the guidelines of concern for participants when attempting to report on the SDG. Some participants felt there were too many SDG metrics and overlapping guidelines, making sustainability reports too complex and difficult to understand There was strong consensus even among the professional consultants that an integrated reporting framework specifically addressing the SDGs is needed.

One suggestion was that a standard SDG overview report (e.g. a dashboard) be presented by all firms that is easy to understand and used for comparing firms within their industry sector.

Participant Quotes

"… *I think you can have the long (report), but you have to make sure you've got the guts of it up front. Because people aren't going to get to page 88 unless they really interested. I think that you have the nuts and bolts of it right up there --- right up front. People can't read, you know, a three page letter from the CEO and then stay interested."*

"There is no specific guideline helping organisations to report on the SDGs like you have GRI for sustainability reports."

"Once you are reporting on the MSA (Modern Slavery Act) you already addressing some of the SDGs, the same TCFD."

F: Role of accounting, assurance and information systems

In general, the extent of direct engagement with the SDGs and sustainability reporting process by accountants appears limited. Only one participant reported that that a representative from the finance/accounting department was required in their project development meetings. While accounting information and techniques such as cost-benefit analysis, cash flow predictions, costs of sustainable-certified products, and project investment analysis were cited as being useful, their potential to shape SDG information remained sceptical. Another viewpoint is that accounting and financial information is seen to relate to short term performance indicators, while sustainability is more about long term results and possibly more qualitative information or evidence is needed.

As noted by one participant: "I don't think accounting data and processes are tailored for the SDGs. There is a bit of work to do yet".

Further, while both financial and non-financial information appear to be important for ascertaining SDG-related activities and projects, the sourcing and integration of relevant data from multiple departments or functional areas were found to be very challenging. Having a reliable and integrated data and information system was described as essential for SDG integration by one of the interviewee managers working for a property development company. The organisation marketed its properties as a highly ranked sustainably developed and certified real estate, and relied on demonstrating clear connections between the SDGs and its corporate strategy. The manager reported having data systems from its accounting department, human resources, environmental management committee and its engineering team was essential for designing, planning, and assessing the different projects for development.

Some of the major challenges for data or information systems congruence are as follows:

1. **Information silo**: a disconnection between departments within the organisation. The sustainability team often is the only party that attempts to access information from multiple functions of the business: environmental engineering for environmental information, HR department for human information, operational offices, and finance team. Often the ask for information is related to the needs for corporate reporting rather than internal management decision-making. For instance, filling in data for sustainability certification often needs data from multiple aspects and sections of an organisation e.g. on carbon emissions, sustainable procurement, supply chain integrity, building waste, etc..
2. **Information technology barrier**: the information system in large businesses often is compartmentalised. Collecting information may require significant redesign and centralisation of the information system. For example, some participants find it is challenging to report on the impact of natural disasters and their responses to it on the business. They see this as part of building the environment and community on land up, but the information system was deemed in adequate to capture such impacts.
3. **Measurement difficulties**: Evaluating non-financial impacts e.g. improvements in people's livelihood or mental well-being or environmental degradation can be difficult, with several respondents noting multiple sources of information working in parallel but not talking to each other within their organisations.
4. **Internal performance management:** Some SDG targets and indicators were termed as lacking 'functionality' or tend to be 'intangible' for companies to practically adopt. Not everything can be measured, and knowledge from project managers involved at the operational level needed to be fed into top management thinking (strategic).
5. **Assurance**: of sustainability reports and audit of selected sustainability projects and initiatives were seen to be highly important, particularly when it also involved meeting sustainability certification requirements. There was also scepticism over the internal audit function's ability to overview data integrity without a standardised information system for sustainability management.

Direct Quotes:

"... the principle remains for all of those commitments, we need to be able to verify the data of everything we're doing here in Australia as well as we are doing all over the world... there is a reporting framework that we must complete that talks about, well, how many participants were there, what was the number of schools involved in the case of community work, the finance team will provide me with a document...in terms of what was our contributions to the community, what was it in hours and then quantification of that in terms of a monetary value".

"Things can go wrong, so it's important that (data gets) checked and verified ... We have been audited. I remember when I actually did a dedicated Australian chapter in a report about four years ago, every single fact had to be checked and verified for external audit and that was fun... The joys of order!.

"Good SDG data - Integrity and reliability - is still missing. Organisations are still working on it – this has a direct impact on assurance"

"Assurance helps organisations to improve their SDGs reporting processes"

5.0 Conclusions

Our findings reveal the presence of multiple challenges to SDG governance that are associated with strategic, operational and cultural issues. While the business case for actions on the SDGs was seen as important and necessary, the challenges resided within organisational systems and processes in supporting sustainability management and disclosure.

Often the lack of appropriate technology and knowledge management systems seem to impede strategic goal and target setting, monitoring of performance, assessment of impacts and the disclosure of SDGs. More specifically, information management technologies while seen as vital for sourcing and collating relevant and reliable sustainability data, lacked the sophistication and integration needed across the different functional units and managerial levels.

There was also general acknowledgement that corporate project teams needed to have a broader and multi-disciplinary-based skill sets for SDG governance and reporting

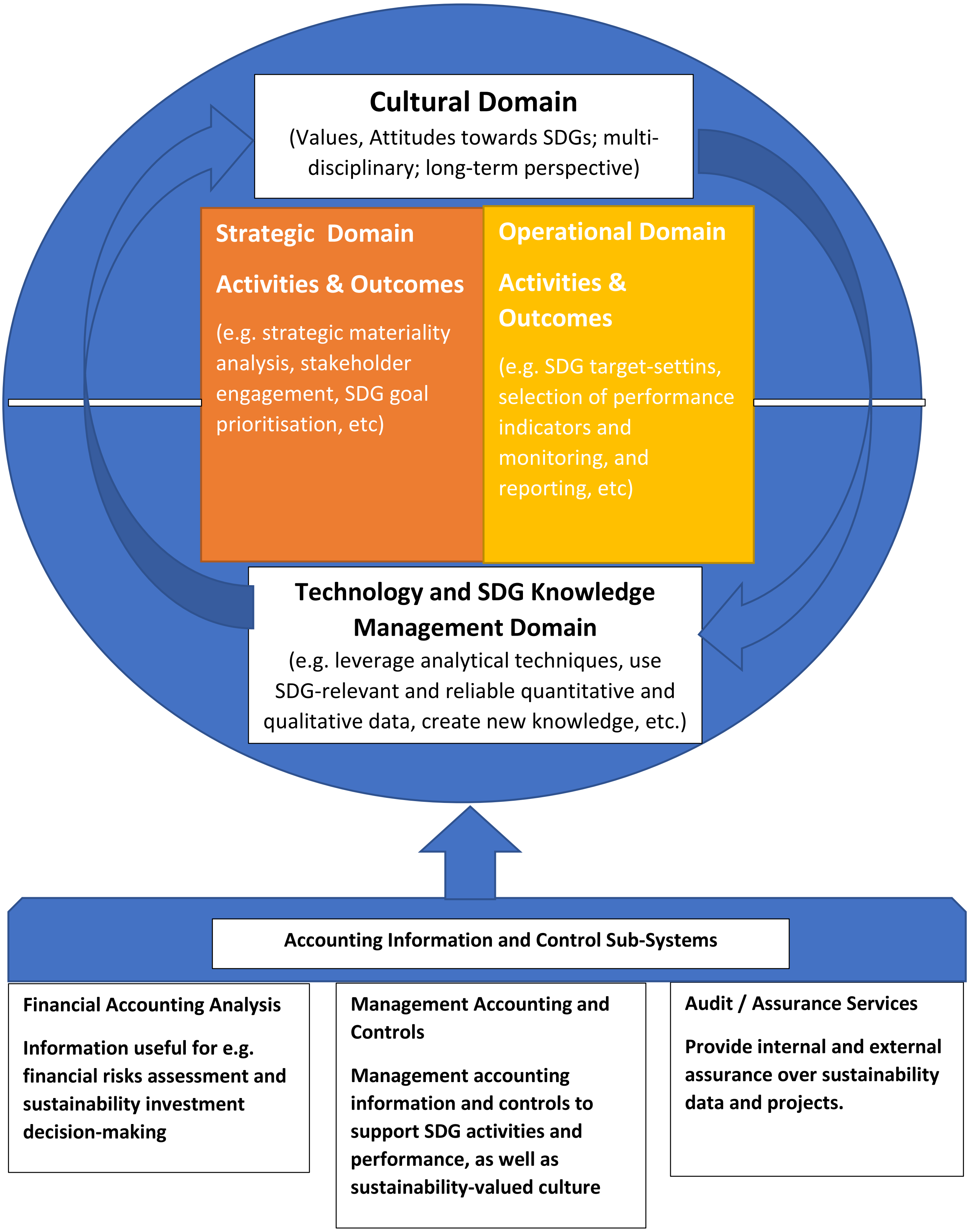
Further, information useful for sustainability performance management and decision-making was also sparse due to inadequate knowledge management systems that are support and manage organisational learning on the associations between sustainability activities and their impacts on communities and the environment. Knowledge on understanding and transforming short-term data to longer termed impacts on SDG and sustainability-relevant data is much needed.

Accounting is placed to potentially play an important transformative role in SDG governance and reporting, but accountants' engagement with the SDGs is very limited. The sourcing and verification of critical sustainability data, evaluation of investments and impacts of SDG projects and better reporting oversight are some of the ways in which accounting mechanisms can enhance SDG governance and reporting.

6.0. Integrated Sustainability Framework for SDG Governance and Reporting

Drawing on both the rich insights of the participants of this study, and the UNGC's Roadmap for Integrated Sustainability (UNGC,2015), an adapted framework for SDG governance and reporting is proposed with the inclusion of technology and knowledge management system as a fourth core domain or integrative lens for facilitating integration. As depicted in Figure 2, the adapted framework, referred to as the **"Integrated Sustainability Framework for SDG Governance and Reporting (ISF-SDGGR)",** is premised on the notion that both the cultural domain, and a technology and knowledge management domain together will shape the nature, extent and approach to the SDGs in the strategic planning and operational domains. Further, we extrapolate discussion on the potential roles accounting and information control mechanisms may play in supporting the ISF-SDGGR integrative processes through financial accounting, management accounting and audit/assurance mechanisms.

Figure 4: Integrated Sustainability SDG Governance and Reporting Framework



Dynamics among the four core domains

According to the ISF-SDGGR, the dynamics between the cultural and the technology-knowledge management domain shape and provide shared meaning and understandings of the SDGs and corporate approach to sustainability. The cultural domain involves the beliefs, assumptions and moral responsibility for sustainable development and the SDGs, defining the level of commitment perceived as acceptable for SDG embedment. As observed from a number of participant responses, sustainable development can be a highly sensitive and contested space, while in other cases there is almost little knowledge and interest in the SDGs. The subjectivity involved in determining sustainable development risks and impacts e.g. on climate change, energy pricing, etc can inhibit commitment to SDG embedment, with organisations looking for more science-based rationale for changing their attitudes.

As noted in the Roadmap for Integrated Sustainability (UNGC,2015), culture can be an inhibitor as well as accelerant for SDG integration. The role of technology and knowledge management consequently becomes vital for sourcing, collating and providing reliable information for understanding the value creation potential of the SDGs. More specifically, with data and information on sustainability risks and impacts often residing in different parts of an organisation, multi-disciplinary and long-term oriented, information technologies become important for data accessibility and integrity. Further, information can be turned into knowledge, and knowledge management systems can help develop and share not only 'what is right to do' but also 'how to do things right'. For example, positive environmental impacts gained through changes in procurement or operational practices need to be documented and such knowledge shared to promote positive, and informed cultural values and norms.

At the strategic domain level, the meaning of SDGs and their impact on the business model need to be aligned with the corporate and functional unit strategies. Within the operational domain, SDG embedment needs to occur at the processes, policies and practices level which could involve choosing the appropriate targets and indicators and tracking their performance. The integration between both the strategic and operational domains also needs to be underpinned by clear and consistent connections between cultural and technology-knowledge management domains.

Supportive Role of Accounting Information and Control Systems

Accounting information and control systems can also influence how managers engage and enact their sustainability activities and account for them. The ISF-SDGGR can be supported by the following three accounting sub-systems:

1) **Financial Accounting Analysis:** Identification, recording and analysis of financial, quantitative data that can help integrate strategic and operational issues relating to goal setting, value creation by the SDGs. Such information can help investor and other stakeholder decision-making.
2) **Management Accounting and Controls**: MA information and controls to support interactive, boundary spanning activities for strategic decision-making.
   Monitoring and tracking SDG impacts and performance utilising diagnostic analysis, operational controls and cost-benefit analysis.
3) **Auditing and Assurance Process:** Internal controls, and verification of data related to SDG activities, projects, governance processes and disclosure.

7.0 WAY FORWARD

An integrative management approach for SDG governance and reporting will require a holistic stance towards bringing together formal and informal human resource systems with affordable technology and knowledge management systems. The following suggestions are recommended for the way forward.

Cultural Factors

- **Promote a culture of integrated thinking on sustainability.** Develop a corporate environment where the tensions across competing interests and impacts across environmental, social and economic imperatives are open for discussion and debate. Important to provide an environment that would foster collaboration and integrated thinking on sustainability.
- **Enhance sustainability leadership.** Sustainability experts and champions at the board and senior management are critical for localising SDGs within organisations. For example, aligning the tone at the top aligned with managerial sustainability performance awards and incentives can foster the desired SDG congruent behaviours.
- **Develop multi-disciplinary teams with SDG knowledge.** Corporate sustainability challenges are complex and solutions should be provided by multi-disciplinary teams based on multiple disciplines and expertise.
- **Mission, vision and values aligned with SDGs.** It is important to determine and communicate that the company's business, approaches, objectives, and goals are aligned with sustainability principles. Training and induction programmes are important to disseminate knowledge across the organisation and reaffirm the organisation's commitments and alignment with SDGs.

Leveraging Technology and Knowledge Management

- **Develop data management platforms for integrating SDG relevant information**. Review, reimagine and integrate internal information systems to bring together data from different functional units. This includes both financial and non-financial information that short and long-term oriented.
- **Support knowledge development and Staff training.** Support staff training on the SDGs, and how they are inter-linked with organisational activities with an eye to fostering knowledge creation and problem-solving through innovative ideas for sustainable development.
- **Data collection and dashboards**. Data collection of relevant SDG information and dashboard reporting tools are important to support decision making processes, improve accountability, identify items that require action and offer insights into trends and metrics. Sharing SDG information is also important to foster internal and external collaboration and disseminate knowledge.

Strategic and Operational Governance

- **Broaden stakeholder engagement.** in the process of SDG prioritisation for better integration with corporate business model imperatives and strategies, as well as wider stakeholder environmental and social concerns. Stakeholder engagement is an important mechanism to improve legitimacy and foster collaboration.

- **Improve materiality analysis**. The consideration of double materiality i.e. economic as well as environmental and social impacts is important for SDG strategy, identification, prioritisation and reporting.
- **Develop and track business relevant SDG Targets and Indicators**: Develop clear associations between business model objectives and the targets and indicators of prioritised SDGs. Where possible, adopt science-based targets to guide target and indicator selection on sustainability goals. Important to consider both positive and negative sustainability impacts.
- **Design better SDG Reporting:** Adopt evidence-based approaches for performance metrics development that are not only input and activities based but also impact-driven. Design report formats that enable standardisation of critical data for comparability and consistency e.g. SDG dash-boards that are industry sector relevant.

Accounting Information and Control System Interface

- **Financial Accounting.** Prepare information from financial accounting systems to inform sustainability project development and outcomes, and manage sustainability risks and investment profiles.
- **Management Accounting and Controls**. Develop an integrated system of enabling and coercive controls that can guide SDG strategic planning and operational controls. Enable and empower all stakeholders to contribute to SDG prioritisation and management of impacts and outcomes. performance assessment.
- **Audit/Assurance processes and statements**. Adopt where possible, audit and assurance mechanisms to ensure internal controls over SDG activities, ensure compliance and detection of operational inefficiencies. Avoid 'rainbow-washing' and utilise independent verification of SDG data and report.

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