WORLD TRAVEL & TOURISM COUNCIL

ENVIRONMENTAL, SOCIAL, & GOVERNANCE REPORTING IN TRAVEL & TOURISM:

2. OUTLOOK & REPORTING TRENDS

Environmental, Social & Governance Reporting in Travel & Tourism:

2 OUTLOOK & REPORTING TRENDS

TABLE OF CONTENTS

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INTRODUCTION

SUSTAINABILITY REPORTING IS CONSTANTLY EVOLVING AND SHIFTING. THIS YEAR'S FIVE KEY TRENDS ARE DISCUSSED BELOW.

TREND 1: GOVERNMENT AND STOCK EXCHANGES
Reporting is becoming mandated by governments and stock exchanges. Overall sustainability reporting is becoming more mandated across the globe, and as such the information will become more subject to auditing and verification.

TREND 2: REFINING TOPICAL COMPANY REPORTS
The topics companies report on are becoming more refined, prescriptive, and streamlined. The mandates and evolution of reporting leads to the need for more robust disclosures on key topics that themselves are becoming more standardised and streamlined.

TREND 3: EVOLUTION OF REPORT FORMATS
While the type of information reported is becoming more standardised, companies are evolving the report formats and content to match audiences. Companies are starting to improve the delivery of report content, making it more engaging and bifurcating the compliance-based disclosure and the unique storytelling.

TREND 4: SUSTAINABILITY REPORTING, TACKLING COMMON CHALLENGES
Sustainability reporting is no longer just about the topics reported, but about how the organisation is tackling common challenges with common aims. Reporting has moved from a focus on applying reporting concepts to demonstrate measurable progress in advancing environmental and social performance as well as addressing common challenges, as characterised by the UN Sustainable Development Goals (SDGs). As a result, sustainability reporting is increasingly contextualised around progress and partnerships to address global challenges.

TREND 5: WIDENING THE GAP BETWEEN LEADERS
The gap is widening between leaders and laggards in reporting. Finally, the movement toward science-based targets and other bold goals and commitments, coupled with the emergence of more compelling and sophisticated reporting methods, is also widening the gap between sustainability reporting leaders and laggards.

1 GOVERNMENT AND STOCK EXCHANGES

Reporting is becoming mandated by governments and stock exchanges.

Sustainability reporting originally emerged as a voluntary exercise, driven by stakeholder pressure. The industry is seeing a gradual shift toward reporting as being defined, requested, and even mandated through governments and market regulators (stock exchanges), which generally implies auditing and verification of the information.

Approximately 180 laws and regulatory standards in 45 countries call for some aspect of sustainability reporting[1], and 19 members of the G20 had at least one regulation in place requiring that companies disclose at least some social and/or environmental metrics. Additionally, 12 stock exchanges require aspects of environmental and social reporting for at least some of their listed companies, with 7 of those exchanges, including those in Brazil, Malaysia, South Africa, and the United Kingdom, requiring such reporting for all listed companies. Fifteen of the exchanges provide formal guidance on sustainability reporting to listed companies[2].

The EU Non-Financial Reporting Directive is the most significant sustainability reporting mandate to date.

Within the EU, the Council of the European Union updated its directive for the disclosure of non-financial and diversity information for corporate transparency and accountability in 2014 (2014/95/EU), and this is being enacted across EU membership at present[3]. The legislation requires public interest entities (PIEs) with more than 500 employees to annually report on environmental, social, and employee-related material topics and include disclosures regarding the companies' policies, risks, and performance for the reported topics. Companies that do not have policies in place would have to explain why they do not have these [policies].

The scope of PIEs within the EU authority includes listed companies, banks, insurance undertakings, and any additional companies identified by Member States. Each of the 28 Members can define the scope of the companies that must disclose. EU Member States have the ability to exempt PIEs from disclosing, if the required information was provided in a separate report.

The directive provides companies with the flexibility to also use a multitude of international, European, or national reference frameworks including the United National Global Compact (UNGC), ISO 26000, and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, among others. This legislation affects more than 6,000 companies within the EU, and has vastly expanded the prevalence of sustainability reporting. Currently, approximately 2,500 EU companies currently report on Environmental, Social and Governance (ESG) performance on a regular basis[4]. Under this directive, EU members were required to transpose the new rules into national law by December 2016. Companies subject to the legislation had to begin reporting under the new directive as of their financial year 2017[5,6].

1 https://www.ceres.org/investor-network/incr/sustainable-stock-exchanges

2 2016 Sustainable Stock Exchanges Initiatives 2016 Report on Progress: http://www.sseinitiative.org/wp-content/uploads/2012/03/SSE-Report-on-Progress-2016.pdf

3 Council of the European Union. Press release, Sept 2014. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/144945.pdf

4 Large European Companies Now Required to Provide Mandatory Environmental, Social and Governance (ESG) Disclosure – http://www.davispolk.com/briefing/corporategovernance/large-european-companies-now-required-provide-mandatory-environmental/

5 Council of the European Union. New Transparency Rules on Social Responsibility for Big Companies. Np, 26 Feb 2014. Web. <www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/141189.pdf

6 Official Journal of the European Union. Directive 2013/34/EU of the European Parliament and of the Council. 26 June 2013. <http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm

Table 1: 'Report or Explain' Topics Covered in the EU Directive

Based on the 'report or explain' model, the EU directive emphasises the following topics to be addressed:

TOPICS	SPECIFIC CONTENT INCLUDED IN THE DIRECTIVE
Environmental Matters	• Current and foreseeable environmental impacts • Health and safety impacts, as appropriate • Use of renewable energy and/or non-renewable energy • Greenhouse gas emissions • Water use • Air pollution
Social and Employee Aspects	• Actions taken to ensure gender equality • Implementation of fundamental conventions of the International Labour Organization (ILO) • Working conditions • Social dialogue • Respect for the right of workers to be informed and consulted • Respect for trade union rights • Health and safety at work • Dialogue with local communities • Actions taken to ensure the protection and development of those communities
Respect for Human Rights	• Information on the prevention of human rights abuses
Anti-Corruption and Bribery Issues	• Information on instruments in place to fight corruption and bribery
Diversity in Board of Directors	• Disclosure of diversity policies in relation to the administrative, management, and supervisory bodies concerning aspects such as age, gender, educational, and professional backgrounds

The UK's implementation of the EU Non-Financial Reporting Directive through the Companies, Partnerships and Groups (Accounts and Non-financial Reporting) Regulations 2016 demonstrates the upward trend of mandatory reporting. Beginning January 1 2017, companies defined by the Companies Act 2016 are required to report for the fiscal year. The non-financial statement must include information for understanding the company's development, performance, and position, in additional to its activity pertaining to the environment, company employees, social issues, human rights, anti-corruption, and anti-bribery at a minimum. The mandatory regulation also applies to parent companies where the aggregate number of employees for the group is greater than 500. The disclosure requirements must only be fulfilled once at the parent company level; each subsidiary is not required to report given the financial year of the parent and subsidiary end on the same date and the parent company's disclosure includes the undertaking of the subsidiary[7].

7 https://www.ceres.org/investor-network/incr/sustainable-stock-exchanges

Mandated reporting is occurring outside the EU as well.
The following table provides an overview of current and/or emerging sustainability reporting mandates in Asia, Africa, and North America.

Table 2: Mandated Reporting Outside of the European Union

COUNTRY	REPORTING MANDATE
Hong Kong	Effective 1 January 2016, The Stock Exchange of Hong Kong (SEHK) requires all listed companies to comply with the Environmental, Social and Governance (ESG) Reporting Guide, or provide public reasoning as to why the company does not comply. Additionally, beginning on 1 January 2017 the mandatory reporting for key performance indicators (KPIs) will also phase in[8].
Thailand	The Securities and Exchange Commission of Thailand mandates sustainability reporting for all listed companies. Companies must disclose their corporate social responsibility (CSR) operation on form 56-1 and their annual report[9].
India	The Securities and Exchange Board of India (SEBI) mandates listed companies to submit Business Responsibility Reports, which are to include Social, Environmental, and Economic performance. In addition, companies must submit Compliance Reports and a corporate governance report[10].
Indonesia	The Indonesian government requires listed companies to report on effects of the company's activities on society and the environment, or provide reasoning for not disclosing the information[11].
South Africa	The Johannesburg Stock Exchange (JSE) requires listed companies to annually report the extent of their compliance with the King Code, including sustainability and integrated reporting. Companies that fail to comply must submit reasoning as to why they refuse to report[12].
Malaysia	Bursa Malaysia issued amendments to the Main Market Listing Requirements relating to sustainability requirements in annual reports taking effect on a staggered basis over a period of 3 financial years, starting from 31 December 2016 to 31 December 2018. Under these amendments, listed companies are required to disclose a narrative statement of the management of material economic, environmental, and social risks and opportunities in annual reports[13].
Singapore	The Singapore Exchange (SGX) implemented mandatory sustainability reporting for all listed companies on a 'comply or explain' basis, to take affect from 2017 for reporting in 2018. The report must include the company's sustainability actions, identify environmental, social, and governance factors that affect business strategies, explain practices and performance, and set targets[14].
Taiwan	The Taiwan Stock Exchange Corporation (TWSE) implemented mandatory corporate social responsibilities reporting according to GRI G4 guidelines annually beginning in 2015[15].
United States	Released in December 2016, SASB's first annual State of Disclosure Report aims to better address material sustainability factors in SEC filings. According to the report, 81 percent of analysed disclosures indicate some level of disclosures in SEC filings. The report indicates the need for companies to not only place reporting in SEC filings, but report using tailored language[16]. At present, the SEC or other US regulators do not mandate sustainability reporting as outlined by SASB.

8 Environmental, Social and Governance Disclosure Requirements of Listed Companies: http://www.legco.gov.hk/yr15-16/english/panels/fa/papers/fa20160606cb1-994-4-e.pdf
9 http://www.sseinitiative.org/wp-content/uploads/2015/04/SET_Comm_Stake_Eng.pdf
10 https://bec.org.hk/files/images/BEC_advisorygroups/ESG_Scan_Summary_Key_Asian_Regions_SL_18August2015_Final_20150820.pdf
11 https://bec.org.hk/files/images/BEC_advisorygroups/ESG_Scan_Summary_Key_Asian_Regions_SL_18August2015_Final_20150820.pdf
12 https://www.jse.co.za/about/sustainability/regulator-influencer-advocate
13 http://www.sseinitiative.org/fact-sheet/bursa/

REGULATED DISCLOSURE MAY RESULT IN HAVING ESG DATA VERIFIED OR ASSURED.

Once mandated, sustainability data will become reported alongside financial data. In the meantime, market pressures continue to increase demand for ESG data to be assured. The assurance process of a report includes a review of sustainability management processes and final disclosures, with the overarching goal of increasing accuracy and reliability of information, while also meeting stakeholder concerns[17]. Data verification is the process of checking accuracy, specifically relating to environmental data. KMPG found that 62% of companies that report on carbon emissions invest in third-party assurance of their data[18]. Assurance is also evaluated as part of the CDP Climate Change scoring process.

As part of the verification process, an accredited third-party reviews both how the data was collected and what calculations were used. As an outcome of the verification process, the third party provides a "level of assurance" – such as limited, moderate, reasonable, or high – based on the standard used to verify the data. For carbon emissions data, leading verification standards include ISO 14064-3, AA 1000, and ASAE 3000[19]. There is a need for better and more accurate reporting, and the verification process has an important role to play. A study conducted by Vienna University of Economics and the Business Institute for Human Resources Management analysed labour and human rights indicators from the GRI framework. Of the 131 companies analysed from Forbes 250, only 11% of 85 of companies that claim to report on labour issues have indicators that support their claims.

For human rights indicators, only 20% of 62% of companies that claim to report this actually report. Another study conducted by Banarra, an Australian sustainability consultancy, also conducted a similar analysis of ten Australian companies, and reported similar results to the Viennese study. In 2011, Leeds University and Euromed School of Management conducted a study of over 4,000 sustainability reports where the data being reported within these reports was thoroughly examined.

The study revealed "unsubstantiated claims, gaps in data and inaccurate figures"[20]. Examples include an energy company reporting carbon emissions equivalent to four times the planet's entire carbon footprint; an auto company reporting more waste generated at their facility than exists on the planet; and parent and subsidiary companies not reporting on their most material environmental topics and data because they assume the other will claim and report it.

14 CSR Asia: http://www.csr-asia.com/csr-asia-weekly-news-detail.php?id=12594
15 http://www.twse.com.tw/en/about/press_room/tsec_news_detail.php?id=15960
16 https://library.sasb.org/state-of-disclosure-annual-report/
17 The external assurance of sustainability reporting. https://www.globalreporting.org/resourcelibrary/GRI-Assurance.pdf
18 https://assets.kpmg.com/content/dam/kpmg/pdf/2016/02/kpmg-international-survey-of-corporate-responsibility-reporting-2015.pdf
19 https://www.cdp.net/en-US/Respond/Pages/verification-standards.aspx
20 "Doing good - or just talking about it?" Society News. University of Leeds, 25 Nov. 2011. Web. 14 Apr. 2014. www.leeds.ac.uk/news/article/2696/&gt.

REGULATED DISCLOSURE MAY BE SET AT CERTAIN THRESHOLDS OF SCALE AND MAY NOT AFFECT MOST TRAVEL & TOURISM COMPANIES.

This is most obvious when a country's requirement originates from the stock exchange, and thus does not apply to those companies not publicly traded or seeking listing on exchange. Other country reporting schemes may have more comprehensive coverage of ESG topics but will set thresholds of income to determine which companies are required to report.

Furthermore, some government-regulated disclosure may have certain thresholds for size or beneficial ownership, excluding Small- and Medium-sized Enterprises (SMEs) or those without public (state) ownership. The proposed EU legislation is an example, with a threshold of 500 employees (the same employee threshold as France's Grenelle Act).

As the majority of tourism businesses are SMEs, they will not be subject to the same stringency or breadth of disclosure; however, the principles of reporting will still materialise, and some initiatives carry provisions and guidance for SMEs. Likewise, as many SMEs form part of the supply chain of larger tourism businesses, they will be engaged to address key topics when responding to supplier evaluation processes of larger companies. However, when examining these trends, Travel & Tourism companies should be cautious, as much of the bell-sounding itself is done by the sustainability reporting community, which itself stands to benefit from the buzz.

The final format and framework used for disclosure requirements should not be the immediate concern of listed Travel & Tourism companies, which can take preliminary steps to prepare for sustainability reporting that will ultimately be necessary regardless of the format or medium for sustainability reporting (see section 3 for further guidance).

2 REFINING TOPICAL COMPANY REPORTS

The topics companies report on are becoming more refined, prescriptive, and streamlined.

As the practice of sustainability reporting matures, reporting frameworks, guidelines, and standards are becoming more specific so that industries will hone in on the most material topics. The concept of materiality has becoming prevalent across leading sustainability reporting frameworks, including GRI, SASB, and CDP. GRI sets forth a recommended procedure wherein organisations assess which topics are most material as part of the sustainability report development process[21].

Companies also consider topics and indicators covered in available GRI sector supplements.

For example, in previous iterations of GRI guidelines, sector supplements had been developed for Airport Operators, Construction and Real Estate, and Event Organisers[22]. For Airport Operators, additional topics include Business Continuity and Emergency Preparedness, Noise, Service Quality, and Provision of Services or Facilities for Persons with Special Needs[23]. For Event Organisers, additional topics include Food and Beverage, Soft and Hard Legacies, and Inclusivity. Additional indicators and disclosures include (i) post-event initiatives, outcomes, and long-term impacts; (ii) types of impacts of initiatives to create a socially inclusive event and an accessible environment, and (ii) percentage of food and beverages that meet the organiser's policies or local, national, or international standards[24].

SASB represents an important evolution where sector-based materiality assessments would inform sustainability reporting in financial filings.

SASB utilises a materiality map wherein more than 40 sustainability issues are analysed in the context of the industries in its Sustainability Industry Classification System (SICS)[25], which maps to the Bloomberg Industry Classification System (BICS)[26]. SASB has identified ten thematic sectors: Health Care, Financials, Technology & Communication, Non-Renewable Resources, Transportation, Services, Resource Transformation, Consumption, Renewable Resources & Alternative Energy, and Infrastructure[27]. For each thematic sector, SASB Industry Working Groups have been established covering a set of industries within the sector. Travel & Tourism is largely grouped within the Services sector. Airlines are grouped within the Transportation sector.

21 Note that the GRI defines materiality as "the threshold at which Aspects become sufficiently important that they should be reported. Beyond this threshold, not all material Aspects are of equal importance and the emphasis within a report should reflect the relative priority of these material Aspects." (Part 2 of G4 Implementation Manual, pp. 11)

22 https://www.globalreporting.org/reporting/sector-guidance/sectorguidanceG4/Pages/default.aspx

23 https://www.globalreporting.org/resourcelibrary/GRI-G4-Airport-Operators-Sector-Disclosures.pdfsas

24 https://www.globalreporting.org/resourcelibrary/GRI-G4-Event-Organizers-Sector-Disclosures.pdf

25 www.sasb.org/materiality/determining-materiality/

26 www.sasb.org/industryclassification/sics/

27 www.sasb.org/industryclassification/sics/

Figure 1: SASB Industry Working Group for Hospitality & Recreation

THEMATIC SECTOR	INDUSTRY WORKING GROUPS	INDUSTRIES
Services	• Hospitality & Recreation (Note: Other Services Industry Working Groups cover Consumer Services and Media)	• Hotels & Lodging • Casinos & Gambling • Restaurants • Leisure Facilities • Cruise Lines

Incorporating multi-stakeholder feedback, SASB Provisional Standards for the Services and Transportation industries were published in 2014[28]. The following key issues per industry were identified as sustainability disclosure topics with associated accounting metrics:

Figure 2: SASB Disclosure Topics in Provisional Standards[29]

HOTELS & LODGING	CASINOS & GAMING	CRUISE LINES	AIRLINES
• Energy & Water Management • Ecosystem Protection & Climate Adaptation • Fair Labour Practices	• Energy Management • Responsible Gaming • Smoke-Free Casinos • Internal Controls on Money Laundering • Political Spending	• Fuel Use & Air Emissions • Discharge Management & Ecological Impacts • Shipboard Health & Safety Management • Fair Labour Practices • Accident Management	• Environmental Footprint of Fuel Use • Labour Relations • Competitive Behaviour • Accidents & Safety Management

CDP IS ALSO EVOLVING TO FURTHER EMPHASISE MATERIALITY AND MAY DEVELOP SECTOR-BASED REPORTING.

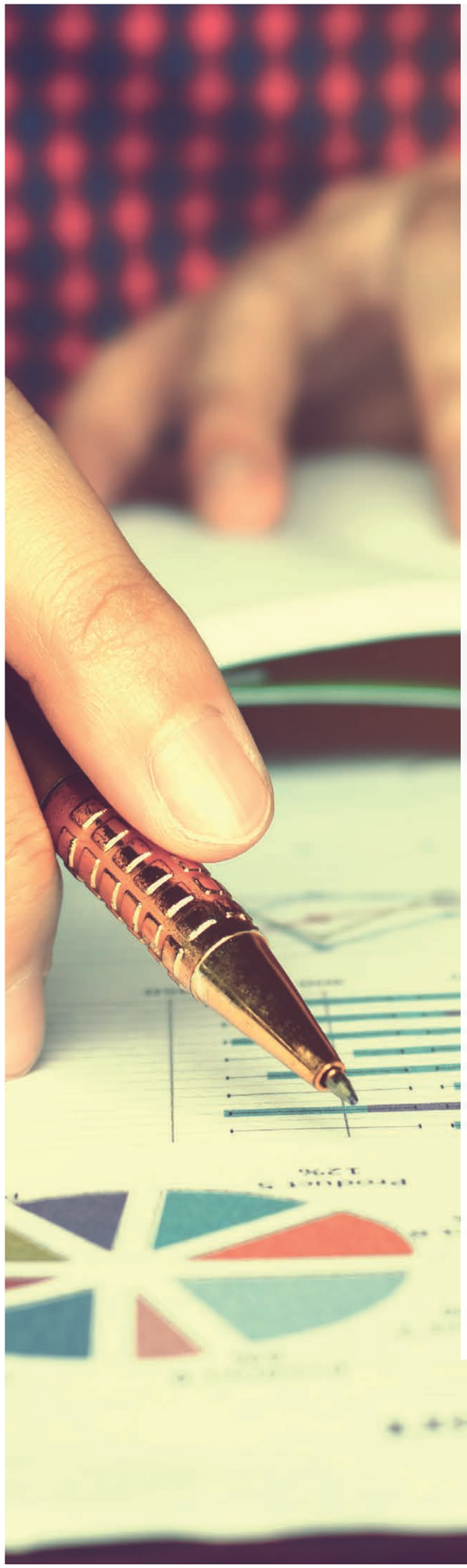
The concepts behind materiality have been embedded within the CDP information requests for several years, as companies have to report on prioritisation process and select from a series of potential risks and opportunities to describe. The CDP information requests now include more prescriptive dropdown menus to encourage companies to explicitly describe the degree of materiality for energy, water, and climate change to the organisation. The CDP also have modules for further reporting for the following sectors based on GISC classifications: Electric Utilities, Multi-Utilities, Oil & Gas Exploration & Production, Integrated Oil & Gas, Oil & Gas Refining & Marketing, Auto Parts & Equipment, Automobile Manufacturers, and Telecommunication Services & Information Technology. CDP has also added sector-based resources and assigns point-of-contact to companies based on sector. It is expected that CDP may eventually move to a more sector-based approach through the CDP's Climate Disclosure Standards Board[30], which is working in collaboration with SASB[31].

28 www.sasb.org/standards/status-standards/

29 http://www.sasb.org/sectors/services/ and http://www.sasb.org/sectors/transportation/

30 www.cdsb.net

31 www.sasb.org/approach/key-relationships/



Additionally, GRI has transitioned from guidelines to standards, creating the Global Sustainability Standards Board (GSSB), which may assist in the aggregation of emerging sector-based reporting standards[32].

Announced in 2014, the GSSB will have a separate governance structure to GRI and be tasked with "developing and approving the [GRI's] Sustainability Reporting Standards".
With the advent of SASB and more detailed sector-based disclosures, GRI's leadership has stated that "Its [the GRI's] role to ensure that there is cohesion in the marketplace with standards around the world[33]". In 2016, the new GRI Standards were announced[34] with active 2017 working groups to update Water, Occupational Health & Safety Standards, Economic Performance, Human Rights, and Waste in 2018 and beyond[35].

Supply chain reporting is also becoming more prescriptive.

The supply chain has always been part of a company's sustainability reporting and strategies; however, in recent years, a greater emphasis on supply chain responsibility has emerged – driven in part by GRI's addition to deeper supply chain disclosures. As part of the GRI process, organisations have to assess whether these aspects are material to them or their stakeholders, and suppliers are often considered to be key stakeholders.

CDP is an important lever through its Climate, Water, and Forests programmes. CDP works with large corporate purchasers to request supplier data (for both public and privately held companies) through its CDP Climate programmes. Supply chain disclosures are prevalent across all three CDP questionnaires: Climate Change, Water, and Forests. CDP Forests is uniquely supply chain driven, as it focuses on 'commodity-driven deforestation' – notably the purchases of timber, cattle, soy, and palm products.

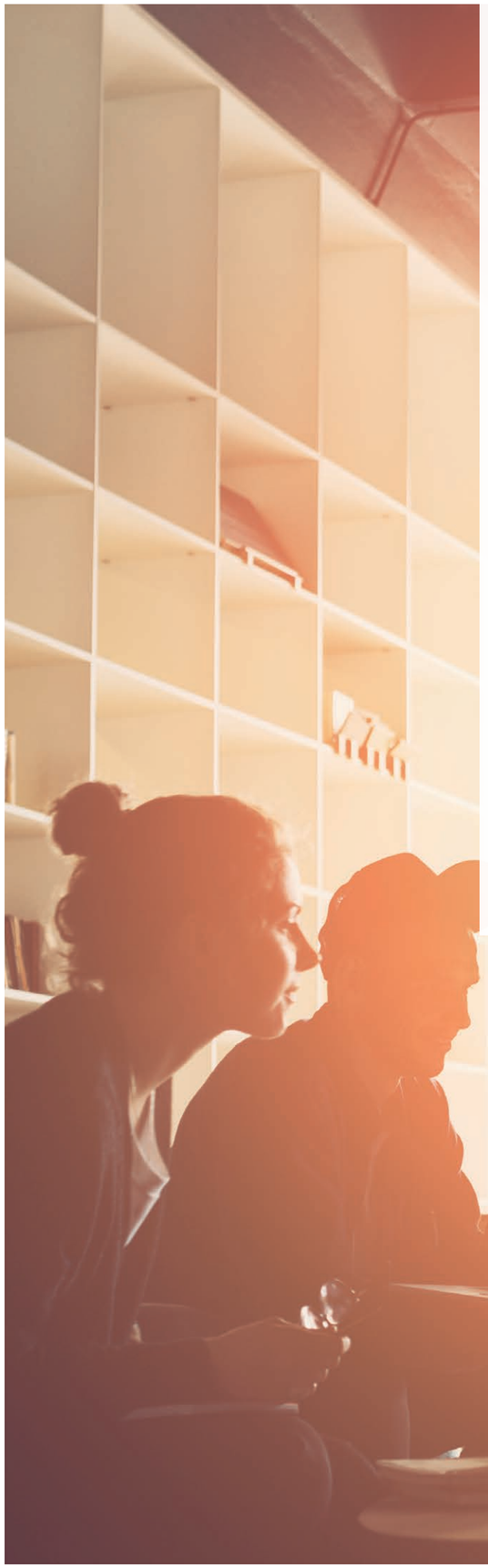
For social supply chain topics, the UK Modern Slavery Act is another lever. Under this Act, companies are required to disclose the steps, if any, taken to prevent slavery and human trafficking from taking place within operations or supply chains.

32 https://www.globalreporting.org/information/news-and-press-center/Pages/GRI-Forms-New-Governance-Structure-to-Catalyze-Sustainability-Reporting.aspx

33 'Michael Meehan and the future of sustainability reporting' http://www.greenbiz.com/article/michael-meehan-and-future-sustainability-reporting

34 https://www.globalreporting.org/information/news-and-press-center/Pages/First-Global-Sustainability-Reporting-Standards-Set-to-Transform-Business.aspx

35 https://www.globalreporting.org/standards/work-program-and-standards-review/

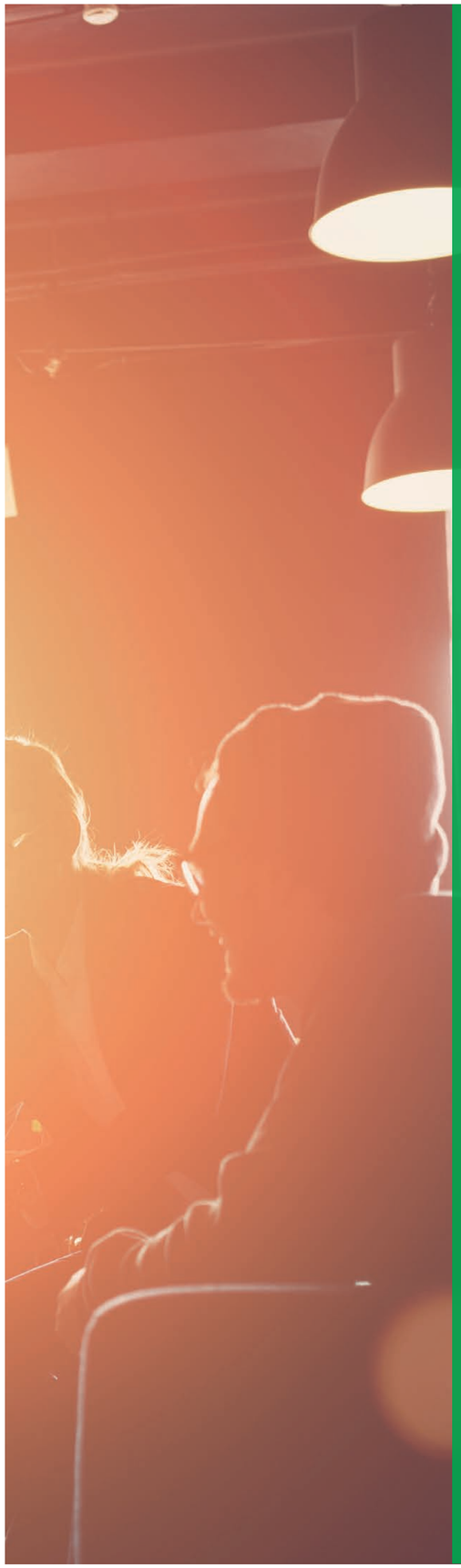


HARMONISATION OF INFORMATION IMPLIES APPLICATION OF SPECIFIC CONCEPTS AND ISSUES RATHER THAN FRAMEWORKS.

Though reporting will increase, it is highly unlikely that one specific sustainability reporting framework will satisfy the reporting needs of all Travel & Tourism businesses of various sizes globally (especially since inherent competition will exist among framework bodies and standards for their adoption). Thus the application of key reporting concepts and inclusion of common issues themselves can at least become harmonised. As a result, businesses could follow some type of reporting process and disclose content on a set of common issues.

Here Travel & Tourism is likely to see a general shift of focus away from the frameworks themselves and more on the discussions of key topics. As the current trends involved identifying a set of industry-specific material topics and reporting on the respective risks, opportunities, management approach, and generally accepted KPIs for those topics, information is becoming increasingly harmonised across leading ESG frameworks.

The frameworks may serve a distinct but often complementary purpose to one another. These frameworks may also compete for investor audiences and strive to fulfil their own business models.



INTEGRATED REPORTING HAS EMERGED IN VARIOUS FORMS, THOUGH NOT NECESSARILY USING THE <IR> FRAMEWORK.

In its Corporate Responsibility Reporting Surveys, KPMG cited general acceptance of integrated reporting as the "next destination for corporate reporting"; however, far-reaching adoption remains slow. While some companies included ESG information, particularly related to climate change, in financial reports, 11% of reporters published what they consider to be an integrated sustainability report and financial report in 2016[36].

Integrated reporting can be considered shorthand for the phrase integrated financial and non-financial reporting whereby the comprehensive scope of ESG issues and reporting concepts are embedded in the same reports where companies publish financial performance information. The term Integrated reporting has been championed by the International Integrated Reporting Council (IIRC) and its International <IR> Framework. This framework represents a forward-looking design to "adopt 'integrated thinking' as a way of breaking down internal silos and reducing duplication and improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital[37]". The <IR> Framework centres on the concept of value creation in the context of capital flows among the following types of "capital": financial, manufactured, intellectual, human, social and relationship, and natural capital. It also seeks to streamline current financial reporting mechanisms and lessen their complexity.

A difference, however, should be noted between the use of the term integrated reporting and the <IR> Framework, which can create confusion in the marketplace and requires clarification[38]. While many large companies are participating in the <IR> Pilot Programme, the use of the <IR> Framework is not mandatory to produce an integrated report. The companies presently publishing integrated reports do not necessarily follow this framework, nor is it embedded into current country stock exchange requirements. France is an example of a country that has had what can be considered integrated reporting for over a decade through its Grenelle Acts for "extra-financial reporting" requiring environmental and social performance to be included in annual reports; however, these requirements are not aligned with the <IR> Framework.

36 2015 survey: https://home.kpmg.com/xx/en/home/insights/2015/11/kpmg-international-survey-of-corporate-responsibility-reporting-2015.html

37 www.theiirc.org/international-ir-framework/

38 For an example, see the Johannesburg Stock Exchange Guidance Letter on Integrated Reporting dated 27 June 2013

3 EVOLUTION OF REPORT FORMATS

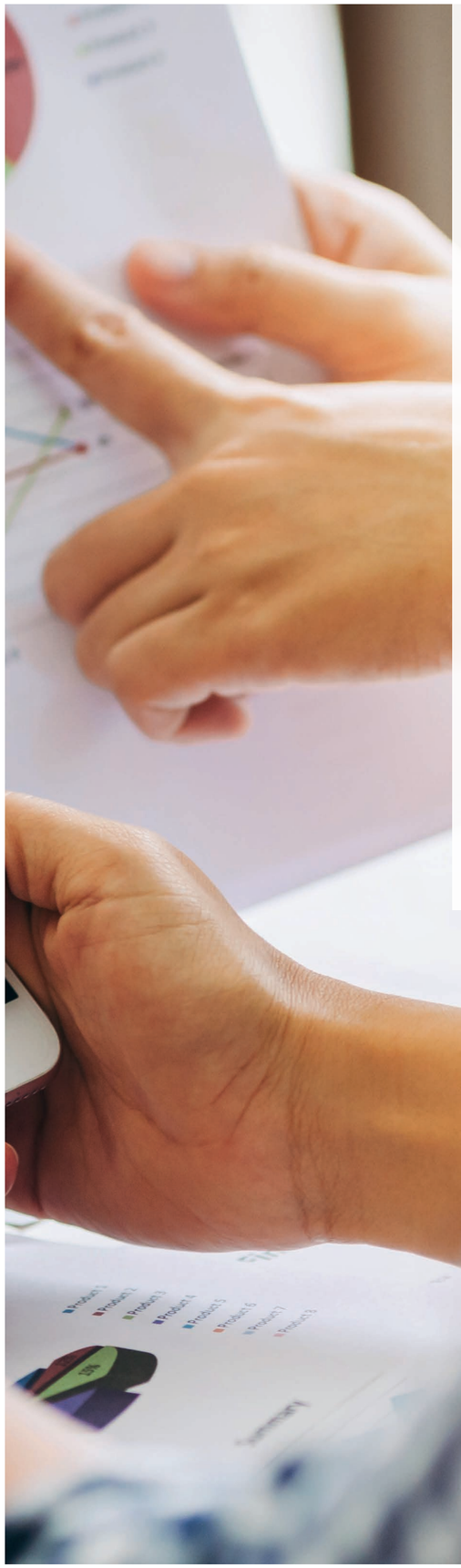
While the type of information reported is becoming more standardised, companies are evolving the report formats and content to match audiences.

There is a growing acknowledgement that few people read long reports page by page. Most audiences want key information that can be absorbed easily, clearly, and succinctly. This includes regulators and stock exchanges with sustainability reporting requirements as well as investors, analysts, customers, and often employees.

The result has been a movement toward more robust web-based reporting reflecting broader social trends on how information is accessed and digested. With the growth of web-based reporting, companies are finding ways to get more creative in the way reporting is used – illuminating the strong stories of positive impact and leadership, but also making the important but static information on management approach easily accessible as well.

GRI is used more as a guidepost than a specific prescription.

As the practice of sustainability reporting matures and evolves, there is a movement away from 'strict adherence to' and toward 'strategic alignment' with leading frameworks such as GRI. In fact, KPMG's 2015 Corporate Responsibility Reporting Survey reflects overall trends in increased sustainability reporting but noted a first-ever decline in use of GRI among the world's largest companies. While still the most popular voluntary framework (and used by nearly 75% of the Global 250), adoption among Global 250 reporters has declined from its 81% peak.



CONTENT IS BECOMING DISTRIBUTED ACROSS MULTIPLE SOURCES.

Companies are increasingly moving away from the practice of publishing a lengthy, singular PDF each year. Instead, companies are increasing transferring content on management approach for key topics into separate 'fact sheets' or 'issue briefs' as well as publishing more concise annual updates in the form of 'summary highlights' or 'annual scorecard' documents.

More information is also making its way on to more engaging and robust corporate responsibility webpages as well as annual financial reports, approximately 10% of which are 'integrated sustainability and financial reports'. Additionally, companies are creating separate robust reports to dive deeper into priority topics. Examples include Google's online Diversity Report[39] and Unilever's 64-page Human Rights Report[40].

As part of the trend, GRI Content Indexes are increasingly becoming published as valued standalone documents (rather than just as reference tables in the back of reports) to help direct readers to relevant information across an increasingly growing number of sources, as well as to place content directly within the index for quick access.

39 https://www.google.com/diversity/

40 https://www.unilever.com/sustainable-living/the-sustainable-living-plan/enhancing-livelihoods/fairness-in-the-workplace/advancing-human-rights-in-our-own-operations/

TOPIC-BASED REPORTING IS POLICY AND REGULATORY-DRIVEN (NOTABLY FOR DIVERSITY AND HUMAN RIGHTS).

Google's Diversity Report and Unilever's Human Rights Report illustrate how increased governmental policy and regulatory drivers develop the need for focused reporting on specific topics. In response to US policy efforts to increase the gender diversity in the technology sectors, leading technology companies are now publishing separate diversity reports. In response to the UK Modern Slavery Act, companies are opting to publish separate statements or reports on human rights with the best practice of demonstrating alignment with the 'Protect, Respect and Remedy' framework as set forth by the UN Guiding Principles on Business and Human Rights[41] as well as the OECD Guidelines for Multinational Enterprises[42]. Within Travel & Tourism, companies including Hilton and Hyatt are producing fact sheets that serve as mini-reports for specific topics, including diversity and human rights.

ESG RESEARCH FIRMS AND RATERS ARE OFTEN INTERESTED IN DISCLOSURES BEYOND THOSE COVERED IN REPORTING FRAMEWORKS.

A review of ESG research firms on a given company's ESG disclosures will often reveal interest in topics and disclosures that don't match exactly to frameworks such as GRI and SASB.

Diversity and human rights are key examples with more detailed requests in the new Corporate Human Rights Benchmark's pilot methodology[43] as well as the Human Rights Campaign (HRC) Corporate Equality Index (addressing LGBT workplace performance)[44]. Supply chain is also notable, as ESG research and raters are interested in more detail beyond the current GRI metrics of 'percentage of new suppliers screened on social and environmental criteria' each year.

With the launch of the GRI Standards as a more dynamic framework and the evolution of initiatives such as SASB, greater convergence between reporting frameworks and market-based demand for specific disclosures may occur.

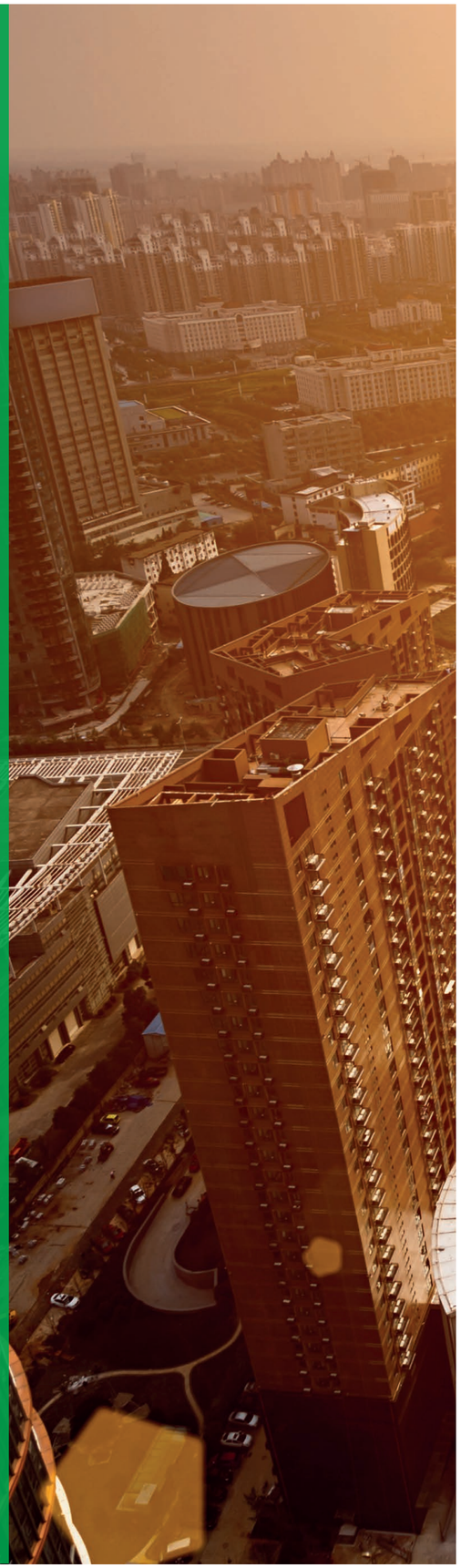
Nonetheless, companies are increasingly thinking outside the box and looking beyond the traditional sustainability reporting framework when defining content and metrics to disclose.

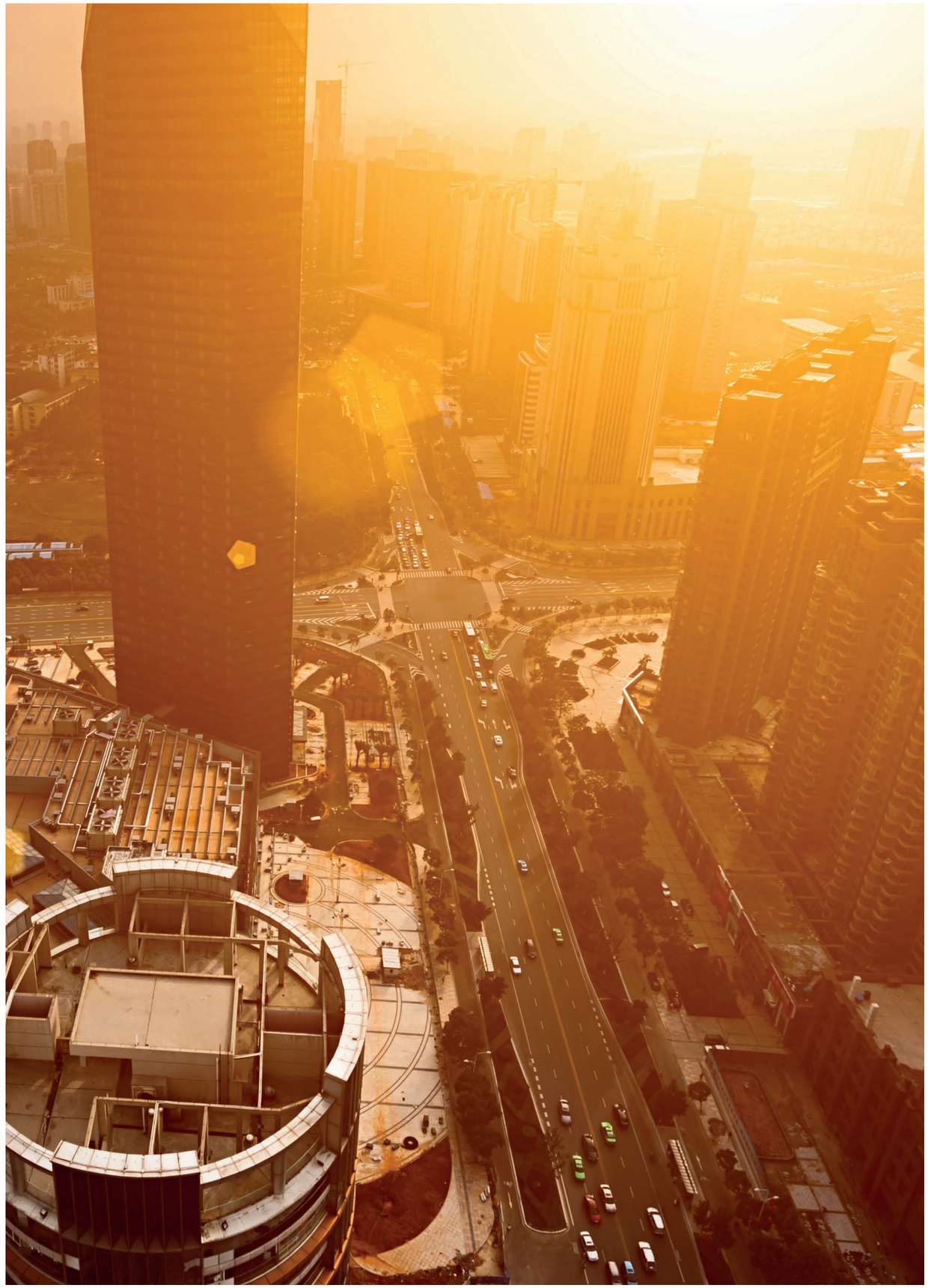
41 http://www.ungpreporting.org/wp-content/uploads/2015/02/UNGuidingPrinciplesReportingFramework_withimplementationguidance_Feb2015.pdf

42 http://www.oecd.org/corporate/mne/1922428.pdf

43 https://business-humanrights.org/sites/default/files/CHRB_report_06_singles.pdf

44 http://www.hrc.org/campaigns/corporate-equality-index





4 SUSTAINABILITY REPORTING, TACKLING COMMON CHALLENGES

Sustainability reporting is no longer just about the topics reported, but about how the organisation is tackling common challenges with common aims.

Increasingly, companies' ESG disclosures will not only cover how each company is addressing and performing on ESG topics but also explain what each company is doing to strengthen global commitments and work toward solutions as opposed to just managing impacts.

The United Nations SDGs are a primary driver behind the trends. Since the SDGs are global and all encompassing, they are augmented by policy and regulatory development for key sustainability topics – notably the Paris Agreement for climate change and the UK Modern Slavery Act covering human rights.

The UN SDGs have been a 'game changer'.

As the practice of sustainability reporting matures and evolves, there is a movement away from "strict adherence" and toward "strategic alignment" with leading frameworks, such as GRI. In fact, KPMG's 2015 Corporate Responsibility Reporting Survey reflects overall trends in increased sustainability reporting but noted a first-ever decline in use of GRI among the world's largest companies. While still the most popular voluntary framework (and used by nearly 75% of the Global 250), adoption among Global 250 reporters has declined from its 81% peak.

The dramatic corporate uptake and C-level enthusiasm for the SDGs has brought the initiative front and centre. The following statistics from a 2016 UNGC report[45] illustrate the current momentum and strategic influence of the SDGs:

- 87% of CEOs believe the SDGs provide an opportunity to rethink approaches to sustainable value creation.
- 70% see the SDGs providing a framework to structure sustainability efforts.
- 80% believe that demonstrating a commitment to societal purpose is an industry differentiator.

The SDGs cover a wide range of interrelated issues, which companies are increasingly committing to, including ending poverty and gender equality. Investors are also progressively interested in the areas covered by the SDGs; however, there is a need to better quantify the goals in a way that can produce an impact. The UNGC requested participating organisations to issue annual "communications on progress" relating to the goals.

In its annual State of Green Business Report, GreenBiz predicted that "the SDGs could become a de facto standard against which companies will be judged going forward. No doubt they will become the basis for benchmarks, scorecards, and ratings by activists, investors, and media seeking to identify leaders and laggards."

45 https://www.unglobalcompact.org/system/attachments/cop_2016/291501/original/UN_Report_2016_Submission.pdf?1465483246

Figure 3: UN Sustainable Development Goals

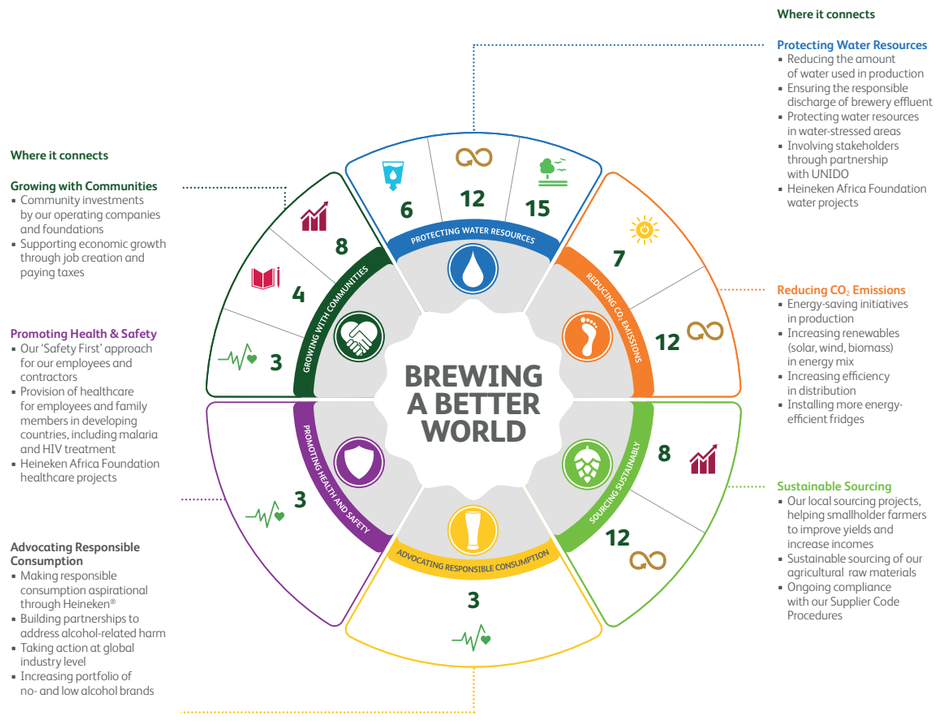
The SDGs essentially serve as an ESG platform for the entire planet with individual companies' ESG programmes feeding into this framework leading up to 2030. As such, companies are increasingly referencing the SDGs in their sustainability disclosures – including how they are positioning their goals and overarching strategy and commitments.

Figure 4: Heineken SDG Infographic[46]

Spotlight on Sustainable Development Goals

In September 2015, the UN's General Assembly agreed on the 2030 Agenda for Sustainable Development. The Agenda contains 17 global Sustainable Development Goals (SDG) plus 169 accompanying targets.

Subsequently we reviewed our strategy internally against the SDGs. Our analysis of current policies and activities highlighted how our strategy directly relates to and supports several of the 17 SDGs.



Good health and well-being – 3
Ensure healthy lives and promote well-being for all at all ages.

Quality education – 4
Ensure inclusive and equitable quality education and promote learning opportunities for all.

Clean water and sanitation – 6
Ensure availability and sustainable management of water and sanitation for all.

Affordable and clean energy – 7
Ensure access to affordable, reliable, sustainable and modern energy for all.

Decent work and economic growth – 8
Promote sustained, inclusive and sustainable economic growth, full & productive employment and decent work for all.

Responsible consumption and production – 12
Ensure sustainable consumption and production patterns.

Life on land – 15
Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation and halt biodiversity loss.

46 Heineken N.V., Sustainability Report 2015

REPORTING ITSELF IS VIEWED AS A MECHANISM TO SUPPORT THE UN SDGS.

The 2030 Agenda for Sustainable Development and SDGs aim to stimulate action around critical areas concerning humanity and the planet. To better help businesses understand the SDGs and adopt policies to support the goals, the UNGC, the World Business Council for Sustainable Development, and GRI created the SDG Compass. The compass presents five steps to maximise contribution to the SDGs, from Understanding the SDGs to Reporting and Communicating[47].

The GRI UN SDGs Target 12.6 Live Tracker follows the progress of sustainability reporting around the world. This in turn allows companies to determine which national government initiatives, such as market regulations, policies, and legislation, require companies to disclose or report on non-financial factors [48].

47 http://sdgcompass.org/

48 http://database.globalreporting.org/SDG-12-6/Global-Tracker

COMPANIES ALSO CONSIDER TOPICS AND INDICATORS COVERED IN AVAILABLE GRI SECTOR SUPPLEMENTS.

In alignment with the SDGs and to support the Paris climate agreement, companies are increasingly making public commitment to "combat climate changes". These commitments include:

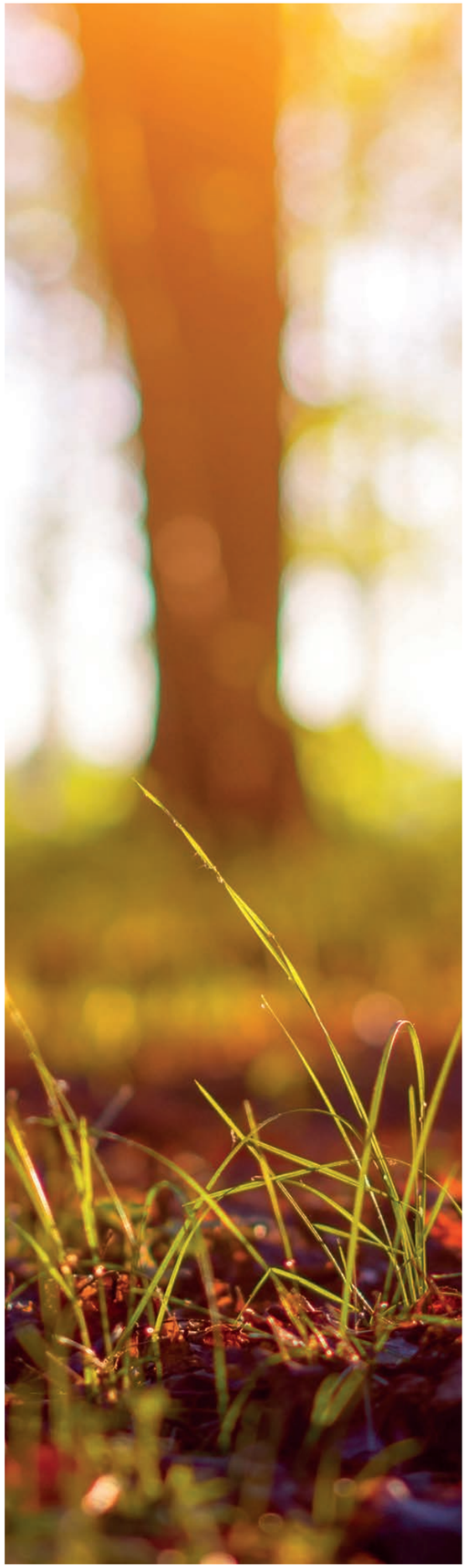
- **'Science-Based' Carbon Reduction Targets:** 200+ companies have targets that have been approved by the Science-Based Targets Initiative. Large consumer brands (including P&G, Coca-Cola, Pepsi, L'Oréal, Puma, Sony, and Walmart) have been early adopters. Travel & Tourism early adopters include Caesars Entertainment and Host Hotels & Resorts.
- **Renewable Energy:** Companies (including London's Heathrow and Gatwick Airports, BMW, Goldman Sachs, H&M, Nike, Facebook, and Google) have committed to 100% use through RE100.
- **We Mean Business coalition:** Over 500 companies (including Meliã Hotels International, NH Hotels, and TUI Group) have joined the campaign to "create a low carbon revolution" in tandem with CDP Commit to Action programme.
- **Paris Pledge for Action:** 1,300 companies, cities, investors, and organisations (including Air Transport Action Group, Heathrow Airport, and Hotels of Iceland) have joined a pledge in support of the Paris climate agreement.

Overlap exists among these public climate change commitments. The CDP Commit to Action is most comprehensive with a set of ten commitments (as of 2017), which include adopting a science-based target, growing the market for more sustainable fuels, removing short-lived pollutants, removing deforestation from supply chains, pricing carbon, reporting climate change information in mainstream reports "as a fiduciary duty", developing low-carbon technology partnerships, aligning business growth and development objectives, responsible corporate engagement in climate policy, committing to 100% renewable energy use, and improving water security.

Additional environmental commitments, including the CEO Water Mandate and New York Declaration on Forests, exist. Social commitments are becoming more prevalent as well, such as the ILO Global Business and Disability Network Charter[49], for which signatories include AccorHotels, IBM, and L'Oréal. At the heart of the UK Modern Slavery Act's request for disclosures is a desire for companies to state "What are you doing about this issue of human rights specifically?" Increasingly, demonstrating actions is reflected by making public commitments, notably to the UN Universal Declaration of Human Rights and ILO Standards.

Ultimately, the growing practice of companies making public commitments specific to individual ESG topics lends itself to more focused disclosures on how each company is executing against these commitments. There is also a spirit of increased global collaboration and coordination as other companies (including industry peers) often work toward the same stated commitments.

49 http://www.businessanddisability.org/index.php/en/about-the-network/charter



BOLD GOALS ARE BECOMING EVEN BOLDER AND THE FOCAL POINT FROM WHICH SUSTAINABILITY REPORTS ARE STRUCTURED.

While companies make shared, public commitments alongside industry peers, they attempt to differentiate themselves through a set of 'bold goals'. Bold goals are becoming more commonplace and critical for organisations that aim to generate value and credibility from their ESG programmes. For example, a 2016 Advanced Energy Economy report found 71% of Fortune 100 companies have set renewable energy or sustainability targets.

Inspired by the SDGs and the Paris Agreement, a new generation of bold sustainability targets, which are more serious and action-oriented, are rapidly emerging. Examples include Kaiser Permanente's goal to become "carbon net positive," Sony's goal to have zero environmental impact throughout the entire product life cycle, and Timberland's goals to have 100% sustainably certified products as well as 1.5 million volunteer hours across 11,000 community service events over the course of five years.

Increasingly, readers of sustainability reports look to find information on goals as a starting point when reviewing ESG disclosures. Companies with well-defined and tracked goals usually centre their reporting practices around why their goals are important, what progress has been made toward their goals, and what performance metrics guide their assessment on current progress against goals.

Supply chain reporting is also becoming more prescriptive.

An organisation's supply chain is perceived as an area of greatest impacts, risks, and opportunities across sectors. This includes Travel & Tourism, where supply chain has been cited as accounting for up to 76% of the impacts associated with travel and leisure[50].

As such, companies reporting on 'bold goals' and commitments increasingly consider supply chains. There are several examples of companies leading the way for sustainable supply chain innovations across different industries:

- **Walmart's** integrated sustainability index with its partnership with The Sustainability Consortium now encompasses 300 product categories across 5,000 suppliers, with that number growing each year. Through the index and setting goals for suppliers, Walmart aims to reduce fertiliser use on agricultural products for 14 million acres of US farmland by 2020 and expand the index efforts in its Chilean and Mexican markets[51].
- **Unilever** holds a unique position in the consumer goods industry, as a company that integrates life cycle analysis with its strategic sustainability goals. Unilever has a goal to halve water associated with consumer use in its products by 2020. This goal is achieved through efforts on creating innovative products that reduce water use at the consumer end, and also at the back end by reducing water used during the manufacturing phase – all of which factors into a product's life cycle analysis within the supply chain[52].
- **Nike** has invested in developing a waterless dyeing technology to manufacture its textiles that will significantly change the textiles industry[53].
- **Timberland** not only audits and ensures vendor sustainability through environmental, social, and labour management audits but also reports results regarding these audits on a quarterly basis[54].
- **Nestlé** was also one of the first movers to pledge to source sustainable palm oil for its supply chain. Palm oil is found in many food products and consumer goods, and is driving rapid deforestation[55].
- **Starbucks** has engaged Conservation International to monitor its C.A.F.E. Practices for suppliers – this supports Starbucks' bold goal to ethically source 100% of its coffee[56], the KPI for one of Starbucks' four defined focus areas for sustainability.

Within Travel & Tourism, a leading example is **Royal Caribbean's** partnership with the WWF to establish and execute toward six 2020 sustainable seafood targets and two 2020 commodity procurement targets[57].

As if an organisation's supply chain was not complex enough, there is also growing shift in terminology toward 'value chain' to encompass customer impacts – notably health, safety, and wellness as well as data privacy protection. Within Travel & Tourism, guest engagement is also correlated to managing environmental impacts – particularly with regard to energy, water, waste, and biodiversity.

For this reason, downstream impacts that cascade to customers and communities are also considered when reporting on progress to address global challenges. For example, Travel & Tourism companies partner with ECPAT International[58] and the Polaris Project[59] to address sexual exploitation and human trafficking due to value chain impacts as opposed to direct operational impacts. Much of the work to promote sustainable tourism is also framed from a broader value chain perspective.

50 GreenBiz Group Inc. State of Green Business 2014, pp. 40, 79.

51 'Walmart Highlights Progress on the Sustainability Index.' Walmart Corporate. Np, 12 Aug 2013. Web. 24 Mar 2014. <news.walmart.com/news-archive/2013/09/12/walmart-highlights-progress-on-the-sustainability-index>

52 'Our Water Footprint.' Unilever. Np, nd Web. 24 Mar 2014. <www.unilever.com/sustainable-living/water/footprint/index.aspx>

53 'NIKE, Inc. Announces Strategic Partnership to Scale Waterless Dyeing Technology.' NIKE, Inc. Np, 7 Feb 2012. Web. 24 Mar 2014. <nikeinc.com/news/nike-inc-announces-strategic-partnership-to-scale-waterless-dyeing-technology>

54 'Supplier Sustainability.' Timberland Responsibility. Np, nd Web. 24 Mar 2014. <responsibility.timberland.com/factories/supplier-sustainability/>

55 'Palm Oil Scorecard: Ranking America's Biggest Brands on Their Commitment to Deforestation-Free Palm Oil.' Union of Concerned Scientists, 3 Mar 2014. Web. 24 Mar 2014. <www.ucsusa.org/global_warming/solutions/stop-deforestation/palm-oil-scorecard.html>

56 Starbucks: http://www.conservation.org/partners/Pages/starbucks.aspx

57 Royal Caribbean: http://www.worldwildlife.org/partnerships/royal-caribbean-cruises-ltd

58 ECPAT International: http://www.ecpat.org

59 Polaris Project: http://polarisproject.org

PARTNERSHIPS AND INDUSTRY COLLABORATIONS ARE INCREASINGLY PART OF HOW COMPANIES REPORT ON ESG MANAGEMENT APPROACHES.

Within the UN SDG framework, an underlying premise is that partnerships and collaborations are a critical means toward achieving the goals. There are numerous working groups associated with each of 17 goals and 169 targets. In fact, UN SDG's final goal – SDG 17 – is centred around "Partnerships for the Goals". This is because there is a view that partnership can enable companies and communities to accelerate progress.

In the context of Travel & Tourism, a spirit of partnership underlies industry efforts to promote sustainable tourism. For example, partnerships are central to the 2017 International Year of Sustainable Tourism for Development platform[60]. Aligned with the UN SDGs, the initiative is focused on five key areas:

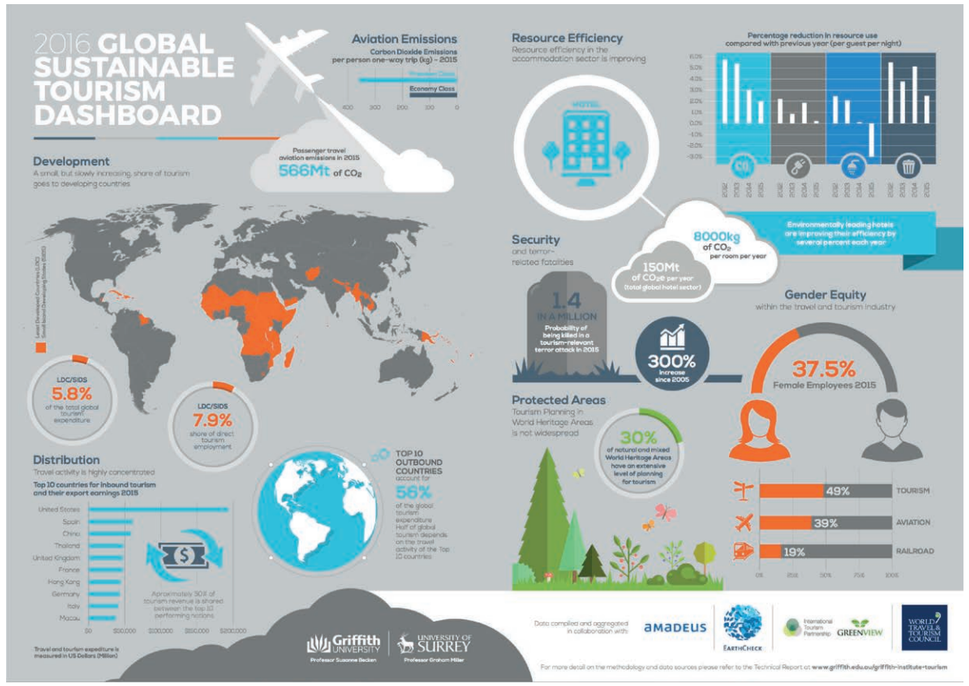
1. Inclusive and sustainable economic growth
2. Social inclusiveness, employment, and poverty reduction
3. Resource efficiency, environmental protection, and climate change
4. Cultural values, diversity, and heritage
5. Mutual understanding, peace, and security

These key five areas are captured, in part, by the Global Sustainable Tourism Dashboard, which also aligns with the SDGs[61]. The use of this type of dashboard enables Travel & Tourism organisations to identify the role that they are playing within the context of industry. Topics with metrics covered by the Global Sustainable Tourism Dashboard include economic development, carbon emissions, gender equity, security and culture, and heritage protection.

60 http://www.tourism4development2017.org

61 http://tourismdashboard.org

Figure 5: 2016 Global Sustainable Tourism Dashboard[62]



In sustainability reporting, companies are increasingly identifying partnerships that can support prioritised SDGs as well as performance to support industry metrics. Additionally, companies are increasingly integrating the role of partnerships in their narrative and descriptions of management approaches. It is worth noting that partnerships are particularly prevalent in addressing supply chain issues.

62 https://www.griffith.edu.au/__data/assets/pdf_file/0007/932155/GlobalTourismDashboard2016-Infographic.pdf

Figure 6: Starwood List of Global Citizenship Partners[63]

GLOBAL CITIZENSHIP
PARTNERS

Across our Global Citizenship efforts, we work with a wide range of partners, including not-for-profits, educational institutions and other corporations to further our shared goal of creating a better world. Below we include a few of our key global collaborations.

CLEAN THE WORLD (CTW)
In 2011, Starwood became the first corporate partner to join Clean The World's efforts to promote a global hygiene revolution through the collection and recycling of hotel soaps, shampoos, conditioners, lotions and gels. Through January 2016, Starwood's partnership with Clean The World has recycled and donated over 524,000 pounds of soap and over 433,000 pounds of bottled bathroom products to impoverished communities around the world, helping over 736,000 children live healthier lives.

COCA-COLA
In 2013, Starwood expanded our existing partnership with Coca-Cola to focus on global sustainability issues through resource management as both partners share several common sustainability objectives including the need to reduce the environmental impact of their overall business, develop sustainable products and services that meet customer needs and create an operating framework and culture committed to sustainability.

CONSERVATION INTERNATIONAL
In 2009, Starwood launched a global partnership with Conservation International that led to Starwood's initial environmental strategy and helped to establish performance targets and underlying actions to conserve water, reduce energy consumption, enhance indoor environmental quality, and minimize waste. Additionally, in 2012, through an internal best practice competition, we donated more than $47,000 to Conservation International's Save a Mile of Ocean initiative.

ECOLAB
In collaboration with Ecolab, Starwood developed a list of sustainable cleaning products and operational processes aimed at improving indoor environmental quality (IEQ) in our guest rooms through housekeeping. This list serves as a resource for all Starwood hotels around the world to source cleaning products that contribute to the health of our guests and the planet.

NEW ENGLAND AQUARIUM (NEAQ)
Continuing our work to promote sustainable food & beverage in our properties, Starwood is partnering with New England Aquarium to advance seafood sustainability while increasing subject matter awareness and providing education to our properties' food & beverage and procurement departments.

NRG ENERGY (NRG)
In 2013, Starwood announced a global alliance with NRG Energy to expand the use of solar energy systems at our properties. This alliance will allow Starwood to reduce our electricity costs, lock in predictable future energy costs, and reduce our carbon footprint and GHG emissions.

SOUTH POLE CARBON
To advance our emission reduction strategy, Starwood is partnering with South Pole Carbon as our global carbon offset partner, providing guests and meeting planners the ability to offset their carbon footprint by donating to a South Pole Carbon accredited sustainability project.

SUSTAINABLE FISHERIES PARTNERSHIP (SFP)
Mindful that our operations can put sensitive areas we operate in at risk, Starwood is partnering with Sustainable Fisheries Partnership to help improve biodiversity and ocean ecosystems through locally based fishery improvement projects.

THE NATURE CONSERVANCY
Committed to protecting the ecosystems in regions where we operate, Starwood supports The Nature Conservancy, one of the world's largest conservation organizations, in its efforts to identify and protect at-risk areas of land and water around the globe.

UNICEF
As one of our longest standing partners, UNICEF collaborates with Starwood on fundraising programs including Check Out for Children™, Road to Awareness™ and associate fundraising events, in which our guests and associates have helped us raise over $30 million since 1995 to improve the lives of millions of the world's most vulnerable children.

63 http://www.starwoodhotels.com/corporate/about/citizenship/partners.html?language=en_US

5 WIDENING THE GAP BETWEEN LEADERS

The gap is widening between leaders and laggards in reporting.

As some companies have now been reporting for nearly 10 years, and in some cases 20 years, their sustainability platforms (including strategies, goals, engagement methods, partnerships, and disclosures approaches) have evolved. Among new sustainability reporters, some will struggle to 'catch up' whereas others will 'leapfrog' to mature reporters with a fresh approach born in the post-SDG environment for ESG disclosures.

Regardless of the maturity of a company's programmes, the quality of content to do with how an organisation presents its sustainability strategy and performance is increasingly beginning to diverge dramatically.

On one end of the spectrum
are the companies with general boilerplate language on topics, outdated terminology, and vague goals and objectives.

On the other end are the new leaders in the sustainability reporting – these companies demonstrate a clear understanding of key ESG issues, contextualise the ESG issues within business growth strategy and/or organisational purpose, articulate the role that they intend to play, and can provide specific metrics and examples of the actions taken and progress made.

Reporting approaches reflect changing characteristics for ESG leadership.

In the GlobeScan/SustainAbility (GSS) 2016 Sustainability Leaders Survey[64], the authors concluded that drivers of corporate leadership include the following:

1. Applying the SDGs as a lens for setting sustainability goals.
2. Articulating the vision for the company's sustainability contribution.
3. Applying ambitious goals and measures of performance.
4. Pursuing a business breakthrough model that drives "net positive benefit".
5. Demonstrating expression of sustainability strategy through products and services.
6. Collaborating with other organisations for system-level changes.
7. Using brand to shift consumer behaviour.

Leaders named in the GSS 2016 Sustainability Leaders Survey included Unilever, Interface, IKEA, Tesla, Nike, and Patagonia. These new characteristics of leadership are reflected in how these and other leading companies are reporting. A web-based approach is used to tell each company's story of why they are committed to ESG topics, which topics they have prioritised, which specific bold goals drive their sustainability platforms, how they are organised o execute these (including who their partners are), and what progress they are making each year.

64 2016 GSS Sustainability Leaders Survey: http://www.globescan.com/component/edocman/?view=document&id=250&Itemid=591

THE CHALLENGE FOR SUSTAINABILITY REPORTERS IS HOW TO BALANCE STYLE, SUBSTANCE, AND SIMPLICITY IN SUSTAINABILITY REPORTING.

Following the Paris climate agreement and corporate enthusiasm for the SDGs, a 'race to the top' in bold goal setting is occurring. As such, bold targets are becoming more commonplace and critical for organisations that aim to generate value and credibility from their sustainability endeavours.

Readers of sustainability reporting are increasingly able to distinguish companies with more limited aspirations and/or actions on key environmental and social topics. While goal-based reporting is emerging, companies in theory should be focused on their goals. However, the reality is that stakeholders are interested in a wider range of information on management approach regarding numerous topics.

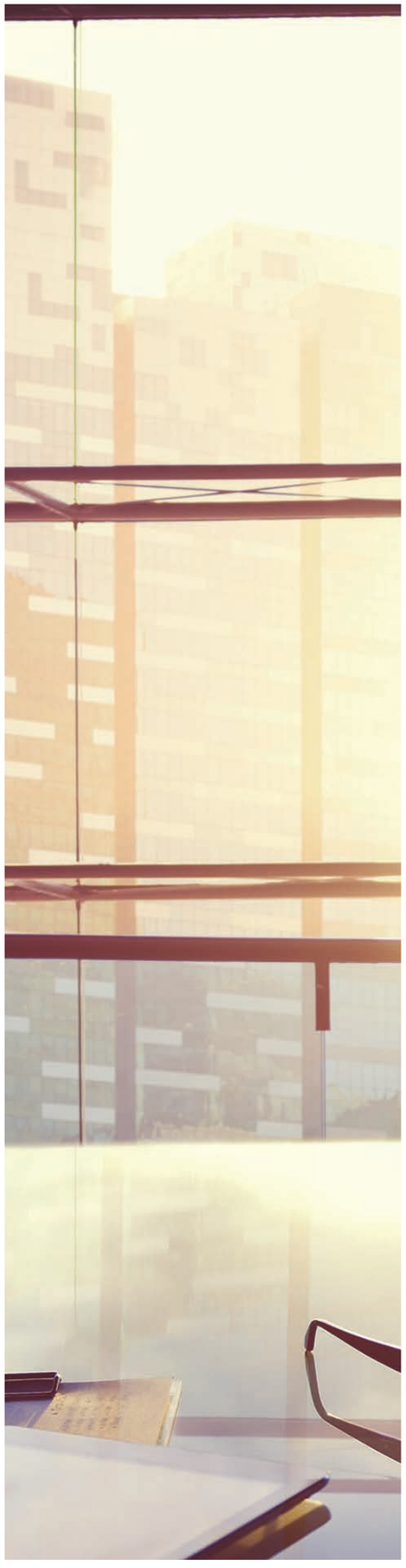
INDUSTRY BENCHMARKING IS BECOMING MORE PRECISE AND DEFINITIVE.

Similar to financial metrics, such as operating margins, earnings before interest, tax, depreciation, and amortisation (EBITDA) and return on equity, ESG research firms and sophisticated audiences, including media and advocacy groups, are now able to make industry comparisons for key ESG metrics. This is possible because industry-wide data sets over several years are now available. Additionally, stakeholders have numerous tools and resources available to support benchmarking.

Examples of ESG metrics that lend themselves to easier industry benchmarking include carbon emissions, water consumption, community investments, and women in executive management and on board. Stakeholders can now make annual assessments, such as:

- How aggressive are a company's environmental targets compared to peers?
- How environmentally intensive are a company's operations compared to peers?
- How does the rate and velocity of a company's progress to reduce environmental impacts compare to peers?
- Is the company a laggard or a leader in terms of community investments and gender diversity and inclusion?

The widespread availability of information means that companies can be compared, scored, or flagged for how they're doing on specific issues or goals. This can have positive implications as leaders will be rewarded, and negative implications as laggards will be more easily recognised. With the momentum toward science-based targets, this phenomenon will be especially true. Whereas five to seven years ago any company with a reduction target was a leader, now companies' targets and performance against targets are and will be increasingly scrutinised in comparison to peers.



SUSTAINABILITY REPORTING LEADERS BENEFIT FROM TAKING THE TIME TO CLEARLY ORGANISE AND FRAME THEIR PROGRAMMES.

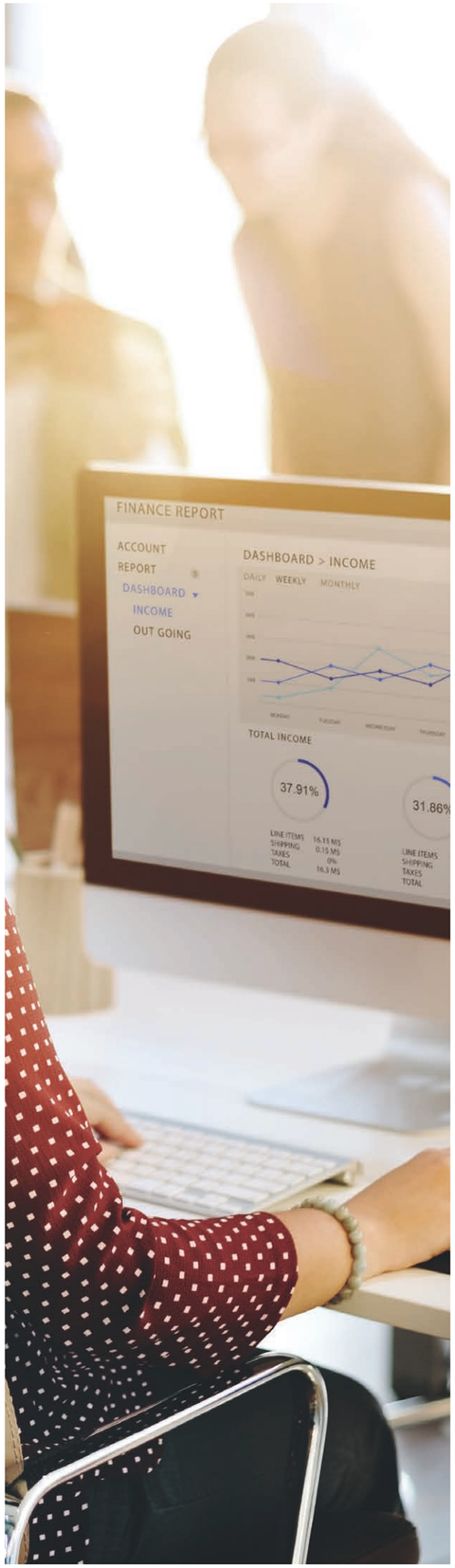
Abraham Lincoln is quoted to have said "Give me six hours to chop down a tree and I will spend the first four sharpening the axe". This principle can be applied to sustainability reporting.

Organisations will benefit from identifying a clear, concise set of focus areas where bold action can be taken. When assessing focus areas, companies should not shy away from supply chain and community issues, where the company can make a measurable difference – even if these issues are controversial or challenging.

With 17 goals and 169 targets, the SDGs can also be used as a tool to align corporate focus areas and commitments in addition to creating stakeholder engagement opportunities. Once a clear, concise set of focus areas has been established, a set of bold 'headline' goals with quantifiable metrics should be established for each focus area. To assess the level of boldness, companies can benchmark their commitments against shared industry commitments and prioritise partnership as a means to achieve their ESG goals.

Additionally, these bold goals and focus areas can come to life by crafting an overarching statement of purpose or mission to contextualise these commitments. The most powerful statements of purpose are those that are truly unique and authentic to an organisation's strengths, capability, and risk/opportunity profile. Additionally, goals and focus areas can be developed from a process-based lens (in addition to a topic- or materiality-based lens). In short, companies can benefit from asking not only "What are we going to do?" but also "How are we doing to do it?" when developing bold goals.

All management actions and communications can cascade down from the streamlined set of bold goals, and supporting KPIs (or 'impact metrics') can be used to track progress on specific programmes and actions. Perhaps most compelling, the bold sustainability targets can be used to guide, challenge, and empower employees across locations of operations to support the ESG platform and disclosures. At the local level, employees can address important issues – such as water scarcity, education, deforestation, biodiversity, and climate adaptation – through local engagement in a more targeted way that directly supports global sustainability targets.



SECTOR OUTLOOK, IMPLICATIONS, AND OPPORTUNITIES.

Sustainability reporting will continue to grow as a key component of a company's sustainability platform. For Travel & Tourism, it is important that those reading the reports and pulling ESG data understand the context and nuances of the sector. Arguably, 'every sector is different'; however, the particulars of Travel & Tourism should be expounded for proper ESG analysis. The ESG research community did not necessarily (and arguably still does not) understand the business models or metrics of Travel & Tourism industries. For example, hotels and tour operators were placed in the same competing sub-sector as restaurants in the Dow Jones Sustainability Indices until recently. Also, ESG analysis firms did not understand the fragmented business model often found in the hotel industry, and would pejoratively evaluate lodging Real Estate Investment Trusts (REITs) for a lack of programmes and disclosure despite them not operating the hotels themselves (and in some countries being legally restricted from operational action). WTTC Members supporting this research also offered anecdotal stories of data analysis firms inaccurately estimating their energy, water, and carbon data by a factor of 10.

Broader yet important is the development of common understanding of ESG disclosure in service sectors. It can be argued that the GRI and some of the CDP responses have their frameworks skewed toward companies that produce goods. The term 'locations of operations' can reach over 100 countries for travel companies, and data capture systems are more cumbersome. Similarly, training is an intrinsic concept in service industries, with training a key operating procedure and focus of the majority of Travel & Tourism businesses, so inherent that most of it is not formally tracked. Should companies be required to start tracking each instance of training, including daily 10-minute operational briefings? Further topic discussion, collaboration, and research can help provide awareness around the nuances of these types of issues within Travel & Tourism. On the other hand, Travel & Tourism will have to increase attention to key labour topics that may be highly relevant and impactful to the business and stakeholder, but not reported because of either unwillingness to publicly state information, or a lack of data capture mechanisms.

At present, in both national and multinational levels, the topic of sustainability reporting has not been particularly addressed within travel industry associations and working groups in general. In addition to supporting performance measurement for carbon, these groups could provide benefit to members by increasing resources, collaboration efforts, policy recommendations, and support to help companies approach the wide spectrum of reporting.

Finally, the role of Travel & Tourism itself in generating economic growth, jobs, and its effects on destinations, both positive and negative, can adapt the concepts of ESG and sustainability reporting and apply them to sustainable tourism. The WTTC took the first step in this direction with the recently released report, Understanding the Critical Issues for the Future of Travel & Tourism, wherein the material issues for the sector overall have been mapped, with the three critical issues identified: climate change, destination degradation, and disruption. As one of the world's largest sectors and with a robust and dynamic value chain, Travel & Tourism can leverage the trends and lessons learned in sustainability reporting across its value chain to approach its key issues.

WORLD TRAVEL & TOURISM COUNCIL

THE AUTHORITY ON WORLD TRAVEL & TOURISM

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