Must do better!

Co-operative Business New Zealand ESG and sustainability reporting 2022

KPMG New Zealand

March 2023

Editorial

The International Co-operative Alliance defines co-operatives as people centred enterprises owned, controlled, and run by and for their members to realise their common economic, social, and cultural needs and aspirations.

Co-operatives, unlike many corporate counterparts, inherently have purpose embedded in their organisational DNA.

That purpose has traditionally meant they have thought beyond profitability and return on capital and placed focus on the role they play in enabling their members to deliver on their own goals and aspirations.

Given that co-operatives are the original social enterprises, in our review of the ESG and sustainability reporting of New Zealand's largest co-operatives we expected to see this purpose reflected in the information they provide to their members and wider community.

> **"The unfortunate reality was that it was hard to gain any understanding of the purpose of many of our co-operatives and how they bring it to life from the information that they make publicly available.**

Ian Proudfoot
Partner – Audit
Head of KPMG NZ IMPACT Measurement, Assurance and Reporting
E: iproudfoot@kpmg.co.nz
LinkedIn

New Zealand's place in the ESG and sustainability reporting world

New Zealand ranked a lowly 38 out of the 58 countries in the 2022 KPMG Global Survey of Sustainability Reporting. Although more companies are reporting more information compared to our 2020 survey, we're not seeing the speed of uptake in ESG and sustainability reporting that is happening in many other countries, including our key trading partners.

Simply put, the improvements we're making are insufficient to meet the information needs of our increasingly sophisticated stakeholders.

As a country we're accelerating backwards in respect of the information being provided on how organisations interact with the environment, society, employees, regulators, customers and other key stakeholders.

We're becoming comparatively less transparent which puts the business community's license to operate at risk. This could ultimately cost organisations markets and sales, attract new regulation, and make it difficult to recruit and retain the top talent we need to flourish as a country.

New Zealand ranked a lowly 38 out of the 58 countries in the 2022 KPMG Global Survey of Sustainability Reporting.

20

30

Comparing co-operatives to New Zealand's Top 100 companies

If the reporting performance of our Top 100 companies is underwhelming, the reporting performance of our Top 30 co-operatives is worse.

Less than half publish any form of sustainability reporting publicly. The percentages of organisations providing disclosure on climate risk and decarbonisation targets, biodiversity risk, social risk, governance risk, as well as those obtaining assurance over the information they are publishing, are all well below those reported for New Zealand's Top 100 companies, our key global trading partners, and the average for the 5,800 global companies analysed for the survey.

The good news is that there is a significant opportunity for New Zealand's co-operatives to derisk their businesses and build deeper relationships with key stakeholders through improving the information they present to the world.

	Top 30 Co-ops	NZ Top 100	Top 6 trading partners	Global
Sustainability Reporting	47%	80%	96%	79%
Climate change risk	17%	52%	68%	46%
Biodiversity loss risk	17%	36%	46%	31%
Social risk	13%	42%	58%	43%
Governance risk	7%	40%	55%	42%
Carbon reduction targets	37%	67%	74%	56%
Science-based Targets	7%	33%	32%	25%
Assurance	13%	41%	54%	37%

The results we arrived at raised a very simple question why are co-operatives not providing significant ESG and sustainability reporting to stakeholders?

Our own experience of working with co-operatives across New Zealand tells us that many organisations are thinking deeply about a wide range of environmental, social, and governance issues they face. It also tells us that many organisations are collecting a range of data to track the progress they are making in addressing the issues they have identified as material to their business. However, the thinking and the efforts being made are not finding their way into the public domain.

There's no question that the size of an organisation and the resources it has influence the extent and depth of reporting it is able to provide. In comparison to the Top 100 companies, over half of the co-operative organisations in our sample have annual revenues of less than $400m, making them smaller in size than companies in the Top 100. Eleven of the Top 15 co-operatives by size provide some level of ESG and sustainability reporting while only three of the smaller co-operatives report. Smaller businesses can perceive their impact to be lower than larger organisations which could be driving decisions on the amount of reporting they choose to make public.

For some organisations, particularly those where the co-operative exists solely to serve members, rather than acting on behalf of members with customers and in markets, may view that what the organisation is doing is private and of little interest or relevance to anybody other than its members. This may have been the case in the past but with consumers spending more time researching behind a brand before they make a purchasing decision, or potential employees wanting to understand more about the values and culture of an organisation, an absence of information becomes a good reason to look elsewhere to spend your dollars or provide your labour.

For others, current reporting may be a matter of timing given everything organisations have had to deal with over the last few years. Responding to the pandemic, labour shortages, trade and logistics challenges, and government legislation has weighed heavily on executive resources. Enhancing reporting is something that can be pushed down the priority list in comparison to other pressing demands, which is completely understandable given the limited executive resourcing that many New Zealand companies have in comparison to larger global companies.

However, our data does highlight that the world is moving fast in this area, and we can't keep pushing reporting down the list if we want to stay relevant, particularly in key trading markets .

It's also worth noting, that many of the Top 100 companies in New Zealand are either 100% owned by an overseas parent or have a high level of offshore investment. The vast majority of the Top 30 co-operative organisations are 100% locally owned with no overseas parent entity. Consequently, many of the Top 100 are providing reporting as part of their parent company's reporting with the metrics they report not always being relevant or specific to the New Zealand market. A key element of reporting is ensuring that information provided meets the needs of users. Evidence suggests that some of the reporting from overseas controlled New Zealand companies is missing this mark, particularly in relation to role organisations are playing in responding to growing expectations around engaging with and enhancing the principles of Te Tiriti o Waitangi.

What does the future hold for ESG and sustainability reporting for co-operatives?

Releasing any information into the public domain comes with a cost – both financial and in terms of the demands that it places on people's time. Organisations incur the cost associated with financial reporting as shareholders demand this information and the law requires organisations to provide it.

Until the recent release of the Aotearoa New Zealand's Climate Reporting Standards there has been very limited statutory obligation to provide any non-financial ESG or sustainability reporting.

The new standards mandate climate reporting entities to provide information about both their effect on the climate and the climate's effect on their business. Most co-operatives will not be captured due to the limited range of entities that the rules apply to. The new rules do however set the benchmark for what an environmentally aware and responsible organisation should be reporting, and we expect to see many more organisations report under the standards than are legally obliged to do so .

The new climate standards will undoubtedly be followed by other ESG related reporting obligations on modern slavery, on natural capital and biodiversity, and on pay equity among other topics. This represents the start of a journey to deliver better information to the providers of all the capitals that an organisation uses (human, intellectual, natural, manufactured, social, and financial capital), rather than exclusively reporting to the providers of financial capital.

Why would a New Zealand co-operative lean into ESG and sustainability reporting today?

It's too early to say what reporting will be mandated. Some emerging requirements may create specific obligations on co-operative organisations.

Others may, like climate reporting, apply to only a small subset of organisations. As an organisation works through the appropriate level of annual disclosure, it's key to understand how making a disclosure will assist in the creation and delivery of value to stakeholders, and in the case of co-operatives, its members.

Where might that lift in value come from?

Your employees (both current and potential) currently have many choices in front of them in a tight labour market. It's increasingly apparent that an organisation's purpose and values, and how they bring these to life, can be a powerful attraction and retention tool for top talent. Equally they can also be a major repellent if there's a lack of alignment or under-delivery on commitments.

Well thought through ESG and sustainability reporting can help demonstrate that an organisation is delivering on its purpose and values.

Public disclosure also helps to build pride across an organisation's employee group, making them strong ambassadors for the business and the actions it takes.

Your customers (and their consumers) As many co-operatives do not sell to the end consumer, the brand and the story that they equip their customers with can become an important part of the product offering presented to the final consumer - whether that's a retail co-operative, where the members use the co-operative branding within their own business, or a processing co-operative, where the brand is attached to products sold to the world.

In a world where competitors are providing more extensive information about their operations and the ESG impacts that they have, light or non-existent disclosure could quickly become a competitive disadvantage even if the brand story is in reality better than many competitors.

Supporting a brand with balanced, transparent and trustworthy disclosure is quickly becoming a ticket to play in markets. It can also be the key to securing and protecting a premium when consumers believe in an organisational purpose and more importantly, believe that the story is real and verifiable.

Your banking and insurance partners are now facing their own reporting requirements, both in respect of climate (if they are reporting entities under the Aotearoa New Zealand Climate Reporting Standards) and a range of other societal factors, as a result of regulation that has followed conduct and compliance enquires in New Zealand and Australia. To put this in context, they are interested in how you are managing climate risk in your organisation as your emissions are also very likely to be part of their Scope 3 emissions if they provide you finance or insurance.

The obligations they have embedded within their customers' businesses will increasingly shape who they choose to do business with.

There will be incentives available to those making demonstrable progress in managing these issues as they will become sought after customers. Those providing little or no information will find reporting requirements being written into their loan covenants, while the risk will be built into their pricing, that's if anybody is willing to do business with them at all.

Your communities are key relationships for any business. Over the last few years, it's become clear that the relationship has matured from one of 'master and servant'(where a community tolerates failings in return for the economic injection a business provides) to one much closer to partnership.

Community expectations around how a business interacts with the environment, looks after its people, and supports the societies that it is a part of, have become key influences on the business's regulatory environment and its reputation.

There's no 'right' to operate any longer. The license to operate comes from communities. Providing balanced and reliable information to communities, highlighting both areas of strength and the issues that are a work-in-progress publicly, will build trust and ultimately strengthen the license to operate an organisation is granted by its community. A strong relationship with an organisation's host communities becomes a valuable point of difference when telling the business's story to other stakeholders, both in New Zealand and around the world.

Are there any sectoral variations in ESG and sustainability reporting?

The Top 30 co-operatives include 10 that operate in agribusiness, nine in the consumer and retail sector, six in financial services, with the remainder involved in healthcare, industrial products and lifeline utilities. We looked for any sectorial trends in the approach that organisations were taking to their ESG and sustainability reporting.

Co-operatives from the Agribusiness sector set the pace for reporting amongst co-operatives, perhaps reflecting the challenges they face from customers and consumers on the sustainability of their products, and the license to operate questions they are responding to New Zealand. The sector scores highest on all metrics with 60% reporting on ESG/Sustainability performance, 50% have set and disclosed carbon reduction targets, and 30% recognise that climate change and biodiversity are a risk to their business.

Size is likely a factor in this as well, as the agribusiness sector includes many of the larger co-operatives by revenue. However, it does appear that the sector is increasingly recognising the critical importance of nature to its operations, the impact that food has on equitable outcomes across society, and the need to be seen as an employer choice, and is looking to use public reporting to demonstrate the progress being made in these and other areas. That said, the reporting levels are still surprisingly low considering the impact that these factors have on every business in the sector.

Question	Agribusiness	Consumer & Retail	Financial Services
Sustainability reporting	60%	22%	50%
Climate risk	30%	0%	17%
Biodiversity risk	30%	0%	0%
Social risk	20%	0%	0%
Governance risk	20%	0%	0%
Carbon reduction targets	50%	22%	17%
Science-based targets	20%	0%	0%
Assurance	20%	0%	17%

Co-operatives in the financial services sector provide some level of sustainability reporting at similar rates to those organisations in the agribusiness sector (50% vs 60%) and obtain assurance at similar rates (17% vs 20%).

However, our analysis suggests the information is significantly less comprehensive and, likely, not providing a full reflection of how the organisation is viewing the world around them. For instance, 17% of financial services co-operatives provide a carbon reduction target, yet only one of the nine organisations reported on climate change as a material risk to its business.

None of the organisations made any reference to the social, biodiversity, or governance risks that their business faces, despite our work across the financial services sector suggesting these are significant issues to financial institutions and their regulators.

Only 22% of consumer and retail co-operatives report on their sustainability performance.

All the entities that report also disclose a carbon reduction target, but the majority do not engage in any other noteworthy reporting activities measured by the survey. This may partially be explained as many of these organisations having limited direct consumer impact, so will consider themselves to be under less pressure to report.

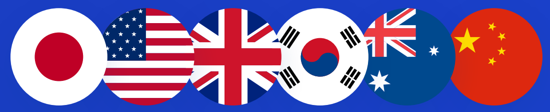
However, we would expect pressure from members who are using the brand when dealing with consumers to be increasing. This would encourage the co-operatives to think more deeply about the information they are providing. Retail co-operatives may find it easier to report on carbon emissions and plan reductions as their direct impact is much narrower. It would be interesting to understand how wide these organisations are casting the net for Scope 3 emissions and whether this includes their members' emissions and the use of the products that they are supplying.

Methodology

Our approach to assessing the ESG and sustainability reporting of New Zealand co-operatives is consistent with the methodology that has been applied across the global survey. The research reviewed the annual reports of the largest 30 co-operative organisations in New Zealand by revenue.

The research included the primary annual reports and any publicly available sustainability reports or information (where relevant). The research considered information published between 1 July 2021 and 30 June 2022. If a company did not issue a report during this period, reporting from 2020 was reviewed. No report published earlier than 1 July 2020 is eligible for assessment. The survey findings are based on analysis of publicly available information only and no information was submitted directly by companies to KPMG firms completing the analysis. The survey methodology stipulates that if a company is a subsidiary of an overseas entity and reporting is only done via a parent company (even if domiciled overseas), the organisation is still counted as reporting on ESG and sustainability.

Our peers (our top six trading partners)



Japan, US, UK, South Korea, Australia, and China

More on ESG and sustainability reporting in New Zealand

Opportunity is passing us by
is KPMG New Zealand's detailed analysis on the progress New Zealand companies have made on ESG and sustainability reporting in comparison to the rest of world released in November 2022.

Big Shifts Small Steps
is KPMG 's global ESG and sustainability reporting survey released in September 2022.

KPMG New Zealand's dedicated Aotearoa New Zealand Climate Reporting Standards web page
where you can sign-up to our latest updates and listen to our podcast series.

Author

Ian Proudfoot
Partner – Audit
Head of KPMG NZ
IMPACT Measurement,
Assurance and
Reporting
↘ **LinkedIn**

kpmg.co.nz/impact