



2016

# RAISING THE BAR

THE WORLD FEDERATION OF THE SPORTING  
GOODS INDUSTRY AND CORPORATE  
RESPONSIBILITY DISCLOSURE



# INTRODUCTION

The World Federation of the Sporting Goods Industry (WFSGI) is the global authoritative body for the sporting goods industry. Our members include sporting goods brands, manufacturers, suppliers, retailers, national/regional federations, industry and trade associations and other sporting goods industry related businesses.

The WFSGI plays an important role as a resource for its members and as a platform for sharing best practice. We work to understand emerging and on-going issues of relevance, assist our members to stay current with those developments, and advocate for appropriate laws and practices. It is in this context that we place a high priority on keeping abreast of developments relating to the disclosure of 'non-financial' (corporate responsibility (CR) or sustainability) issues.

## EXECUTIVE SUMMARY

More and more companies are now reporting on their CR impacts, a trend that has been driven by a number of significant factors. An increase in legislation, making a degree of non-financial disclosure mandatory in some jurisdictions, has been accompanied by increased demands from investors and other stakeholders along with a growing recognition of the role of transparency in building trust in business.

All these factors contribute to a strong business case for disclosure, but it does present challenges to our members, which include developing an appropriate communications strategy, securing the commitment of key internal decision-makers and identifying the most important issues. We also recognise that the size and structure of some of our member companies may be a constraint.

Nonetheless, we believe enhanced transparency is in the best interests of our members and carries a number of benefits and opportunities, from stronger relationships with stakeholders to improved performance and competitive advantage. We are committed to helping our members understand the evolving reporting landscape, and to adopt mature approaches to their communications.

The purpose of this paper is to provide WFSGI members and others with an overview of current best practice in CR reporting, to outline our view of the challenges and benefits, and to explain how we can support our members to respond to emerging trends and changing requirements.

## AN OVERVIEW OF LEGISLATION AND REPORTING FRAMEWORKS

The number of companies reporting on their CR impacts to stakeholders is growing rapidly – and with it the range of tools and guidelines available to help them communicate effectively. Until recently a voluntary activity, there is now also a trend towards mandatory non-financial reporting in some markets – so companies, including our members in the sporting goods industry, increasingly need to engage with this topic.

### EVOLVING LEGISLATION

Several countries have adopted legislation around non-financial disclosure in recent years. Nineteen of the G20 member states have at least one mandatory social and/or environmental reporting initiative<sup>1</sup> and, in Europe, new EU regulations require

large organisations to disclose their most significant (or ‘material’) environmental, social and employee-related risks. While the regulations currently only apply to around 6,000 organisations with more than 500 employees, the WFSGI encourages its smaller members to stay ahead of the legislative curve by taking steps now to improve the quality, clarity and relevance of their disclosure.

Regulations vary broadly in scope, type of initiative, type of commissioning institution and what type of company they apply to. Some are mandatory and some voluntary, while some take a ‘comply or explain’ approach, according to which companies may elect not to report on all areas covered by the regulations provided they give a clear and reasoned explanation. The Sustainable Stock Exchanges (SSE) Initiative has compiled a database of sustainability reporting measures around the world (the Sustainable Reporting Compilation), which can be downloaded at <http://www.sseinitiative.org/sustainabilityreporting/>.



<sup>1</sup> United Nations Sustainable Stock Exchanges: 2014 Report on Progress

## VOLUNTARY INITIATIVES

Alongside legislation is a range of voluntary reporting frameworks and initiatives that provide guidance and support to companies. This table presents the most significant and prominent initiatives.

Framework	Aim	Additional Information
<b>Global Reporting Initiative (GRI)</b>	To make robust sustainability reporting standard practice.	Widely regarded as the world's leading sustainability reporting standard.  G4 – the fourth generation of the GRI Guidelines – places the concept of materiality at the heart of sustainability reporting. It aims to help companies prepare reports about those economic, environmental, social and governance issues, which are critical to managing their impact on environment and society and achieving their sustainability goals.
<b>International Integrated Reporting Framework (IIRF)</b>	To help businesses think holistically about their strategy and focus on future orientation.	Launched by the International Integrated Reporting Council in 2014, and described by the Council's Chairman, Professor Mervyn King, as a "tool for the better articulation of strategy". Focused largely on financial stakeholders, it is an evolution of corporate reporting and sustainability thinking.
<b>Sustainability Accounting Standards Board (SASB)</b>	To help public corporations disclose material information to investors.	Develops and disseminates sustainability accounting standards for specific industries and sectors. US-based initiative.
<b>United Nations Global Compact</b>	To support businesses to be a force for good by adopting socially responsible policies.	Has over 12,000 signatories in 170 countries. Business participants commit to integrating its 10 principles – focusing on human rights, labour, environment and anti-corruption – in their strategies and operations. Companies report on their progress through an annual Communication on Progress. This is intended to provide a channel of information for company stakeholders and to foster transparency and dialogue.
<b>OECD Guidelines for Multinational Enterprises (MNEs)</b>	To encourage and maximize the positive impact MNEs can make to sustainable development.	Comprehensive set of recommendations for responsible business conduct that more than 40 governments encourage their enterprises to observe.
<b>Carbon Disclosure Project (CDP)</b>	To encourage organisations to disclose their greenhouse gas emissions, water usage and strategies for managing climate change, water and deforestation risks.	The CDP's collection of self-reported environmental information is of particular value to the 800-plus institutional investors who back the project and use this data in their long-term analyses. As a result, the initiative plays an important role in driving emissions reductions and improved water and forest management.



## DRIVERS AND CHALLENGES

Against the backdrop of this growth in legislation and reporting frameworks, communicating with stakeholders in a transparent and public manner has become a non-negotiable activity for companies keen to demonstrate commitment to corporate responsibility – but it's not without challenges.

### KEY DRIVERS OF INCREASED DISCLOSURE

In addition to the evident legislative driver in some countries, there are other important motivators of the current trend towards increased reporting of non-financial impacts and activities.

First and most compellingly, a more and more diverse range of stakeholders is demanding it. Investors increasingly consider environmental, social and governance (ESG) information in their strategies. Other stakeholders – including governments and NGOs – are expecting higher standards of conduct and greater transparency from business. Brands in particular are in the spotlight, and failure to meet stakeholder expectations does not go unnoticed.

Second, greater transparency about the non-financial issues faced by companies, and how they are responding, is seen as key to building trust in business – something companies increasingly recognise they need to address. The Edelman Trust Barometer 2015 found that trust levels in business decreased in 16 out of 27 countries between 2014 and 2015, and concluded that “the trust-building opportunity for business... lies squarely in the area of integrity and engagement.”<sup>2</sup>

An additional motivator for organisations to communicate about sustainability issues is to support recruitment. Research shows that the majority of people now consider a company's CR policies when deciding where to work, so there is a clear benefit in making this information readily available.

### CHALLENGES FOR OUR MEMBERS

Responding appropriately to calls for increased access to information on broader societal impacts does present challenges to WFSGI members, however. These begin with identifying the most critical issues – which will vary between members – and developing a communication and engagement strategy that complements and reinforces the organisation's activities, and gets the message across to the right people.

The sporting goods industry and its highly visible brands are subject to intense scrutiny, particularly when it comes to the protection of workers' rights, safety and environmental conditions. The rise of social media has meant that stakeholders can easily raise awareness and mobilise supporters around performance issues. Some companies may be nervous about setting stretching targets, knowing they will be held to account for their progress, while for others securing the commitment of the CEO and other key decision makers to increased transparency can take time and tenacity.

WFSGI includes a diverse set of members, and we are conscious that company size and structure may be barriers to effective reporting. While some members are large retail federations, manufacturers or global brands, many are SMEs that may lack the resources to make a significant investment in reporting.

Conducting a sensible and accurate assessment of what's important ('materiality') aids companies in determining where to focus their efforts and disclosures. But it can also be a challenging process, necessitating qualitative and quantitative analysis and discussions with stakeholders. The sporting goods sector is large, multi-tiered and diverse, so issues do not apply evenly to all members and it is not possible to give universally applicable guidance as to what should be reported. GRI G4, which places materiality at the centre of the reporting process, may provide a useful framework to assist members in assessing materiality in a meaningful way.

## WHAT WE THINK

In spite of these challenges, the WFSGI is acting for positive change by advising its members to improve the quality and focus of their communication of non-financial issues. We believe that enhanced transparency is in the best interests of both the companies themselves and their stakeholders.

### UNDERSTANDING THE BENEFITS

Being open about sustainability risks and opportunities helps to promote dialogue and stronger relationships with stakeholders – including those who hold different positions from those of the company. This openness provides the opportunity both to facilitate stakeholders' understanding of the company's position, and for the company to appreciate a range of other perspectives and incorporate them into strategies – helping to mitigate reputational risk and, ultimately, to build a better business.

From an operational perspective, the discipline of measuring and reporting can improve company performance, promote the integration of corporate sustainability into operations, and yield opportunities for efficiencies and cost reductions.

Companies that take a mature approach to CR reporting may also find it helps them to better understand and articulate their broader social purpose and to focus on longer-term goals. Moreover, against a backdrop of increasing interest in CR, companies that are seen as leaders and innovators may gain a competitive advantage.

### SUPPORTING OUR MEMBERS: THE COMMUNICATION ON ACTION

We recognise that there is no 'one size fits all' approach, and WFSGI members represent a wide array of operational footprints with different challenges and impacts, which demands customisable approaches.

To support its members and encourage transparency, the WFSGI has developed a reporting mechanism called the Communication on Action (COA). The COA is a biennial disclosure through which a member explains how it is seeking to implement the WFSGI Code of Conduct – itself designed as a model for companies committed to operating to high ethical standards.

While the format of the COA is flexible, it should contain a

statement of support by a senior decision maker, a description of relevant actions and programmes and an update on progress against targets.

The COA's objective is to serve as a vehicle for information on members' sustainability performance, and to provide support to companies unfamiliar with increasing demands for disclosure from other sources. We also believe that the COA will provide an effective tool for stakeholder dialogue and the sharing of best practices, and help to drive ongoing sustainability performance improvement. We do, however, encourage our members to regard the disclosure requirements of the COA as a baseline, and to consider communicating their performance in more detail and with greater frequency than the COA requires.

### IMPROVING DISCLOSURE: GENERAL GUIDANCE FOR MEMBERS

- Focus on the **most material** issues, rather than trying to cover everything;
- Show how sustainability goals are **aligned** with broader business goals;
- Aim to articulate your **social purpose** and broader role in society;
- **Be transparent** about challenges as well as successes;
- Set (and publish) **long-term goals**;
- **Target key messages** to specific stakeholders;
- Foster open, and regular, **dialogue with stakeholders**.

### ADVISORY AND PEER SUPPORT

The WFSGI also provides a range of valuable information and advisory services to assist its members with their reporting and other CR challenges. These include:

- Ad-hoc support to members through the CR Helpdesk;
- Alerting members on important legal developments and regulatory changes;
- Guidance and direction on CR developments and best practices.

A further benefit of WFSGI membership is the support available from other members. The network offers the scope for smaller forums of member companies to support each other on reporting and other common challenges, and for larger organisations to mentor comparable smaller companies.

## CASE STUDY: IMPROVING PERCEPTIONS THROUGH REPORTING – THE ADIDAS GROUP

WFSGI member the adidas Group has been increasing its transparency on sustainability issues for well over a decade. Driven initially by demands from activists to disclose information on factory conditions in developing countries, the company has matured in its approach and its proactive disclosure practices have helped to firmly establish the adidas Group as a sustainability leader in its sector.

The WFSGI represents a diverse set of members, which vary considerably in terms of the nature of their organisations, their size and structure, and the degree of regulation to which they are subject. The adidas Group's experience is not intended to be a blueprint for reporting, though we do hope that this insight into its successes and challenges, and how its approach has evolved, will encourage and assist others to take the next steps in their own reporting journeys.

### MAKING STEADY PROGRESS

As a result of its high-profile global success, the adidas Group became a clear target for campaigners concerned about labour and environmental issues in the supply chain. In the years following its initial attempt to disclose how they were addressing these matters, the company has expanded its reporting to include a broader range of topics and become more experienced in identifying its most material issues.

Striving for an appropriate balance between comprehensive reporting of all significant issues and telling an engaging story, the adidas Group also recognises the importance of identifying key audiences (defined by the company as analysts, academics and activists) and has tailored its communications accordingly.

Over the years the company has experimented with a range of approaches and formats for its report – reinforcing the idea that there is no universally correct method, and that demands evolve over time.

### THE ADIDAS GROUP – SUSTAINABILITY DISCLOSURE IN BRIEF

#### 1999

Joined the Fair Labor Association, marking the beginning of the company's formal stakeholder engagement approach

#### 2000

Selected to join the DJSI, and has been listed every year since

#### 2001

Published its first Sustainability Report

#### 2006

Expanded its stakeholder engagement strategy through becoming a member of the Fair Factories Clearinghouse, an industry leading compliance data-sharing platform

#### 2007

Voluntarily disclosed its global supplier factory list

#### 2010

Disclosed the factories involved with the manufacture of products for the 2010 FIFA World Cup South Africa™ and for every major sporting event since

#### 2015

Ranked among the top three most sustainable companies worldwide in the Global 100 Most Sustainable Corporations Index

## FOSTERING ON-GOING TRANSPARENCY AND DIALOGUE

And it's not just about annual reporting, but enhancing on-going transparency. In 2007 the adidas Group voluntarily disclosed its global supplier factory list and updates it twice a year. A few years later, in 2010, as the Official Sponsor, Licensee and Outfitter of the 2010 FIFA World Cup South Africa™, adidas disclosed the list of factories involved with the production of World Cup products. Since then, the company has disclosed the list of factories manufacturing 2014 FIFA World Cup Brazil™ products, as well as the list for the London 2012 Olympic Games.

The company has also invested significantly in nurturing relationships with its stakeholders. For example, it hosted a stakeholder dialogue in 2011 to understand views on the company's responsibilities in relation to the London 2012 Olympic Games and other major sporting events. In 2015 the adidas group hosted a stakeholder workshop on "The role of corporate sponsors in major sporting events". These and other dialogues have given the adidas Group the opportunity to share its perspectives and understand those of others, to respond to concerns and to forge new partnerships.

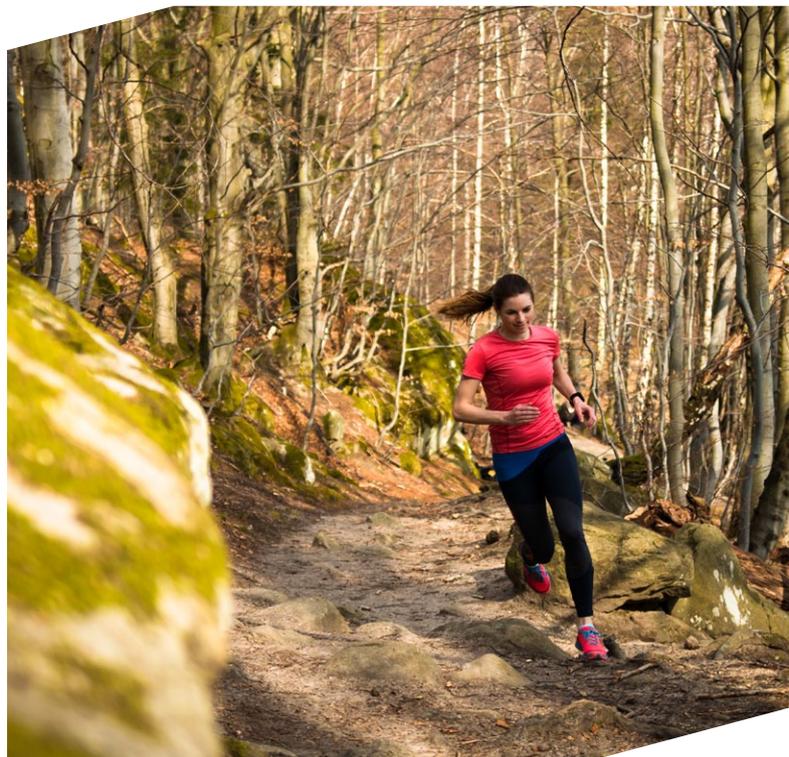
## TACKLING THE CHALLENGES

There are challenges too, however. It takes time and effort to gather data for reports and ratings agencies, as well as intense conversations and decisions about what should be reported. When approaching the task of producing a Sustainability Report, the company has had to weigh up how it can use staff resources most effectively and how much external consultancy support it needs. Furthermore, the most appropriate approach and format for reporting hasn't always been apparent, and the company has had to experiment as its sustainability strategy has matured.

## ENHANCED REPUTATION AND STRONGER RELATIONSHIPS

As a result of its commitment to tackling the challenges of non-financial disclosure, the adidas Group has established a reputation as a company that takes sustainability issues seriously. While pressure groups continue to campaign about working conditions, they recognise the company's willingness to engage, which has led to stronger relationships and more productive engagement.

The investment community has applauded the adidas Group's commitment to transparency, and the company's progress has seen it listed as Industry Leader in the Dow Jones Sustainability Index 10 times since 2000. Since 2005 the adidas Group has been listed among the 'Global 100 Most Sustainable Organisations in the World' and was ranked third in the 2015 listing making it the highest-placed European company and best-in-class in its industry.



## ONGOING DEVELOPMENTS & NEXT STEPS

The direction is clear: CR reporting – in one form or another – will become a mandatory requirement in more and more countries, and alongside this, participation in voluntary reporting initiatives will continue to grow.

In response to this range of legislative, reputational and competitive factors, we anticipate that non-financial disclosure will become an increasingly mainstream activity as more and more companies embrace the challenge of reporting on their sustainability impacts.

We also expect that non-financial disclosure will become more focused, as companies adopt more mature approaches and become more confident in identifying their material issues. This will in turn lead to more structured and targeted engagement with specific audience groups on matters of particular interest to them.

### SUMMARY AND CONCLUSION

WFSGI provides a platform for sharing best practices and actively engages members in realising a CR vision grounded in shared values and principles. As an association, WFSGI is both a voice for the industry and a trusted advisor on CR and strategy issues for its members. We believe that members that take up and act on the advice and resources WFSGI offers will be the best positioned to respond and thrive in the face of emerging trends and evolving regulation over the coming years.

We appreciate the challenges of complexity, diversity and evolving context in which our members operate. That said, we believe that increased transparency on non-financial matters demonstrates a company's commitment to responsible business conduct and that it will both mitigate risks and create opportunities for our members. To this end, we will continue to monitor trends and build our understanding of emerging best practice and – through the COA and in other ways – continue to help and support our members to meet current and future disclosure challenges.

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### FURTHER INFORMATION

**Sustainable Stock Exchanges Initiative - Sustainability Reporting policies:**

<http://www.sseinitiative.org/sustainabilityreporting/>

**Global Reporting Initiative - G4 guidelines:**

<https://www.globalreporting.org/standards/g4/Pages/default.aspx>

**International Integrated Reporting Framework - practical advice and tools:**

<http://integratedreporting.org/how-practical-advice-and-tools/>

**Sustainability Accounting Standards Board:**

<http://www.sasb.org>

**UN Global Compact - reporting framework:**

<https://www.unglobalcompact.org/participation/report>

**Carbon Disclosure Project - reporting guidance:**

<https://www.cdp.net/en-US/Pages/HomePage.aspx>



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