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Materiality and external assurance in corporate sustainability reporting: an exploratory study of Europe's leading commercial property companies

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MATERIALITY AND EXTERNAL ASSURANCE IN CORPORATE SUSTAINABILITY REPORTING: AN EXPLORATORY STUDY OF EUROPE'S LEADING COMMERCIAL PROPERTY COMPANIES

Introduction

Sustainability is fast becoming an important business imperative. In examining recent trends in corporate sustainability strategy and performance Ernst Young and GreenBiz (2012, webpage), for example, argued that *'over the past 2 decades corporate sustainability efforts have shifted from a risk based compliance focus where rudimentary, voluntary, sometimes haphazard initiatives have evolved into a complex and disciplined business imperative focused on customer and stakeholder requirements.'* In the light of these developments growing numbers of companies publicly report annually on their sustainability strategies and achievements. While corporate reporting practices are constantly evolving there is a growing awareness within the business community that embracing materiality, which is concerned with identifying those environmental, social and economic issues that matter most to a company and its stakeholders, and commissioning external independent assurance of the information contained in such reports, are becoming increasingly important elements in the reporting process. Ernst and Young (2014, p.4), for example, argued that while *'today's non-financial reporting environment can seem complex but there is one commonality amongst the various reporting initiatives- materiality.'* In a similar vein GreenBiz (2014, webpage) identified that a focus on materiality was one of the top four sustainability reporting trends in 2014. In making the case for increasing external assurance KPMG (2011, p.27), for example, suggested that *'as corporate responsibility reporting begins to play a larger role in the way stakeholders and investors perceive corporate value, companies should increasingly want to demonstrate the quality and reliability of their corporate responsibility data.'*

During recent years sustainability has taken on increasing importance within property companies. Warren-Myers (2012, p.1115), for example, suggested that *'the importance of increasing the level of sustainability in the commercial real estate stock is paramount for reducing the negative impact of the built environment on the planet.* 'Jon Lowell, Director of Sustainability, Deloitte Retail UK, recently argued *'there is no question that sustainability is a fundamental commercial real estate concern, affecting long term value generation and short term profitability especially in the context of mature markets such as the United States, Western Europe and* America' (Deloitte 2014, p. 12).

While the most recent Global Real Estate Sustainability Benchmark (GRESB) report suggested that property companies in Australia and New Zealand are currently the world leaders in addressing sustainability, the report also revealed a continuing improvement in the performance of real estate companies in Europe since 2011 and that European property companies had higher ratings than their counterparts in North America and Asia (Global Real Estate Sustainability Benchmark 2015). In 2011 the European Public Real Estate Association (EPRA) launched its *'Best Practice Recommendations'*, which drew on the Global Reporting Initiative (GRI) guidelines, *'in the hope that'* with their introduction *'the bar will be raised in terms of sustainability disclosure'* (European Public Real Estate Association 2011). This first edition of the recommendations focused solely on environmental issues, namely energy, greenhouse gas emissions, water and waste, but in the second edition, published three years later, EPRA suggested that more sophisticated approaches were being developed to address the social and economic dimensions of sustainability (European Public Real Estate Association 2014). The recommendations embrace a range of sustainability performance measures and for each measure the guidance includes a definition of each individual measure (e. g. total electricity consumption), a rationale for its use and details of how each measure should be calculated (based on GRI protocols). The EPRA also launched its annual sustainability awards in 2011 with the aims of raising awareness of sustainability reporting within the European property sector.

In the light of the growing interest in sustainability within European real estate this paper provides a preliminary examination of the extent to which Europe's leading commercial property companies are embracing materiality and commissioning independent external assurance as part of their sustainability reporting processes. The paper includes a review of the characteristics of corporate sustainability, and of the concept of materiality and of assurance, a brief outline of the activities of the leading commercial European property companies and of the sustainability challenges that the industry faces. This is followed by an exploratory examination of the extent to which Europe's leading stock exchange listed property companies have embraced materiality and commissioned external assurance in their current sustainability reports and the paper then offers some wider reflections on external assurance and materiality in sustainability reporting.

Corporate Sustainability

The ideas underpinning sustainability are not new (Gruber 2012) but the concept began to attract attention from the 1980's onwards following the publication of the *'World Conservation Strategy'* (International Union for Conservation of Nature and Natural Resources 1980) and *'Our Common Future'* (World Commission on Environment and Development 1987). In the following decades the term sustainability has become increasingly seen as offering a potential solution for a wide range of challenges and problems from the global to the local scale across seemingly almost all walks of life. Diesendorf (2000, p.21) argued that sustainability can be seen as *'the goal or endpoint of a process called sustainable development.'* The most widely used definition of sustainable development is that provided in *'Our Common Future'* namely *'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'* (World Commission on Environment and Development 1987, p.43).

However defining sustainability is not straightforward and there are a number of contrasting and contested meanings and little genuine consensus in providing an operational definition. There is a family of definitions' essentially based in and around ecological principles and there are definitions which include social and economic development as well as environmental goals and which look to embrace equity in meeting human needs. At the same time a distinction is often made between 'weak' and 'strong' sustainability with the former being used to describe sustainability initiatives and programmes developed within the existing prevailing economic and social system while the latter is associated with much more radical changes in both economy and society (Roper 2012).

Within the world of business the concept of sustainability has consistently moved higher up boardroom agendas as growing numbers of companies increasingly acknowledge sustainability as one of the emerging drivers of competition and as a significant source of both opportunity for, and risk to, long term competitive advantage. Carroll and Buchholtz (2012, p.4), for example, suggested that *'sustainability has become one of business' most recent and urgent mandates'* and Elkington (2004) has argued that future business success depends on the ability of companies to add environmental and social value to economic value. A survey of business managers and executives undertaken by MIT Sloan Management Review and the Boston Consulting Group (2012) suggested that some 70% of the companies surveyed had places sustainability on their strategic management agendas. A number of factors can be identified in helping to explain this trend. These include the need to comply with a growing volume of environmental and social legislation and regulation; concerns about the cost and scarcity of natural resources; greater public and shareholder awareness of the importance of socially conscious financial investments; the growing media coverage of the activities of a wide range of anti-corporate pressure groups; and more general changes in social attitudes and values within modern capitalist societies.

At the same time a number of critics view corporate commitments to sustainability as a cynical ploy, often popularly described as 'greenwash', designed to appeal to consumers who are seen to be concerned about the environmental and social impact of business operations throughout the supply chain, while effectively ignoring fundamental environmental and social concerns. As such moves towards sustainability might be characterised by what Hamilton (2009, p. 573-574) described as *'shifting consciousness's'* towards *'what is best described as green consumerism*.*'* This Hamilton saw as *'an approach that threatens to entrench the very attitudes and behaviours that are antithetical to sustainability'* (Hamilton 2009, p.574). Perhaps more radically Kahn (2010, p.48) argued that *'green consumerism'* is *'an opportunity for corporations to turn the very crisis that they generate through their accumulation of capital via the exploitation of nature into myriad streams of emergent profit and investment revenue.'* This, in turn, reflects the earlier argument proposed by Willers (1994) that sustainable development is effectively synonymous with continuing economic growth which is seen to be compatible with environmental protection.

As interest in sustainability has gathered momentum so a number of attempts have been made to develop theoretical frameworks of sustainability which recognize that social and economic development cannot be viewed in isolation from the natural environment. Todorov and Marinova (2009,) reviewed a wide range of models being developed to conceptualise sustainability and concluded that a simple three dimensional representation of sustainability capturing environmental, social and economic elements, in a Venn diagram as three overlapping circles, was the most powerful in reaching a general audience. A number of authors have employed stakeholder theory to conceptualise sustainability and to explore relationships between companies and stakeholder's environmental, social and economic agendas. (e.g. Steurer et. al. 2005). There have also been attempts to develop a more critical theory. Amsler (2009, p.127), for example, has argued that *'the contested politics and ambiguities of sustainability discourses'* can be embraced to develop a *'critical theory of sustainability.'* Castro (2004) has sought to lay the foundations for a more radical theory of sustainability by questioning the very possibility of sustainable development under capitalism and arguing that economic growth relies upon the continuing and inevitable exploitation of both natural and social capital.

Commercial Property in Europe and Sustainability Agendas

Commercial property is vital to Europe's economy, society and environment and the European Public Real Estate Corporation (EPRA) estimates that commercial property floor space measures some 3.5 billion square metres with shops, offices and warehouses occupying approximately 1 billion square metres each (EPRA 2012a, p.5). EPRA, for example, has characterised property as *'a platform for the economy'* (EPRA (2012b, p. 1). More specifically EPRA (2012b p.1) summarised the role of property thus *'business and society can't function without the services of commercial property, including the provision of offices, shops , factories, housing and many other forms of real estate. The commercial property sector delivers and manages the infrastructure needed for entrepreneurship to thrive. It is therefore a fundamental source of employment and economic growth.'* In assessing property's role in contributing to the economy and supporting jobs EPRA (2012a~~, p.2~~) suggested that real estate sector accounts for some 20% of all economic activity and that the commercial property sector contributed an estimated 285 billion Euros to the total economy and that it is directly responsible for over 4 million jobs. At the same time EPRA (2012a) estimated that investment in new commercial buildings and the refurbishment and re-development of existing buildings accounted for some 10%of total investment in the European economy. While the commercial European property industry is diverse embracing massive international companies operating in a wide range of national markets as well as a very large number of small independent operators whose activities are confined to relatively small urban and regional markets. The leading listed property companies are widely acknowledged to be the major drivers of large property development projects (EPRA 2013).

The property sector has a large and wide impact on the environment, on society and on the economy and poses a series of complex and interlinked challenges for sustainable development. Amongst the environmental issues climate change and energy consumption are arguably the most important issues. Martin South, Chief Executive Officer of Marsh Europe, for example, suggested that the commercial property sector accounts for the majority of greenhouse gas emissions within cities and more generally his company argued that the environmental impact of buildings includes construction methods, the use of recycled materials, longevity and resilience as well as operational efficiency (Marsh 2012). Socially property development and occupation can, for example, have a major impact on local communities and can pose well-being health and safety issues for employees. In a report on *'the property industry's key role in delivering a better life in Britain'* commissioned by Development Securities (2010), for example, it was argued that new standards are required for well-being in the workplace and that though the nature of office work has changed dramatically in recent years the office environment has failed to keep pace with these changes. The economic impacts include building investor value and employment creation.

As sustainability has assumed growing commercial significance within the real estate market so it has attracted attention within the academic literature. In general terms Sayce, Ellison and Parnell (2007, p. 633), for example, identified two sets of *'drives for sustainable property investment which have been influential in both raising awareness and leading* *change.'* The first set was rooted in legislation and regulation and seen to reflect increasingly widespread statutory requirements relating, for example, to energy efficiency and waste management. The second set was seen to be more market led and included the need for shareholders to anticipate future legislation and mitigate risk, changing landlord and tenant relationships which have effectively forced landlords to maximise occupier satisfaction and the potential for enhanced returns on investment in sustainable properties. Work by van Wettering and Wyatt (2011, p.29) on the office sector in and around Bristol, for example, revealed that as far as occupiers are concerned the strongest sustainability drivers were *'consumer demand and staff demand.* However Bond and Perrett (2012, p.53) identified a number of barriers to investing in greening buildings. These barriers included *'financial considerations'*, *'split incentives'*, *'lack of knowledge and experienced workforce'* and *'lack of incentives.'* The principal issue underling the first barrier is seen to be the belief that green buildings cost more than their more traditional counterparts. The issue of split incentives is that while it is landlords that are investing in green buildings, it is the tenants who benefit via reduced energy and water costs and greater productivity..

A number of researcher's have looked to explore the relationship between sustainability and pricing premiums mentioned above but so far this work has produced somewhat ambiguous results. In their review of environmental sustainability drivers for the real estate investor Falkenbach et. al. (2010, p.211) recognised that *'the role of environmental sustainability has increased within the real estate sector'* but suggested that *'the adoption of environmental principles, however, has been slowed down by a lack of evidence relating to the financial benefits and uneven distribution of costs and benefits between owners(investors) and occupiers.'* In examining the growth of the green office market in the UK Oyedokun et. al. (2015, p.) suggested that *'market acceptance of the importance of greenness appears to be in the melting pot.*

In reviewing sustainability and property values Krause and Bittner (2012) suggested that green buildings do generate sales price premiums which stem, in part, from the increased income streams such buildings generate. That said Krause and Bittner (2012, pp.522-523) also noted that *'the price premiums are generally greater in magnitude than the income premiums, which suggests that investors perceive benefits from green building ownership above and beyond their ability to generate higher operating income.'* Empirical research conducted by' Cajias et.al. (2012,) also suggested that green buildings were able to generate increased revenues. Work by Cajias et. al. (2014) revealed positive relationship between corporate environmental and social performance and increased revenue generation. A survey of real estate stakeholders in Italy by Mori and Soffietti (2013, p.303) suggested that *'while the importance of green building is widely acknowledged , caution is still prevalent regarding expected gains'* and that *'the majority of respondents perceive the increase in rent and price premiums as being equivalent to additional costs.*

More generally in reviewing the value of sustainability in real estate Warren-Myers (2012, p.115) highlighted *'the limited applicability of research to date in regard to the relationship between sustainability and market value for the valuation profession.'* At the same time Warren-Myers (2012, p. 138) advised that *'sustainability presents a rapidly-changing dynamic which has varying, complex assessment criteria which cannot be easily measured and quantified'* and concludes that *'the global push for sustainability and the emotional and moral requirements that sustainability necessitates makes it difficult to* *develop research demonstrating unbiased opinions and market observations.'* Indeed within both the professional and academic communities financial considerations are currently widely perceived to be the principal challenge for the more widespread introduction of more sustainable property strategies and practices. Osborn Clarke, which provides legal services to real estate clients, for example, argued that sustainability would only be established in the property market once the finance equation was favourable for occupiers (Osborne Clarke 2008).

Materiality and External Assurance

The concept of materiality has predominantly been associated with the financial sector and more specifically with the auditing and accounting processes of financial reporting. However the concept has become increasingly important in sustainability and corporate social responsibility reporting but *'compared to financial reporting, sustainability considers a broader scope of action and covers a multitude of issues: environmental, social, economic and more'* and *'requires a more comprehensive definition of materiality*' (PGS 2013, webpage). That said there is little consensus about what constitutes materiality in sustainability reporting and a number of competing definitions can be identified. There are sets of definitions that focus principally on investors and shareholders. The International Integrated Reporting Council (2013, p.33), for example, suggested that *'in determining whether or not a matter is material, senior management and those charged with governance should consider whether the matter substantively affects, or has the potential to substantively affect, the organization's strategy, its business model, or one or more of the capitals it uses or affects.'* There are also definitions that embrace a wide range of stakeholders. The Global Reporting Initiative (GRI), for example, asserted that *'material topics for a reporting organisation should include those topics that have a direct or indirect impact on an organisation's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large'* (GRI 2014, webpage).

The way in which materiality is identified and operationalized varies from one company and organisation to another but a number of common elements can be identified (PGS 2013). These include the explicit identification of a number of environmental, social and economic issues around which the sustainability report is developed; the evaluation and ranking of both company and stakeholder concerns on each of the identified issues; identification of the ways in which the company has elicited stakeholders' contributions to the process; and the prioritization of these issues in a way that informs a company's sustainability strategy and reporting process. Common elements apart there is a growing interest in defining and determining materiality on a business sector specific basis. Eccles et. al. (2012, p.10), for example, advocated a sector specific approach and argued that by employing *'guidance that identifies the environmental, social and governance issues that are material to a sector and how best to report on them, companies will have much clearer guidance on what and how to report.'* A variety of approaches have been developed to determine materiality as an integral component of sustainability reporting but the 'materiality matrix' is currently the most commonly adopted approach to determine materiality issues. The matrix plots sustainability issues in terms of two axes namely, the influence on stakeholder assessments and decisions and the significance of environmental, social and economic impacts.

A range of benefits are claimed for those companies which embrace materiality as an integral part of their sustainability reporting process. Strandberg Consulting (2008), for example, suggested that materiality analysis can help companies to clarify the issues that can drive long term business value; to identify and capitalise on business opportunities; to co-ordinate sustainability and business strategies; to build and enhance corporate brand and reputation; and to anticipate and manage change. KPMG (2014~~)~~ claims that materiality extends well beyond the reporting process per se in that it is the foundation for a company's sustainability strategy, target setting, stakeholder engagement and performance management.

Assurance, simply defined, as a process used to provide confidence as to the degree of reliance that can be placed on the reported data, can be undertaken in a number of ways. CSR Europe (2008, webpage), for example, identified four principal methods namely *'conducting assurance internally'*, *'stakeholder panels'*, *'expert input'* and assurance by an *'independent, impartial and external organisation.'* In theory conducting assurance within a company should provide comprehensive access to the relevant data and be less costly but it may lack credibility especially with external stakeholders. Inviting a panel of stakeholders to produce an assurance statement can have the advantage of ensuring that the process will address those issues important to the invited stakeholders but such panels may not always represent the full range of stakeholder interests. The use of so called 'expert input' in assurance can be seen to lend what some stakeholders might regard as authoritative support to a CSR report. However doubts may remain about the extent to which such experts have had the opportunity or the appropriate access to the primary data which would allow them to make informed judgements.

The most widely adopted approach to sustainability assurance is the commissioning of an assurance statement by an independent external organisation and such an approach would seem to have claims to offer credibility, integrity and reliability to the reporting process. An assurance statement is defined by CorporateRegister.com Limited (2008, p.6) as *'the published communication of a process which examines the veracity and completeness of a CSR report.'* However the production of assurance statements is seen to be problematic in that not only is there considerable variation between the volume, character and detail of the information companies provide in their CSR reports themselves. There is currently little consensus, for example, on how companies should collect, evaluate and report on their CSR data. In addressing the issue of appropriate data collection CorporateRegister.com Limited (2008, p.6), for example, argued that *'the underlying processes are often opaque and company specific, so it's difficult to know how far a report reflects actual performance'* and that *'unless a company can define its scope of performance disclosure, how can an assurance provider define the scope of assurance.'*

External assessors work to one of two so called 'levels of assurance' namely 'reasonable assurance' and 'limited assurance.' In the former *'the assurors have carried out enough work to be able to make statements about the report which are framed in a positive manner e.g. the reported environmental data accurately reflect'* (the company's) *'environmental performance.'* In the latter *'the assurors have only carried out enough work to make statements about the report which are framed in a negative manner e.g. Nothing has come to our attention which causes us to believe that the reported environmental data* *do not accurately reflect'* (the company's) *'environmental performance'* (CorporateRegister.com Limited 2008, p.14). A number of organisations offer external assurance services for sustainability reports. Accountancy companies (e.g. PricewaterhouseCoopers) are the largest providers of external assurance for sustainability reports. A number of sustainability consultancies (e.g. Planet and Prosperity) also provide external assurance and a number of engineering firms (e.g. TruePivot) which offer technical certification and specialist engineering expertise and risk based analysis.

A number of benefits are claimed for commissioning and producing an assurance statement. Perhaps most importantly there is the argument that as a wide variety of stakeholders increasingly shares an interest in how companies are discharging their social, environmental, economic and ethical responsibilities so the inclusion of a robust and rigorous assurance statement within a CSR report helps to enhance reliability and credibility (Jones and Solomon 2010). It is also argued that assurance can *'give a boost to* (the) *internal management of CSR, since the process of providing an assurance statement will involve an element of management systems checking'* in that *'a number of assurance statements identify shortcomings in underlying data collection systems, thus providing a roadmap for improvement to the reporting company'* (CSR Europe 2008, webpage). More commercially the provision of an assurance statement might be seen to enhance both a company's reputation with its stakeholders and its brand identity.

Frame of Reference and Method of Enquiry

In an attempt to address the research question underpinning this paper namely, if, and how, the leading European property companies have embraced materiality and commissioned external assurance as integral elements in the sustainability reporting process the leading listed European property companies, by capital value, (Table 1) were selected for study. In the event, one of the listed companies, Corio, merged with Klepierre in March 2015 and so the study focused on just 19 companies. As such the leading companies might be expected to exhibit best practice approaches to sustainability within the industry. However although the present research is exclusively, if arbitrarily, focused on the leading property companies the authors recognise that many other property companies within Europe have developed and actively pursued sustainability programmes. Deutsche Euroshop, Workspace and Polis Immobilien, for example, all publicly report or provide information on their corporate approach to sustainability. Businesses employ a variety of methods to report on sustainability including '*product labels, packaging, press/media relations, newsletters, issue related events, reports, posters, flyers, leaflets, brochures, websites, advertisements , information packs and word-of mouth'* (European Commission Directorate-General for Enterprise 2015, webpage). During the past decade *'sustainability reporting has evolved from a marginal practice to a mainstream management and communications tool'* (Global Reporting Initiative 2007, webpage) and Bowen (2003) suggested that the majority of large companies have realised the potential of the World Wide Web as a mechanism for reporting their sustainability commitments and achievements. also argued that the Web's interactivity, updatability and its ability to handle complexity adds value to the reporting process.

With this in mind in January 2015 the authors undertook an Internet search of each of the selected European property companies' corporate web sites using the key phrase 'sustainability report', then selected the most recent report/information and searched it digitally using the keywords 'materiality' and 'assurance', using Google as the search engine, to guide the process of data collection.. A number of authors have used content analysis to systematically identify features within annual reports and on corporate websites. Newell (2008), for example, employed content analysis to examine the annual reports, the corporate and sustainability reports and the carbon disclosure reports in his review of the strategic significance of environmental sustainability of Australian property trusts. However in this preliminary examination the authors deliberately chose to tease out if, and how, the selected real estate companies embraced materiality and commissioned external assurance as part of their sustainability reporting process. In taking this decision the authors were minded that the material on materiality and external assurance was generally confined to discrete sections of the selected companies;' sustainability reports. The information obtained through this search provided the empirical information for this paper and as this information is in the public domain the authors took the view that they did not need to contact the selected property companies to obtain formal permission prior to conducting their research. This paper does not look to offer a systematic and detailed comparative evaluation of the property companies' sustainability reporting polices and the specific examples and the selected quotations from selected companies' sustainability reports /information cited below are used for illustrative rather than for comparative purposes. In reviewing environmental sustainability strategies in Australia Newell (2008) included a number of tables, pie charts and diagrams from company sustainability reports. However in the current paper the authors chose not to reproduce such images taking the considered view that the diversity of the approaches to materiality and assurance within the selected European property companies meant that using a limited of individual illustrations would satisfactorily capture the diversity of the reporting process.

In discussing the reliability and validity of information obtained from the Internet Saunders et.al. (2009) emphasise the importance of the authority and reputation of the source and the citation of a specific contact individual who can be approached for additional information. In surveying the leading European property companies the authors were satisfied that these two conditions were met. At the same time the authors recognise that the approach chosen has its limitations in that there are issues in the extent to which a company's public statements genuinely, and in detail, reflect strategic corporate thinking and whether or not such pronouncements may be little more than carefully constructed public relations exercises. However given the need to drive forward exploratory research such as this and to begin to understand the role the leading European property companies are currently playing in promoting sustainability, the current research draws on information that is publicly available and readily accessible. As such this approach is not only fit for purpose but it also provides a simple platform from which future research agendas might be constructed.

Findings: Sustainability

The internet search revealed that ten of Europe's leading property companies had posted sustainability reports and a further five of the companies had included a sustainability report within their annual report while the remaining five had posted some more limited information on their sustainability policies and achievements on their corporate websites (See Table 1). There is considerable variation in the volume and detail the selected property companies provided on their approach to sustainability but the vast majority of them stress their commitment to the principles of sustainability, albeit in a variety of ways, and to integrating sustainability into their core business strategies. Unibail-Rodamco, for example, reported that since 2007 the company had *'developed a comprehensive and ambitious sustainability strategy and had demonstrated its capacity to succeed in all sustainability fields'* and that *'sustainability thinking is closely integrated into'* its *operating, development, and investment activities.'* In a similar vein British Land claimed that *'sustainability'* was *'at the heart of our business strategy '*and that the company sees *'sustainability as a powerful tool to deliver lasting value and positive outcomes for us and our stakeholders.'* Swiss Prime Site reports that its *'sustainably relevant corporate strategy is aimed at achieving long term financial success'* and that *'sustainability as a business principle is therefore an integral part of corporate governance and effects day to day business operations.'* Great Portland Estates claimed that its '*sustainability strategy'* was *'integrated across investment, development and asset management'* and designed *'to ensure that we meet both current and future tenant needs and those of the wider environment through the responsible development and management of our buildings, enhancing the long term value of our business.'*

Such strategic corporate commitments are evidenced across a range of environmental, social and economic agendas. The selected European property companies addressed a variety of environmental issues, climate change; carbon dioxide gas emissions; energy sourcing and efficiency; waste management; water stewardship; sustainable design and construction; sustainable travel; timber re-use; and biodiversity. Deutsche Wohnen AG, for example, reports that in undertaking refurbishment activities it *'attaches great importance to high standards of energy efficiency'* and it suggested that its *'use of a combined heat and power plant, which meets the electricity requirements of some 2,000 household, annually, is one innovative way in which we show support for political targets relating to climate protection.*' A wide range of social issues are also important elements in the selected property companies' commitments to sustainability namely long term collaboration with tenants and respective clients; health and safety; diversity and equality of opportunity; labour relations; human rights; training, development and educational partnerships; career management; creating value in the community; and charitable donations. SEGRO, for example, reported that *'supporting communities in which we operate remains an integral part of our operations'* and it argued that *'we ensure that the local communities understand why we are undertaking specific commercial projects and the benefits they bring to local areas.'* Economic dimensions of sustainability generally receive less explicit attention from the selected property companies but a number of themes are cited including local and national economic contributions; long term added value for its shareholders; responsible asset management; and meeting investment fund standards; and employment creation. INTU, for example, reported on the beneficial impact of its operations, both directly and indirectly, on the local, regional and national economies. More specifically the company reported that *'89,000 jobs were provided by INTU and its retailers'*, *'26,000 jobs were directly supported by INTU and its retailers'* and *'£297 million in business rates were paid by INTU and its retailers.'*

Findings: Materiality

While all of the leading European property companies publicly reported or provided information on their approach to sustainability on their corporate websites fewer of them are embracing the concept of materiality or commissioning independent external assurance as integral elements in the reporting process. The findings reveal that nine of the selected companies posted information on how they addressed materiality and eleven companies included formal independent external assurance statements as part of their sustainability reporting processes. In addition three of the selected companies drew attention to the priorities that informed and underpinned their sustainability reports, an essential initial element in determining materiality, they provided no explicit commentary on materiality per se and two provided some limited external verification of selected elements of their sustainability reporting (Table 1).

The nine property companies which addressed materiality in their sustainability reports adopted a different approach and there was some variation in the volume of material they published on the extent to which materiality was seen as an essential element in sustainability strategies, on how they determined materiality, on the issues identified as being material for the sustainability reporting process.. Unibail-Rodamco, for example, reported that integrating sustainability within its core business strategy had enabled the company to establish a hierarchy of material issues and to define both long term and short term targets. Land Securities emphasised that the insight gained from identifying the major material issues was vital in helping the company to both define and set strategic sustainability goals. Land Securities also reported convening six discussion groups comprising shareholders, office and retail customers, suppliers, employees and representatives from local authorities and local communities to discuss and prioritise material issues. This process led to the identification of ten material issues including workforce, environmental impacts, innovation in design, impact on local communities, climate change and resource availability. All ten issues were then mapped onto a materiality matrix whose axes were *'levels of concern and/or importance to stakeholders'* and *'Land Securities ability to have a direct or immediate impact as assessed by Land Securities.'* The workforce emerged as the most important material issue, ranking highest amongst both internal and external stakeholders. The company suggested this provided a clear mandate to do more to meet the needs of its employees and provide work opportunities to help unemployed people within the communities where it operated. The issues of climate change, resource availability and population appear as much less important but Land Securities argued that while stakeholders considered them to be *'global challenges that will not go away'* the *'stakeholders thought our ability to influence them was limited.'*

In a similar vein INTU reported working with a wide range of internal and external stakeholders in an attempt to ensure that it was focusing and reporting on the sustainability issues that *'are most important to our business and our stakeholders.'* The company defined materiality as concerning *'those topics that have a direct or indirect impact on an organisations' ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.'* In looking to elicit stakeholders' views on materiality the company initially focused on a broad range of socially responsible investment issues with the aim being to determine *'which issues were more or less important to our stakeholders and also why this was the case.'* INTU further reported that while there was some measure of agreement amongst stakeholder of the most important issues, the reasoning behind the stakeholders' decisions varied significantly. When the issues were plotted onto a materiality matrix, corporate governance, bribery and corruption and risk and crisis management appeared as the most important issues with climate change, biodiversity and community integration given only middle ranking status.

Hammerson asked stakeholders to identify the sustainability issues they felt to be most material to the company and to select what they considered to be the top five future issues, from a list of eighteen potential issues identified by the company. The overall outcome was that *'energy security and demand'*, *'technology'*, *'community engagement, investment and relevance', 'waste'* and *'meeting customer sustainability objectives'* were accorded high materiality status. Klenpierre reported identifying some twenty *'priority issues'* which were seen to *'reflect the long term performance of the Group.'* The company suggested that its approach to these issue must be *'efficient, with quantifiable and tangible objectives'*, *'irreproachable, to ensure exemplary management of our assets'* and *'innovative, with a focus on best practice.'* All twenty issues were mapped in matrix format but only nine of them, namely human rights, customers, energy, risks, security, waste, ethics, local development and transport, were identified as being material. However the company did not explicitly report on the processes they had adopted in determining materiality.

Fonciere des Regions reported on *'structuring dialogue with stakeholders for a more in-depth analysis of the materiality of challenges'* for the continuing development of its sustainability strategy. Stakeholders were divided into three groups according to *'their influence on decisions and business, the legitimacy of their expectations of Fonciere des Regions and their degree of social responsibility or level of commitment to sustainable development.'* The three groups were *'core stakeholders'* (including shareholders and tenants), *'other players with a formal link'* (including banks and suppliers)', and *'national and international players with no formal link but with influence over the company* (including media and local government. The issues identified were then mapped on to a materiality matrix in terms of their importance to the company and importance to stakeholders and *'sustainable value', 'climate change'* and *'energy'* emerged as the most important material issues with philanthropy, human rights, and local employment being accorded the lowest level of significance.

While a number of the other selected European property companies stressed a number of priorities in their sustainability reports they did not explicitly refer to, or report on, the concept of materiality. Castellum, for example, reported on its *'stakeholder dialogue'* designed to *'identify and analyse stakeholder expectations.'* These dialogues were conducted with customers, company executives, employees and the company's board of directors and the results were simply listed, rather than mapped, in a matrix format. The most important issues for stakeholders were biodiversity, information security and transportation. For the company the most important issues were the more efficient use of resources, environmental considerations and working conditions at suppliers, health and safety at work, the development of a sustainable real estate portfolio, social and economic development in the communities in which the company's operations were growing and sustainable relationships with customers. Swiss Prime Site reported fostering regular dialogue with its *'most significant stakeholders',* namely shareholders, tenants, users, employees, suppliers, service providers, government officials and the general public. While the company argued that the stakeholder demands it *'strives to meet are complex and subject to change over time'* they identified reducing energy consumption and greenhouse gases, providing training opportunities and development opportunities for employees, equal opportunities in the workplace and human rights in the supply chain as the most *'well defined demands.'*

Findings: Assurance

The eleven assurance statements varied in their coverage and approach and in the character of the information provided. In addressing the assurance process the assessors generally provided an outline of how they had gathered their evidence and they provided limited assurance as described earlier. However there was only limited information on the methodology the external assessors employed to gather evidence or of the criteria they employed to guide their judgements. Land Securities, for example, engaged Corporate Citizenship to provide limited assurance of its sustainability report. In introducing its assurance statement Corporate Citizenship emphasised that the aim was to ensure that Land Securities sustainability report was *'robust, credible and that it provides Land Security Stakeholders with a balanced account of the social, environmental and economic challenges and successes of the company.'* That said the scope of the assurance included a limited range of environmental performance data namely *'energy (kilowatt hours)'*, *'water (cubic metres)'*, *'waste (tonnes)'* and *'greenhouse gas emissions (tonnes)'* and the assurance statement stressed that *'Land Securities is entirely and solely responsible for the production and publication of the data assured.'*

In undertaking the engagement Corporate Citizenship performed range of procedures including attending regular meetings of the company's Corporate Responsibility committee in order to understand the operation of the sustainability strategy across the business; reviewing the alignment of sustainability metrics and reporting against industry best practice; interviews with key management personnel involved in the environmental data collection process; and site visits in order to appreciate the complexities of property portfolio and its reporting processes. Corporate Citizenship concluded that *'on the basis of the work performed, nothing came to our attention that causes us to believe that the subject matter of our assurance as described above is materially misstated.'* At the same time Corporate Citizenship also made a number of suggestions *'that may benefit future reporting.'* These suggestions included the need for greater disclosure in linking the identification of material issues to corporate strategy, providing more detailed explanation of the challenges faced by the business and a clearer articulation of the company's long term sustainability strategy. Finally in reporting on its *'independence and competence'* Corporate Citizenship acknowledged that it had worked with Land Securities in facilitating materiality assessment and that it had provided *'additional consultancy services to Land Securities'* albeit it not related to the sustainability report, during the reporting period. Corporate Citizenship also provided *'independent assurance'* for INTU which concluded that the company had addressed *'many of its most material issues'* and that *'nothing has come to our attention during the assurance process to suggest that there are significant errors or misstatements in INTU's data.'* Planet & Prosperity provided a very brief statement on its assurance of greenhouse gas emission data for Shaftesbury and concluded that *'nothing has come to our attention to suggest that these data are not fairly stated.'*

By way of contrast PricewaterhouseCoopers which were commissioned by PSP Swiss Property to perform assurance procedures to provide limited assurance on its sustainability report came to a rather different conclusion. This assurance engagement focused on *'the management and reporting processes to collect and aggregate the environmental key figures'* and more specifically on carbon dioxide emissions. The assessors explicitly acknowledge that *'the accuracy and completeness of sustainability related indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data'* and that PSP Swiss Property is *'responsible for the preparation and presentation of the selected subject matter.'* The assurance procedures employed by PricewaterhouseCoopers included interviews with company personnel responsible for collecting and reporting on the selected environmental data in Geneva, Olten and Zurich; an assessment, on a sample basis, of the completeness, accuracy, adequacy and consistency of the selected environmental data; a review of management and reporting structures; and an assessment of the appropriateness of the data consolidation processes. In its somewhat negative conclusions PricewaterhouseCoopers reported that PSP's *'internal reporting system to collect the data for the environmental key figures is not functioning as designed and does not provide an appropriate basis for its disclosure '* and that *'the data and information mentioned in the subject matter does not present fairly, in all material respects PSP's environmental performance.'*

Some of the selected companies included details of external recognition of their sustainability report. INTU, for example, reported on benchmarking through indices against its peers ensured that the company remained focused on best practice and continuous improvement. To this end INTU reported on its continuing membership of the Dow Jones Sustainability Index, on maintaining its position in the JSE Socially Responsible Investment Index, and on achieving the Business in the Community-Community Mark. SEGR included an *'Advisor's Statement'* from Emma Hoskyn, the Director of Upstream Sustainability Services. This statement claimed that the company's *'commitment to resource efficiency has been demonstrated through the successes they have achieved against SEGRO 2010'* and that that it had gained *'a better understanding of what is required to meet all of the targets by 2020.'* At the same time Hoskyn recommended that SEGRO focus future attention on a range of issues including improving the coverage and quality of its energy data, establishing the drivers for energy saving and SEGRO should work more closely with refurbishment teams to incorporate water and energy efficiency into all its future designs. GSW Immobilien included an *'Audit Opinion'* in the form of a statement of the Global Reporting Initiative's *'GRI Application Level Check'* which confirmed the company's sustainability report was *'a valid representation of the required disclosures as described in the GRI G3 Guidelines.'* Derwent London simply reported that it sustainability report reflected EPRA's Best Practices Recommendations on Sustainability Reporting.

Discussion

While all of Europe's top leading property companies recognise and publicly report on a wide range of impacts their businesses have on the environment, society and the economy there is marked variation in the extent, character and detail of the sustainability reporting process. As such this may reflect the reality that the leading property companies are at the start of a long and potentially difficult journey towards sustainability. More specifically only around half of the leading property companies have embraced materiality or commissioned external assurance as integral elements of the sustainability reporting process and a number of issues merit discussion and reflection. While a variety of approaches are employed in attempting to determine materiality there is a generic issue concerning the nature of the relationship between company interests and stakeholder interests. There can be issues, for example, when the company, and more specifically its executive management team, is principally, and sometimes seemingly exclusively, responsible for identifying and determining material issues within its sustainability reporting process. As such the company might also be seen to be essentially responsible for identifying its stakeholders and for collecting, collating and articulating their views on the priorities for the company's sustainability strategies.

However whether the leading European property companies can realistically and comprehensively elicit and represent the views of all their key stakeholders remains to be seen. Generally within the business world Banerjee (2008, p.53), for example, has argued that *'despite their emancipatory rhetoric, discourses of corporate citizenship, social responsibility and sustainability are defined by narrow business interests and serve to curtail the interests of external stakeholders.* A number of the selected property companies reported seeking to elicit stakeholder opinions on their sustainability priorities and strategies via stakeholder panels, customer surveys and face to face meetings with investors. This certainly suggests that some of the leading companies wish to look beyond their own immediate commercial imperatives in determining materiality. However Cooper and Owen (2007, p.665) council caution arguing that *'whilst the corporate lobby apparently espouses a commitment to stakeholder responsiveness, and even accountability, their claims are pitched at the level of mere rhetoric which ignores key issues such the establishment of rights and transfer of power to stakeholder groups.'* More specifically Cooper and Owen (2007, p.652) suggested that *'hierarchical and coercive power prevent the form of accountability that can be achieved through discussion and dialogue'* and that arguably, at best, companies may '*favour shareholders over all other interested groups.'*

There are also issues about how executive managers and/or stakeholders rank material issues in terms of both importance and impact and about the nature of the materiality matrices they use to depict materiality. Listing material issues in rank order, for example, effectively fails to depict or to distinguish between the perceived orders of magnitude of importance and impact. Schendler and Toffell (2013, webpage), for example, argue that while many of the world's largest companies *'are working to reduce energy use and waste, and many have integrated sustainability into strategic planning'* ……*'such actions don't meaningfully address the primary barrier to sustainability, climate change.'* Schendler and Toffell (2013, webpage) suggest that *'shareholder analyses of businesses focus almost entirely on operational greening activities and policies, but not on whether companies can continue on their current course in a climate-changed world. In other words, such analyses don't actually measure sustainability.'* Equally critically Schendler and Toffell (2013, webpage) further argue that many businesses that claim to be sustainability leaders *'don't recognise the primacy of climate change'* and that many businesses include *'climate in a* *basket of equally weighted issues' like oceans, forests or fisheries'* and that such an approach is *'misguided'* in that *'climate vastly trumps (and often includes) those other environmental issues.'* Although the issue of climate change is clearly *'too vast for any single business'* (Schendler and Toffell 2013, webpage) the leading property companies can exert a significant influence on energy usage and carbon emissions.

Concerns have also been expressed that the basic dimensions of the matrices that many large companies currently use to determine materiality are effectively not fit for purpose. Mark McElroy, Executive Director of the Center for Sustainable Organizations, for example, argued that *'while it is common practice now for corporate sustainability reports to include materiality matrices, whether or not they serve their purpose is debatable'* (McElroy 2011, webpage). McElroy's argument is that the majority of large companies have adapted the concept of the materiality matrix, initially favoured by the Global Reporting Initiative, to suit corporate rather than wider environmental, social and economic goals. More specifically he argued that *'instead of considering the impacts on the economy, the environment and society'* as one of the two axes of the materiality matrix as proposed by the Global Reporting Initiative, the matrices contained in the sustainability reports published by many large companies focus *'instead on whether, and to what degree, impacts affect the organisation and/or its business goals'* (McElroy 2011, webpage). More critically he claimed that this change *'amounts to a perversion of the idea of materiality in sustainability reporting because it essentially cuts out consideration of what are arguably the most material issues'* namely *the broad social, economic and environmental impacts of an organisation regardless of how they relate to a particular business plan or strategy'* (McElroy 2011, webpage.)

The approach the leading European property companies have adopted to external assurance is at best limited. Although this is not a problem per se, as sustainability reports are themselves voluntary and the accompanying assurance statements are not subject to regulation, the lack of independent assurance can be seen to reduce the integrity and the credibility of sustainability reporting process. More generally the independence of the assurance process can be a thorny issue. While Wiertz (2009, webpage) has argued that *'in applying external verification to CSR reports, a central characteristic of the assurance process is to be independent of the reporter and the subject matter being attested'*, O'Dwyer and Owen (2005, p.205) claim that their work on 41 large UK and European companies *'raises question marks regarding the independence of the assurance process.'*. More generally O'Dwyer and Owen (2005. P.224) have expressed concern over the *'large degree of management control over the assurance process'* arguing that management *'may place any restrictions they choose on the assurance exercise.'*

A wide range of stakeholders are taking an increasing interest in Europe's leading property companies' corporate behaviour and in theory the external assurance of sustainability reports must be seen to be important for a variety of audiences including the general public, customers, investors, employees, suppliers, regulatory bodies, local and national government, trade unions, non-governmental organisations and pressure groups. While RAAS Consulting (2009) has argued that the two primary audiences are regulators and investors, the formal assurance statements provided by the leading property companies, provided little indication of their intended audiences. CorporateRegister.com Limited (2008, p.27) suggests that *'statements are supposedly for external stakeholders, but in practice* *they're probably written for internal audiences and the language of assurance reduces its appeal to the wider audience.'* O'Dwyer and Owen (2005, p.224) contrast this approach with *'the governance structures underpinning the financial audit process'* arguing that management's *' reluctance to address the assurance statement to specific constituencies implies that they are primarily providing value for management thereby reflecting a perceived demand for assurance of this information from management as opposed to stakeholders.'* Further O'Dwyer and Owen (2005, p.224) conclude that unless this issue is dealt with *'assurance statement practice will fail to enhance accountability and transparency to organisational stakeholders.'*

Such reservations and concerns would certainly seem to limit the value, credibility and integrity of the assurance process but it is important to note that Europe's leading property companies are large and dynamic organisations. Capturing and storing information and data across a diverse range of business activities throughout the supply chain in a variety of geographical locations and then providing access to allow external assurance is a challenging and a potentially costly venture and one which many of the Europe's leading property companies currently seemingly choose not to pursue. Thus while operational carbon emissions may be systematically collected, collated and audited as part of a company's environmental sustainability commitments, information on their contribution to local communities and levels of staff satisfaction may be more difficult to define, measure and assure. Where a company's data collection and collation systems are not so developed to realistically allow rigorous and comprehensive assurance processes then limited assurance may well be the best way forward. At the same time it is important to recognise that assurance statements come at a cost which includes employee time, scheduling impacts and the assessor's fees

Conclusions

The vast majority of Europe's leading property companies publicly report, albeit in a variety of ways, on their commitments to sustainability and on how they are integrating sustainability into their businesses. There are marked variations in the extent to which the leading property companies have embraced materiality as part of their sustainability reporting process and there was little or no evidence of a collective sector specific approach to materiality emerging. Approximately half of Europe's leading property companies reported embracing materiality and/or commissioning external assurance as an integral element in the sustainability reporting process. In embracing materiality current best practice is focused upon engagement with a wide range of stakeholders, the identification and prioritisation of material issues and target setting. More generally a rigorous and committed approach to materiality that is integrated into a company's core business strategy can be seen as the most effective way to publicly demonstrate a company's commitment to sustainability. At best, in commissioning external assurance, the accent was upon 'limited' rather than 'reasonable' assurance and there are some concerns about management control of the assurance process. In many ways this reduces the reliability and credibility of the European property companies' sustainability reports. That said Europe's leading property companies are large and dynamic organisations and this makes more rigorous and comprehensive assurance a difficult, time consuming and costly process. Looking to the future growing stakeholder pressure may force leading property companies to embrace materiality and commission more comprehensive external assurance as systematic and integral elements in the reporting process.

More generally the authors argue that a number of Europe's leading property companies currently seem reluctant to fully embrace the concept of materiality and to commission independent external assurance and this would suggest that they are pursuing a 'weak' rather than a 'strong' model of sustainability. More critically the authors suggest that Europe's leading property companies' commitments to sustainability are couched within existing business models centred on continuing growth and consumption and that the current policies could potentially be viewed as public relation exercises rather than wholehearted commitments, to sustainability. As such this echoes Roper's (2012, p.85) belief that weak sustainability represents *'a compromise that essentially requires very little change from dominant economic driven practices but effectively works to defuse opposition, increase legitimacy and allow business as usual.'*

However Europe's leading property companies would surely want to identify with the belief that *'business leaders must run their companies successfully under present framework conditions while helping to lead society towards new framework conditions of sustainability'* (World Business Council for Sustainable Development 2010, p. 5). Further The World Business Council for Sustainable Development (2010, p.5) argues that strategic corporate commitment to sustainability *'represents vast opportunities'* and that as the *'challenges of growth, urbanisation, scarcity and environmental change become key strategic drivers for business'* so *'smarter systems, smarter people, smarter designs and smarter businesses will prevail.'* Europe's leading property companies will increasingly be looking to position themselves to address the challenges outlined above and also to be promoting and publicising their endeavours and achievements to a wide range of increasingly vigilant and critical stakeholders.

While the exploratory nature of this paper does not provide a basis for policy development it does offer a mirror in which Europe's leading property companies can reflect on their approaches to sustainability reporting and more particularly to the role of materiality and external assurance within that process. More specifically and looking positively to the future if the leading property companies are going to obtain leverage and create value by embracing materiality and commissioning external assurance then they must determine the resources they are prepared to invest in sustainability and look to how they identify and measure the benefits of embedding sustainability within their business models. The Ethical Corporation (2015, web page), for example, has argued that *'a good proxy for how seriously organisations take sustainability is, of course, how much money they are prepared to spend on it.'* While a low budget commitment to sustainability is not necessarily a problem per se, for example, in identifying the major sustainability issues facing a company, it can send a clear message throughout the company that sustainability is low on the corporate priority agenda. Arguably more importantly there is the thorny issue of whether and how companies capture and evaluate the benefits of their strategic sustainability commitments and achievements in financial terms. Initially benefits seem likely to be generated by the range of efficiency gains and savings outlined earlier but Europe's leading commercial property companies seem to certain to face a range of challenges in measuring the returns on their investment in sustainability. Looking to the future Osborne Clarke (2008, p.2) argued that *'ultimately sustainability issues will probably only take root in the market properly once the financial equation is favourable particularly for occupiers.'*

Table 1 : Leading European Commercial Property Companies

Company	*Country HQ*	*Sustainability Report (SR) / Information (SI)*	*Materiality*	*Assurance*
Unibail-Rodamco	France	SR	✓	✓
Land Securities Group	UK	SR	✓	✓
British Land	UK	SR	✓	✓
Hammerson	UK	SI	✓	✓
Swiss Prime Site	Switzerland	SR		
PSP Swiss Property	Switzerland	SR	✓	✓
Klepierre	France	SI	✓	✓
INTU	UK	SR	✓	✓
Corio	Netherlands			
Derwent London	UK	SR		✓
SEGRO	UK	SR		
Capital &Counties	UK	SI		
Deutsche Wohnen	Germany	SR		
Great Portland Estates	UK	SI		✓
Fonciere Des Regions	France	SR	✓	✓
Castellum	Sweden	SR		
Deutsche EuroShop	Germany	SI		
Shaftesbury	UK	SR		✓
GSW Immobilien AG	Germany	SR		
Gecina	France	SR	✓	

Source: EPRA (2013) and European Property Companies' Corporate Websites

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