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Business lessons from independent companies

Sustainability reporting

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The global conversation: reporting to the world

Sustainability reporting is a continuous global conversation in which companies are expected to prove that they create more "value" than they consume. *Jon Herbert* looks at trends, complexity and simplicity.

What is sustainability reporting? What does it really mean and what are its aims? More importantly, what does it promise for the future, or threaten for busy companies?

There are good reasons why hard-working firms should want to explain their sustainable performance clearly. Some deliver company-level benefits. Others are designed to safeguard a planet under stress. But for companies that feel they are pitted against a tide of metrics and confusion simply to prove their credentials as good corporate citizens, more pragmatic support would be very welcome.

A growing body of help is now available, both at a company and a planetary level, although it must be tempting for managers still living in a tough commercial environment to give global problems a lower priority.

One basic principle, however, is the key to understanding why — like strong medicine — proactive sustainability reporting may be unpleasant now, but is good for you in the long-run. This is that true sustainability reporting is about much more than simply adding green ink to conventional financial accounts to create the fabled triple-bottom-line — socio-economic, environment and business.

Positive sustainability reporting is based on enlightened self-interest and taking real actions. It forces companies to question themselves, change fundamentally and operate more effectively on the key counts of "people, planet, profits". Change may hurt, but it also opens up new possibilities. What does this mean in practice? Different things to different people, depending upon how specific industries have developed, suggests Brian Lewis.

Being practical

When the Institute of Environmental Management and Assessment sponsored the ET Environmental Manager of the Year Award 2006, the first ever winner was Brian Lewis. His work at Bombardier Aerospace in Belfast was said to epitomise "what good environmental management is all about".

Now a director of leading independent environmental and engineering consultants, RSK, which employs 850 technical staff in the UK and worldwide, he understands many of the problems and frustrations that busy companies face.

"One issue where much more clarity is needed is over the question of sustainability reporting versus environmental reporting," he says. "I believe that, up until recently, and perhaps in some cases still currently, these two terms have been used interchangeably. Understanding what sustainability reporting really does report, and how it covers much more ground than environmental reporting alone, is important because it shapes the wider way in which managers and executives are thinking. It isn't about lip-service, but about making a real strategic difference."

While many "more aware" organisations are now producing annual sustainability reports, others are issuing "annual reports" that centre on standard financial reporting, but include

community engagement and environmental (sustainability) sections.

"Quite often this means that the financial section accounts for 95% to 98% of the document, while other components have a very minor place. This misunderstands the whole power of good sustainability reporting. It is crucial to understand the challenging concept that today's businesses need to create environmental and socio-economic 'value' in a globally interconnected world. Organisations that fail to do this could miss out," Lewis adds.

Active sustainability reporting is increasingly seen as a yardstick in a number of key areas and represents a growing opportunity for commercial organisations to differentiate — or disgrace — themselves when crucial contractual or investment decisions are being made.

"Many potential customers now take proficient sustainability reporting into account at both the supplier approval and individual project bid stage. Major multi-national manufacturing organisations often use this as part of their supply chain approvals process. Relying solely on your core expertise is no longer enough," he advises.

"Stock markets also make sustainability reporting a requirement for listing. Many trade associations similarly require that their members report and that, in turn, this becomes a contribution to sectoral reporting, especially those representing major manufacturing sectors in the UK. The goal is to increase shared knowledge, and this is another opportunity to both add and learn."

"On the downside, setting national standards for imports can be used as a potential trade barrier. Better to be on the learning curve now than be hit by problems from more aggressive nations later."

Another growing threat and opportunity is legislation. The UK's recent carbon-reduction reporting requirement imposed on companies of a certain size upwards is a topical example. Lewis is convinced that it is best to grab this particular nettle firmly, now.

"In the near future, organisations could be subject at both a project and a company level to minimum standards of reporting," he predicts. "Another distinct possibility is that sustainability reporting will become a definitive parameter within environmental management systems (EMS) that qualify to meet the international ISO 14001 standard."

Lewis is also convinced that there is a current contradiction between what he terms absolute and relative reporting. This is making comparisons more difficult.

"In large multinational manufacturing organisations, this can become a real and sometimes very sensitive issue. For example, if an organisation measures energy efficiency in dollars per square foot, US and Canadian companies, in particular, will tend to be advantaged relative to UK businesses. This is because of their lower energy prices. However, the converse is often true when energy is measured in kilowatt hours (kWh) per square foot because higher costs mean that more effort and investment has gone into energy efficiency."

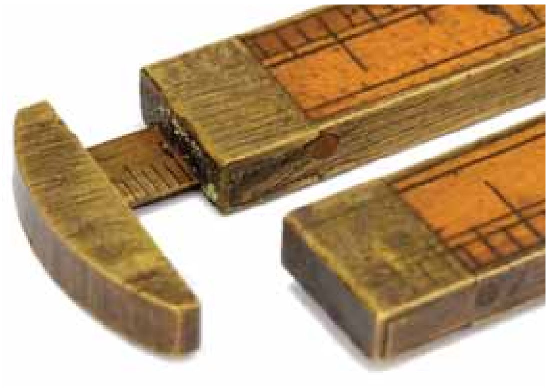
"In simple terms, absolute reporting is a way of measuring the amount of environmental damage that an organisation causes. In contrast, relative reporting can be seen as a measure of 'environmental efficiency'. This might even be termed as a 'relative sustainability factor'," he explains.

That brings in questions of scale and size to be judged against the benefits that larger companies create. A comparative measurement mechanism is needed. This could be seen as akin to profit/loss financial accounting. In a world facing global challenges, it may form an effective coefficient or index.

"My personal view is that high-level, internationally orientated organisations need to define numerators for these relative numbers. Companies should also report on both absolute and relative numbers," he concludes. Above all, his suggestions are designed to reduce the growth of unhelpful and distracting "greenwash" and ultimately the potential for destructive internal competitiveness.

Digital dawn

The digital age has also introduced immediacy and shared awareness that washes away



unsubstantiated greenwash. Companies are now under continuous scrutiny by well-informed audiences. Instead of reporting just once a year, they can be questioned at any time. Social media makes reporting an unending conversation. Reporting is no longer historic, but very current.

The internet brings everyone under the spotlight. Modest small and medium-sized businesses can suddenly discover that they have a high local community profile. Fears and opportunities surrounding hydraulic fracturing technology ("fracking") to release natural gas from impervious rock is a current example. Even renewable energy projects have a footprint. Temporary impacts from construction and infrastructure building are not exempt and come equally under focus.

Sustainability reporting is also becoming more formal. Ten years ago, enthusiastic prose was a good start. Corporate data is now required in forms that can be compared and matched against standards.

Legislation does loom. Denmark has taken the mandatory approach of asking its largest companies to "comply-or-explain". External special interest groups will inevitably add to the pressure. Change is gathering momentum that will put the disclosure of company information, warts and all, onto a higher and more open plain.

Companies in a world context

However, while clarity and simplicity are needed, there are also deep strategic undercurrents. A key aim is to unite the efforts of millions of well-meaning companies against global forces, such as climate change, that threaten the space we live in.

Rather than working in isolation, businesses are increasingly being encouraged to tie their own environmental, social and governance performance into much wider "global boundaries". The main boundaries are carbon, energy efficiency, global warming, waste, water use, resource consumption,

cleantech, human health and wellbeing, along with the perpetual welfare of the biosphere.

And there is an extra high-level twist. There are also calls for "integrated reporting" (IR) linking the actions of businesses, supply chains, markets, stock exchanges, nations, agriculture and the natural world. Here, the aim of governments and world leaders is to balance industrial activity with planetary problems as the world's population pushes on above seven billion.

In 2013, globally agreed frameworks and guidelines designed to make sustainability reporting as simple as possible have been revised. The good news is that different schools of thought are coming together to make a complex task easier.

Global Reporting Initiative

Sustainability reporting has academic and political roots that almost inevitably sound complex. However, the Global Reporting Initiative (GRI) continues to develop simple solutions designed to bring ordinary companies up to speed very quickly.

The GRI's mission is to make sustainability reporting standard practice, en route to a sustainable global economy. Its free Sustainability Reporting Guidelines are designed to help companies report their economic, environmental, social and governance performance.

The main focus of G4 (the new guidelines) is on reporting on what matters, where it matters, and the wider view of defining what critical aspects must be managed and changed, even before an organisation is ready to manage them.

The GRI's emphasis on "materiality" is important. It is intended to encourage organisations to provide only information critical to their business and stakeholders — with guidance on how to select material topics within relevant aspect and impact boundaries. This narrow focus is at odds with other high-level approaches.

International Integrated Reporting Council

In contrast, the International Integrated Reporting Council (IIRC), formed in August 2010 and chaired by Sir Mervyn King, has a different strategy for creating a globally accepted sustainability accounting framework. This brings together financial, environmental, social and governance data in an "integrated" format.

Its Integrated Reporting system, stylised as <IR>, is described as being concise, clear, comprehensive and comparable, structured around the organisation's strategic objectives, its governance and business model, and integrating both material financial and non-financial information. This is more straightforward than it sounds.

IR has several aims. The first is to add context to the information long-term investors need to be able to interpret responsibly, by highlighting the wider consequences of sustainable decision-making. A second is to emphasise the interconnections between environmental, social, governance and financial factors when key decisions are made, and to underline the important link between sustainability and modern economic value.

Other organisations have similarly adopted this wider view, including the World Business Council for Sustainable Development (WBCSD).

Marriage of ideas

The positive news for companies announced in spring 2013 is that the IIRC and GRI have signed a memorandum of understanding (MoU) designed to bring their dual approaches together for the benefit of large and small companies everywhere.

This will merge the GRI's strong internal materiality emphasis with the broad, long-term global focus of the IIRC.

The MoU will promote the global harmonisation and clarity of corporate reporting frameworks, standards and requirements. It will also support the development of both organisations' respective reporting frameworks, guidelines and standards. In addition, it will increase transparency and the future sharing of information.

Warts and all

A firm administrative and bureaucratic platform may be vital, but one of the greatest strengths of sustainability reporting may still be the embarrassment factor. Sunlight, it is said, is a great disinfectant. Knowing that the world has a front-row seat to your performance has no equal as an incentive for motivating senior management and executives to face up to awkward problems. It is argued that the fact that mistakes have to be disclosed makes the real successes even more believable.

In an uncertain and changing world, a transition is taking place where short-term shareholder value is under the microscope and a new definition of value is emerging based on "multiple capitals" that combine the human, social and natural alongside financial. The future valuation of a company will treat all these equally. The corollary is that companies will no longer be able to thrive in a purely commercial environment, but be forced to think and act globally.

Progress is about leadership and the knowledge that no one will succeed if excessive carbon continues to be put into the atmosphere, water supplies are strained, waste is wasted and living conditions are not respected.

The stark message of sustainability reporting is that, unless global boundaries are met and social foundations respected, businesses cannot succeed in the long term. The alternative is to destroy the planet, little by little, for future generations.

Only by creating more "sustainable value" than is destroyed, in the places that real people hope to live and work, can we succeed. ■

John Herbert has been a Director of ISYS International. He is a former communications manager and investment advisor. He has written on environmental issues for many years.