

An Introduction to Sustainability Reporting

There is a growing movement, worldwide, to not only be a more responsible corporate citizen, but to trade on that fact and Sustainability Reporting is the lynchpin of this undertaking for many organizations.

Sustainability Reporting is the practice for commercial, public sector, and non-profit organizations alike of raising awareness and making positive change to how the organization impacts the environment and people.

Sustainability Reporting is a relatively new discipline, without the global standards and accepted controls of financial accounting; however, this is fast changing.

Sustainable Business, Corporate Social Responsibility, Environmental and Social Risk Assessments are other terms heard increasingly in business, investment and governance forums today and this belies the growing significance of this activity. Some of these terms are used interchangeably. We use the term “Sustainability Reporting” to include reporting at its broadest level, which addresses financial, social and environmental topics.

What Is Sustainability Reporting

A Sustainability Report presents information about a company’s (or organization’s) progress toward implementing sustainable business practices. The report will typically report on progress toward key business objectives:

- Decrease its environmental footprint (including water and energy use)
- Improve its financial bottom line and operate the organization ethically
- Improve its relationships with stakeholders, including relationships with its employees and the communities in which it operates.

Companies have traditionally demonstrated their financial responsibility through quarterly and annual reports, relegating societal accountabilities to public relations efforts and marketing brochures. Sustainability Reporting adds social and environmental performance to these accomplishments. This marks a major milestone in corporate accountability.

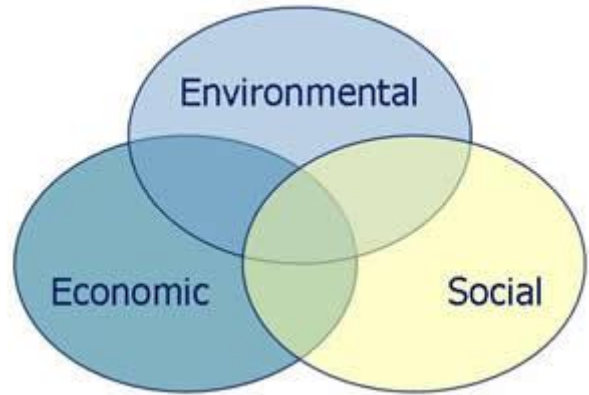
There are many forms that a Sustainability report can currently take, each valid in its own objectives and context. Reporting initiatives can include Environment, Health and Safety Reports, Corporate Social Charters.

A key aspect to reporting is putting in place measures - including baseline measures - and objectives for improvement on these measures. In this way, areas of concern or interest to the audience of a report can be monitored and the organization can demonstrate progressive improvements.

Audiences for these reports will include customers, pressure groups, potential investors, shareholders, fund managers, governmental regulatory organizations and students. Each of these groups will have particular areas of focus and need the information presented in different ways. Communication of information via the Sustainability Report must be done with sensitivity and care with any and all audiences.

Triple Bottom Line

The principles of Triple Bottom Line ensure that organizations account equally for Economic, Social and Environmental factors as inputs, outputs and internal processes of their business.



The principles of the Balanced Scorecard provide a strong parallel; however, Triple Bottom Line takes the scorecard into a realm that extends beyond direct impacts of the organization. This now allows an organization to address indirect impacts, long-term and very long-term risk and to take advantage of incentives to be proactive on social and environmental issues.

Ultimately, there is no value in excellence in Environmental Stewardship and Social Initiatives if the organization is unable to sustain itself financially to survive.

CERES and Global Reporting Initiative (GRI)

A sustainability report is often written according to guidelines issued by the Global Reporting Initiative and/or consistent with CERES reporting guidelines.

The Coalition for Environmentally Responsible Economics (CERES) was founded in 1988 and is now the worldwide leader in standardized corporate environmental reporting and the promotion of transformed environmental management within companies. Formed out of a partnership between some of America's most progressive investors and environmental groups, CERES has pioneered an innovative, practical approach toward encouraging greater corporate responsibility on environmental issues.

Convened by CERES in partnership with the United Nations Environment Programme (UNEP), the Global Reporting Initiative (GRI) was established in 1997. GRI is now a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally- applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental and social dimensions of their activities, products and services. GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact.

GRI is considered, world-wide, to be the best set of guidelines developed to date.

Structure of a Sustainability Report

Begin by thinking of the Annual Report to Shareholders from a publicly-owned company. A published Sustainability Report works on the same principles, but on a wider context, giving equal weighting to environmental and social factors as it would to economic. The structure of the report is similar. The following description of the report reflects GRI guidelines:

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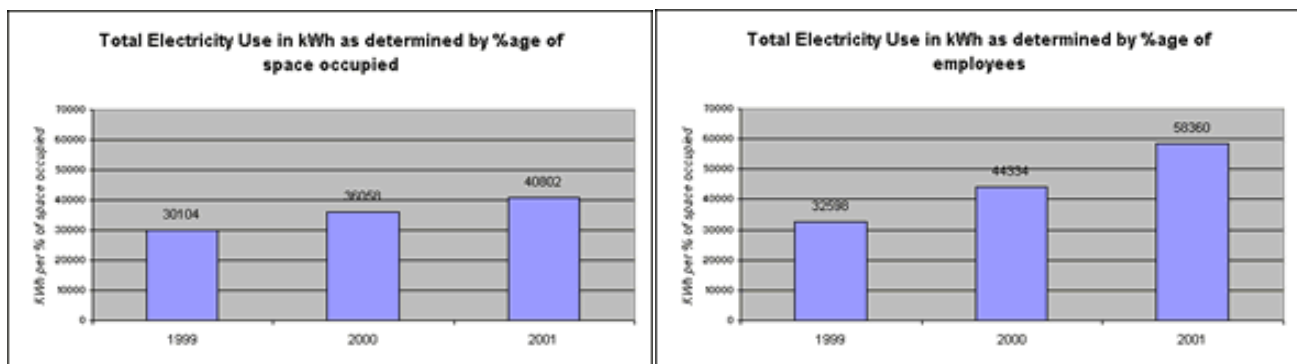
- **Company Profile/Statement of Intent:** This is really the equivalent of the President or CEO's Statement declaring the "state of the nation" and what commitments the organization is planning on making with the reasoning behind it.
- **Vision and Strategy:** This area will provide a context to the three types of measures, providing an overview of the value adding activities of the company.

Each of the following sections will discuss initiatives that address specific concerns and how they are being monitored, progress achieved and the trade-offs being made.

- **Economic Measures:** These include the financial inputs and outputs and subsidies, breakdowns by business area, geography, how well managed the collections are, how well the organization manages to negotiate purchasing, and profitability.
- **Environmental Measures:** This section includes material inputs and outputs, energy and waste management, impact of substances used and processes employed, logistics, compliance with regulations and reduction, re-use and re-cycling policies.
- **Social Measures:** This section includes employee management to ensure fair treatment, compensation and employment policy, health and safety initiatives, investment in staff, human rights policy exerted on partners, contributions in money and kind to communities where the organization operates, socio-political influences and compliance with regulations.

Each of these sets of measures demonstrates the health of the organization and its exposure to particular types of risk.

- **Metrics with year-on-year comparisons:** Like a financial report, this section includes actual and normalized values (expressed in comparable measures or ratios) with year-on-year comparisons, where possible. Generally presented in tabular form with footnotes that link to exceptions.



(charts taken from CERES 2001 Sustainability Report to show normalized measures)

- **Exceptions:** This section will provide reasons where items are not normalized or even reported on. It also includes explanations of specific measures where a simple numeric indicator does not tell the whole story. For example, a business that rented commercial office and retail property was tracking energy emissions of its facilities. When it disposed of its retail and warehouse properties there was a large reduction in total square footage and because office properties have high emissions (due to air conditioning requirements), the overall energy emissions per square foot increased considerably. This

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change was necessary for the economic sustainability of the business and therefore requires certain clarifications.

There are alternative reporting formats and delivery methods depending on the business and communication objectives. These include:

- Operational and Financial Review (OFR) - established as a mandatory reporting format in the UK from January 2005 for all companies traded on the Financial Times Stock Exchange. As yet, no strict guidelines for reporting exist, other than the requirement to report with more specific requirements in the pipeline as companies enable themselves with this initiative.
- Environmental, Health & Safety Reports are a long standing requirement for many companies and in many cases they have significant overlap with many aspects of sustainability reporting.
- Websites and reports published for Socially Responsible Investment (SRI) funds that track specific measures that the fund managers focus on. An organization that is being tracked by multiple SRI funds will use such a report to consolidate handling the individual enquiries from different fund analysts resulting in a very tangible saving in administration costs and being able to be proactive in addressing fund manager's questions.

Benefits of Sustainability Reporting

The benefits are threefold, each one with a matrix of positive effects.

Good Business Practice

When a business or organization chooses to report, whichever objectives it has, it will undergo an exercise where it captures and makes public its findings. This focuses attention upon business practices that are suboptimal or just plain bad business. For manufacturers, waste management is one such area that highlights bad practice – to improve upon poor waste management metrics will usually involve making processes more efficient in terms of waste produced per volume of actual goods.

Compliance

Where regulatory bodies have created strict regulations or even loose guidelines, organizations need to comply or face whatever penalty is imposed. Such penalties may be blacklisting or a recommendation not to purchase or invest or for government imposed regulatory compliance, then a possible jail sentence.

Positive Public Relations

People like to do good and they prefer to support companies that also do good. Therefore, when two companies are competing and the only difference between them is the perception of how socially and environmentally responsible they are, then this may be the competitive edge. Therefore, the use of the sustainability report and similar stakeholder communications can be a positive way to communicate to key audiences.

Anticipated Results of Sustainability Reporting for the Reporting Organization

- Improved management tools to measure and benchmark performance, internally and externally.
- Increased ability to compare and reduce costs especially if the report is integrated into a company's reporting processes.

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- Improved ability to ensure that suppliers' business processes are consistent with your company's brand and value system.
- Reduced costs because the results of reporting should identify and eliminate waste and often helps identify new business opportunities.
- Improved communications because a common reporting format provides a set of indicators that can be used to discuss performance among stakeholders.

Anticipated Results of Sustainability Reporting for report users:

- Increased ability of banks, investors and ratings organizations to benchmark and rate companies. Using a standard reporting protocol helps provide high quality and comparable information about corporate performance.
- Increased ability of stakeholders, including government and advocacy groups, to assess the quality of a company management's governance ability, especially its ability to anticipate and respond to emerging issues.
- Increased ability of employees, customers, and other stakeholders to obtain information about corporate social and environmental responsibility policies and activities.

Preparing the Report

If you are considering whether to produce a Sustainability Report, the reasons for doing so are compelling (and on this website, we tend to promote these reasons due to the nature of our work). But, indeed, there are a number of issues you need to consider before leaping into this activity:

1. Sustainability Reporting is not a one-off activity

Once you have begun, people will be interested in the information you have gathered, what you are concluding and they will be interested in the ongoing improvements made. This will apply as much to an internal audience as an external one.

2. Start small

To attempt to produce a fully accredited / comprehensive sustainability report in one go is an ambitious undertaking. Although it has been achieved, you must realize the capabilities of your organization and that significant changes in direction will require political maneuvering, change management and simple organizational inertia. The first iteration may be only for internal publication.



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3. Make sure you get executive commitment Because of the significant impact of a report in today's business environment, gaining executive commitment is essential and to see the project through, executive support is also highly desirable. (Note: the CEO must sign the report if following CERES or GRI guidelines.)

4. Understand the nature of compliance If you are producing a report in a compliance situation, ensure that you have a full understanding of the regulations and exceptions. There may not be a need to report or the need may be greater than you realize. Also the regulations may become tighter as time progresses and your reporting goals may need to move with them.

5. Understand your audience A deep understanding of whom you are reporting to is vital because this will determine the nature of your reporting project. Advocacy or NGO groups will require a very different emphasis in a report than one to SRI fund managers.

6. Anticipate internal obstacles Your project will always be at risk from internal obstacles, despite even the most fervent executive support. Almost certainly you will find that individual objectives and performance metrics run contrary to sustainability principles and shining a light on such practices will stand to put somebody in an awkward position. Be sensitive to these situations and handle them pragmatically. Remember, perfection is the enemy of progress.

When you are certain that this is what you want to do, you can embark on the journey, one that we hope that will be rewarding and fruitful for all of your stakeholders.

Steps to Preparing a Sustainability Report

1. Educate Yourselves Ensure that your core team has a thorough understanding of what is required and why, including knowledge of regulatory bodies and audience groups

2. Feasibility Study Carry out a preliminary study to determine the value of this exercise and the amount of effort required. Understand the time periods, the impact on the organization to produce the report and most importantly anticipate the impact on your organization when the report is published.

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3. Executive Sponsorship
Create a compelling argument for producing a report, back it up with a realistic ROI and anticipate where push-back will occur. Gain the support of multiple executives and time commitment from their staff in departments whose help you will be seeking.
4. Establish Objectives
Determine the precise set of reasons why you are producing the report and set a number of objectives that will satisfy those reasons. Additionally produce an ongoing communications strategy (preferably two-way) to allow you to manage how you deliver the report content to your audience groups.
5. Needs Assessment
Determine the needs of your reporting project in terms of resources, budgets, timeframes and external factors. Examine gaps in what you have and what is required and ensure that these gaps can be plugged. In this phase you should also provide a detailed analysis of potential objections and risks and for each a mitigation plan. Overall provide a contingency plan.
6. Project Planning
Detailed task allocation, establish milestones, plan resource utilization, build in appropriate contingency. This activity will be an ongoing one throughout the duration of the project.
7. Data Capture
Determine metrics you will be reporting on and levels of detail, locate sources of data and triangulate to ensure accuracy when dealing with multiple sources, work out how to normalize the data across your organization, provide mechanisms for capturing data from remote locations, provide storage facilities for holding and organization data and finally tools to access the data and to format it into reports.
8. Report Creation
The process of creating the report, writing the executive's statement, ensuring appropriate narrative and accurate data. If following a standardized set of guidelines, such as GRI, or adhering to a set of guidelines, ensure that these are well defined at the start of the process. Ensure that the formats being produced are done with prior knowledge of the dissemination strategy.
9. Report Dissemination
Execute your communication strategy, probably best done in phases for maximum impact. Ensure that mechanisms for two-way communication (e.g. 1-800 numbers, email addresses) are active and work effectively.

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10. Capture Feedback Capture feedback from all audience groups and all participants in the reporting process. Ensure that these are well documented and used to improve the next reporting cycle.

Potential Pitfalls

1. Effect on metrics of changing context Metrics like the processes that they measure are not static. As context changes, whether it be the process itself or what your organization is trying to achieve, there will be an effect on the metrics that you report. Each time you collect a metric, step back and look at it in context and anticipate the reaction of your audience
2. Positive and negative communications Your open and honest communication can be used against you. Advocacy or NGO groups will often require more of you; there may be criticism that your performance is poor. If you anticipate this, then you will be able to have more in-depth responses to explain your actions and what you are doing to improve.
3. The snow-ball effect Once you begin on the road to reporting or even implementing more proactive communication to your audiences, it takes on a life of its own. Customers and the media will likely be interested in what you are reporting and what more you will be doing in the future.

Reporting Suggestions

- Provide clear, consistent, and relevant information that addresses the needs and concerns of your stakeholders.
- Provide absolute values of the market, goals, and value created for the companies' (or organizations') stakeholders—expressing sustainable activities in terms of their financial value and goals for the next year, for example.
- Provide a management tool to help continuously evaluate and improve sustainable performance.
- Promote a true picture of the company. The more candid the report, the more positive its effect on the company's reputation. Stakeholders will feel confident that the company will strive to achieve its goals over the long term.
- Include or exist cohesively with other reporting standards, such as financial reports.
- Facilitate comparisons with competitors.