

UNSUSTAINABLE REPORTING

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ABSTRACT

This paper reports on a study of 30 large global companies in three industries with very different characteristics to see how they report on the main issues that might be expected to be covered in a sustainability report. The paper uses a disclosure index currently being developed within CorporateRegister.com as the basis for the assessments. The paper concludes that, even for these large companies, much of the information reported is not material, not assured, not comparable and provides favourable, rather than balanced reporting. US companies in the sample are noted particularly for their relatively poor objective reporting. The paper notes the positive developments of developing standards in particular specific areas and of performance tables as a way to summarise the most important information. The paper contains recommendations for how to improve sustainability reporting and suggests likely possible future trends that might occur.

Introduction

Sustainability reporting – reporting which covers the environmental and social aspects of an organisation's performance as well as the economic aspects – has been emerging globally as a voluntary reporting mechanism over the last 20 years. It has now reached the point where most large organisations in developed countries are issuing these voluntary reports. CorporateRegister.com (2008) reported that 75% of the global top 500 companies (up from 67% in 2005) now produce sustainability reports. CorporateRegister.com has over 20,000 reports now on file, with numbers expected to grow by around 3,000 in 2009.

King (2008) states that 50 of the largest organisations are in the top 100 economic entities in the world, including countries. Large organisations thus have very large impacts on the world. The pressure for sustainability reporting has come from a variety of external stakeholders, seeking information about how organisations affect the environment, the wellbeing of their employees, their suppliers, their customers and the communities in which they operate. Such pressure has led to the development of indexes for socially responsible investment (eg Dow Jones Sustainability Index, FTSE4Good), social ratings agencies for listed companies (eg Sustainability Asset Management, KLD Research & Analytics) and a series of global awards for these reports (eg CorporateRegister.com, Association of Certified Chartered Accountants, Global Reporting Initiative).

Yet sustainability reports are voluntary, there are no agreed standard frameworks for the reporting, there are no agreed measures for what is reported and each industry faces quite different external issues which might be significant to its operations. Perhaps not surprisingly, analysis has revealed a wide variety of problems in reporting to date. At its most significant, the criticism suggests that investors do not see the relevance of the information published and are not using it (Bartels et al 2008) ie there is no 'business case' for sustainability reporting. However, the emergence of international carbon tax regimes and the outcry from businesses about the likely effects of these indicates that a business case is emerging for carbon emissions (and their reporting) at least. Also, it is well known that internal 'social' performance (ie effective people management), good customer relationships and good supplier relationships are important for good organisational performance (eg Pfeffer 1998, Hubbard et al 2007). Further, reducing waste, emissions, water usage, energy usage, greenhouse gas emissions etc are all 'good' from a community and society perspective (due to reductions in public costs), regardless of whether any clear or direct financial effect for the organisation can be established. In addition, the development of the balanced scorecard (Kaplan and Norton 1992) and its widespread use within organisations has moved internal performance measurement and reporting well beyond the mere financial, so organisations themselves are well aware of the need to consider a balance of measures. Specifically relevant to sustainability reporting, Hubbard (2009) has recently suggested how social and environmental reporting may be incorporated within the balanced scorecard.

Other criticisms have been made of non-financial, or sustainability reporting. These include that the material is 'greenwash' ie it is not a balanced reflection of performance but presents an overly positive view (Owens 2006, Adams and Frost 2006, Treggidge and Milne 2006), the material is not credible because it is not assured (ACCA 2007, CorporateRegister.com 2008), the reporting does not focus on material issues (Bartels et al 2008) and reports are too long and not focused.

Objectives of this study

This study set out to address some of these issues. By applying a common disclosure framework to a selection of industries with different business models, its objectives were to analyse organisation sustainability reports to:

- see to what extent disclosure on fundamental cross-sectoral issues varied *across* industries
- see to what extent disclosure and quality of reporting varied *within* an industry
- to understand the causes for such inter- and intra-industry variations
- to suggest how the quality of future reporting can be improved.

CorporateRegister.com has been working to develop a disclosure index of key items that should appear in sustainability reports. Our methodology has been to take this framework, which we believe can be applied to all organisation types, and to test it on a small number of major organisations within a limited number of industries. We chose 10 of the largest organisations within 3 industries which are globally important but which might be expected to face widely different sustainability reporting issues. We looked to choose the largest organisations in the world, as they have the largest societal impacts, but we wanted to choose organisations from a range of industries so that we had similarities within industries, yet could contrast results from industries facing quite different contexts. We also tried to choose organisations and industries which were represented across a variety of geographies, since one major cause of variation might well be local/national regulations, context or cultural attitudes.

We chose the 'oil and gas' industry because its products have major impacts on the environment and it also faces particular social issues in operating often in remote environments in developing countries without the necessary supporting infrastructure or sophistication required. We chose the 'banking' industry because it has/had the most organisations in the global top 100, is service- and not product-oriented and its operating context is the anti-thesis of that of oil and gas companies (ie it is located in large, sophisticated cities with good infrastructure). We chose the 'food manufacturing' industry because it represents manufacturing, is increasingly international/global despite starting from local tastes and has a different range of issues from either oil and gas or banking (eg dealing with health and nutrition issues, consumer pressures and environmental and supplier issues related to production and operating methods).

Using the CorporateRegister.com database, we decided to assess 2007 reports as these were the latest comparably available for most organisations. The largest companies also seem to be the leading supporters of sustainability reporting, so almost all of them did have such a report in 2007 (we excluded those who did not have such a report). We assessed only the written or pdf report available from the database. While most reports indicated that more information could be found in websites or elsewhere, following the materiality principle, we felt that, if the information was perceived to be genuinely important, it would have been reported in the main report. Table 1 shows the companies chosen. In terms of geographic areas, the sample includes 10 US companies, 11.5 European companies (3.5 UK, 2.5 Netherlands), and 7.5 Others (Australia 2.5), with 15 different countries represented.

Table 1: Industries and companies assessed

Oil and gas industry	Country	Banking industry	Country	Food manufacturing industry	Country
Exxon Mobil	US	Deutsche	Germany	Nestle	Switzerland
Shell	Netherlands/UK	JP Morgan	US	Danone	France
BP	UK	HSBC	UK/HK	Kellogg	US
Sinopec	China	Citigroup	US	Coca-Cola Enterprises	US
Total	France	Royal Bk Scotland	UK	Kikkoman	Japan
Gazprom	Russia	ANZ	Australia	General Mills	US
Chevron	US	Rabobank	Netherlands	Sara Lee	US
Petrobras	Brazil	Wells Fargo	US	Royal Wessanen	Netherlands
BHP Billiton	Australia/UK	Santander	Spain	Raisio Oyj	Finland
Conoco Phillips	US	Westpac	Australia	Hubbards Foods	New Zealand

The framework, measures and scoring

Analysis of frameworks used by DJSI, FTSE4Good and KLD indicated each had a rather narrow range of measures which were often quite different from each other. The GRI framework, on the other hand, requires at least 78 categories of measures, which seems to be impossibly large if trying to address ‘major’ or ‘significant’ issues. Instead of choosing any of these existing frameworks, we took a strategic view of what the framework should look like.

Appendix 1 outlines the details of the framework. In essence, our view is that, for balanced reporting, we need to understand:

- the corporate/business strategy which the organisation is trying to deliver
- the governance processes of the organisation
- its economic performance
- its environmental performance
- its social performance

Strategically, we wanted to know that the report took a materiality perspective towards all aspects of its strategies for sustainability and that what was reported had credibility through being professionally and independently assured. Given the current perceived importance of governance, we wanted to see to what extent independent directors existed and external stakeholders were involved and engaged.

In terms of the specific performance reporting areas, to get a good understanding of the sustainability of the whole organisation, we felt that economic performance needed to be covered sufficiently well for readers to be able to form a view. There’s not much point

having good environment and social performance if the organisation goes into liquidation!

Within environment performance, we focused on key issues of greenhouse gas emissions (not just CO₂), energy and water use, the use of non-renewable resources, other emissions and wastes and biodiversity impacts.

We classified 'social' performance into 4 different areas: internal social (ie employees), up and down the value chain/business system (customers and suppliers) and community, including political relationships, which are very important for large organisations.

What we expected was that all organisations would have material issues of strategy, governance, economic, environment, employees, customers, suppliers and community to deal with. Given the wide range of areas, applying a materiality criterion, only a few elements of each area would be able to be covered.

The number of issues in each area of the framework is not equal. At a philosophical level, we debated whether they should be equal, perhaps in terms of a 'balanced scorecard' or 'triple bottom line' approach. However, as we were interested primarily in what was disclosed, we simply took the items which seemed likely to be important to most organizations, based on our strategic focus. We assigned heavier weightings to questions in the strategy and governance areas, on the basis that, unless the organization had clear strategy which we could measure performance against and had clear governance processes, we would have limited faith in the outcomes reported. However, experiments with different weighting systems did not reveal a great deal of change to the relative scores of the organizations. In fact we are interested in the *relative* scores, not the *absolute* scores.

What we were expecting was that companies with clear materiality approaches would score well in the areas which they chose and perhaps not score at all in areas that were immaterial to them. *Within* industries, we expected that organizations would see the *same* issues as material, but *across* industries we expected that *different* issues would be material. Across industries we expected that organizations with clear sustainability strategies would score better than those without this.

Findings

1. General

Overall, we found that the companies in the sample were mature reporters (less so in food). Despite this, reports lacked consistency in name or format. Table 2 indicates the number of reports and names used for the reports. The average number of reports by industry varied from 6 to 9, indicating significant experience of the process. Also, 11 different names were given to these reports, though 'sustainability' and 'corporate responsibility' are now the dominant themes. US firms, however, mostly remain focused on 'citizenship' or 'environment', terms which are disappearing from the rest of the world.

There is an emerging trend for a standardized 'CEO/Chair letter' and a performance table (less so in food) to be given, similar to the formats for financial reporting. The

performance table, however, often appeared at the end of the report and was often unconnected to the specific discussion in the text.

Table 2: Report names and average number of reports/industry

Name of Report	No.
Sustainability	9.5*
Corporate Responsibility	5.5*
Corporate Citizenship	3
Sustainable Development	2
Corporate and Social Responsibility	2
Environment and Society	2
Others**	6
Total	30
Average No. of Reports Produced to Date By Surveyed Companies	
Oil and gas	7.4
Banking	8.7
Food manufacturing	5.6
Average	7.2

* One report is called Sustainability and Corporate Responsibility

** Environment, Stakeholder Impact, Citizenship, Creating Shared Value, Sustainable Dependable Performance, No name

We did find that a strategic approach was taken to the reports. The business/corporate strategy(ies) were generally indicated at the start, sustainability strategies were linked to business/corporate strategy(ies) and governance issues were generally addressed (less so in food).

Not surprisingly, we found different 'business models' for each industry, which was reflected in the focus of reporting. The areas of focus are shown in Table 3.

Table 3: Key elements of the business model by industry

Industry	Key business element
Oil and gas	Environment + community + employees
Banking	Customers + employees + community
Food manufacturing	Production process + customer needs + supply chain environment

However, this is not completely reflected in the actual scoring across each element of the framework for the 3 industries (see Table 4). This is because there was a real lack of consideration of materiality, apart from some oil and gas companies. Most organisations seem to be trying to report something for everyone. Leading companies (oil and gas mainly) use sophisticated approaches to develop a materiality matrix of issues based on external and internal stakeholder engagement, providing the ability to have a clear focus on a small number of material issues. (However, it is not clear that this process is resulting in a focus on the real 'material' issues for oil and gas companies, such as significantly reducing CO2 emissions and reducing the use of non-renewables.)

While banks have processes to consult with or even engage stakeholders, they seem to be determining the 'material' issues themselves, rather than involving external stakeholders directly.

Table 4: Overall scoring by industry by sustainability reporting element*

Element	Possible Maximum Score	Oil and Gas	Banking	Food Manufacturing
Strategy and Measurement Alignment	130	90 (69%)	76 (58%)	61 (47%)
Governance	100	58 (58%)	46 (46%)	32 (32%)
Economic	60	4 (7%)	6 (10%)	7 (9%)
Environment	54	25 (46%)	19 (35%)	20 (37%)
Social – Employees	60	24 (40%)	20 (33%)	14 (23%)
Social – Customers	36	5 (14%)	11 (31%)	8 (22%)
Social – Suppliers	36	6 (17%)	5 (14%)	6 (17%)
Social – Community	36	14 (39%)	9 (25%)	6 (17%)
Total	512	226 (44%)	192 (38%)	153 (30%)

* The percentage shown in each cell indicates the percentage of the total score achieved, indicating the degree to which the disclosure index elements have been reported against.

This is even more so with food companies. One particular problem with food companies was that much of the information is not integrated globally. It is reported by business, product line or country, making it difficult to get an aggregated picture, whereas banks and oil and gas have developed such aggregated pictures. Recently Craib (2008) found that 40% of his sample of non-North American reporters had a process for determining materiality, compared with less than 25% for North American reporters. Our findings are broadly consistent with those findings.

Table 5 shows that only 5 of the 30 companies had comprehensive assurance and almost 50% had no assurance at all. We found very limited assurance in food or even oil and gas companies. Even when it appears to be there, most of the assurance was limited to a very small part of the total report. By contrast, banking was generally assured except for the 3 US banks, perhaps reflecting the lack of importance of environment issues for this industry. Recently, CorporateRegister.com (2008) found that 25% of reports were assured on average over the last 5 years with 43% of the global FT500 being assured. As more than 50% of this sample have some level of assurance, this suggests that this sample is of 'good' reporters. However, it also illustrates how limited the assurance process currently is.

Table 5: Assurance coverage

Industry	Comprehensive	Partial	None
Oil and gas	1	5	4
Banking	3	4	3
Food manufacturing	1	2	7
Total	5	11	14

Yet assurance is fundamental for credibility. No one would believe a company which prepared its own financial results without audit. Similarly, it seems unreasonable to believe a company which prepares its own non-financial results without audit. On this basis, by itself, this would suggest that much of the reporting – from the leading reporters in the world – is not credible.

2. Economic

Economic indicators of performance were mostly omitted (see Table 4 above). The assumption seems to be that these are in the annual report in detail. Another speculative reason might be that the financial performance is so high for many of these companies that highlighting it in sustainability reports might detract from other aspects (banks particularly). Even when economic indicators were included, typically little or no comment was given and return on investment was not highlighted.

Some companies included their key economic results in the summary performance table (see later discussion), thereby indicating that economic results are an important part of a 'balanced' approach to organisational performance. Clearly, for true sustainability, economic performance is critical (just ask Lehman Brothers, AIG, Fortis, Royal Bank of Scotland or General Motors). The limited information in these reports was not sufficient for a balanced assessment.

3. Environment

Not surprisingly given the different business models for each industry, reporting of environment performance was given a lot of space by oil and gas and food companies, but not by banks. However, for all the current emphasis on environment issues, this aspect of reporting had surprisingly limited 'value for money' from the space devoted to it. There is a lack of clear targets, a lack of common measurements and a lack of comparable data for benchmarking (eg what is a 'good' level of CO2 emissions?),

For oil and gas companies, which mostly described themselves less emotionally as 'energy' companies, little attention was given to the need or ambition to reduce or limit future growth of oil and gas production and/or any significant positive pursuit of other 'energy' or resource alternatives (eg renewables), which one might expect of a true 'energy' company.

However, on the positive side for environmental performance, reductions in resource use of 1-5% pa were being consistently reported by oil and gas companies, across all resources being used. This is good, but unfortunately not good enough for what the world requires overall. The base time used for reported reductions also varied greatly for actual and targets. Some reported reductions over 10 years, some over the last year. Many companies reported over varying years, according to the measure. This makes it very difficult to get any overall picture of current performance. Sometimes performance was measured in 'per unit' terms, not 'total use' terms ie total use might be increasing, but 'per unit' use could be decreasing. To the extent that the world environment needs an *absolute decrease* in use of most resources, reporting of 'per unit' decreases or of cumulative decreases over long time periods (eg 20% over 10 years) can be seductive. Better disclosure would be to report absolute rather than normalized performance, or the two performance approaches in parallel.

Food companies were less clearly reducing resource uses, even when their aims were to do so (many targets were being missed or actuals were not reported against targets). They also generally relegated environmental reporting to the ends of their reports, reducing focus on the issue even if it is reported (most people focus on the issues reported early in a report, not on those buried at the back/end).

Food companies focused on packaging, recycling and waste production as areas of impact (though much food waste is now recycled into food or other products for other industries (eg agricultural feed). Food companies found that most of their CO2 emissions were indirect (ie from agriculture or from transport in their supply chain). Thus the focus for resource use improvement would need to come from the supply chain rather than their own activities. This may explain why there is less focus by them on this.

Bank reporting indicated little attention at all to reducing their own resource uses and reported environment issues at the end of their reports. They saw 'environment' as being primarily about energy use, electricity use, paper use and CO2 emissions. They saw the need to reduce the use of these resources as being primarily a customer responsibility...which banks may attempt to influence through their lending principles. In this respect the 'Equator Principles' have emerged to analyse bank lending to environmentally sensitive projects. Most banks reported using the principles. However, there is little evidence about how much their use actually led banks to decline to finance environmentally-sensitive projects, or influenced their behaviour in financing such projects. Few projects were reported as being declined using this assessment framework (and declining to finance could be due to the project being sub-economic, not due to a 'principle' that the project had poor environmental outcomes).

Many oil and gas and bank (but not food) companies had a separate 'climate change' section in their reports, attempting to overview the big picture issues. However, while containing important general information about the size and nature of the problem, most of these sections seemed to suggest that the problem was a wide one for society and, by implication, not one which their individual company had responsibility for or would have much impact on.

Water usage seems to be a 'sleepers' environment issue. It is important to food companies as a key part of their operations and increasingly important to oil and gas companies for similar reasons. Some food companies reported the amount of water used per litre of beverage production, suggesting a potential emerging benchmark in this area. Large changes in water practices seem to be occurring and large reductions in 'virgin' water are being reported in what seem early days for attention to this fundamental resource.

Overall then, environment reporting contained a large amount of information, but not much clarity about what was really occurring, together with a lot of passing of responsibility to other organisations and institutions to 'fix' the problems.

4. Social – Employees

Perhaps the most important information about performance of employees is employee satisfaction. Widely acknowledged in organizational research as a key outcome measure reflecting good or bad employment practices and actually measured in almost every large company, this key measure of organisational sustainability is not actually being reported by the majority of companies here! While banks reported widely on this, it was rarely reported by oil and gas or food companies (see Table 6).

Table 6: Employee satisfaction reporting

Industry	Reported	Partially Reported	Not Reported
Oil and gas	3	1	6
Banking	6	4	-
Food manufacturing	1	3	6
Total	10	8	12

In reporting on employee performance, oil and gas companies focused on health and safety, with 'zero harm' targets for many, yet all oil and gas companies had numerous fatalities. Food had a similar safety focus, with consistent references to Hazard Accident Critical Control Point (HACCP) systems and ISO certification being standardized processes designed to address production and employee health and safety. Banks had little to say about safety, due to their inherently safe mode of operation. They focused on more positive aspects, such as training, employee benefits and 'wellness' programs.

Diversity was widely addressed. However, its meaning varied by industry. Food companies reported on diversity and 'inclusion' – a wider view of diversity that also referred to customer needs. Diversity for them meant including widely varying ethnicity both in employees and in customers and in different segment needs. Oil and gas emphasized the roles of gender, equal opportunity and human rights, reflecting their operations in developing countries. Banks were concerned with gender, age, disability and ethnicity diversity of employees.

Thus, we see that each industry's perspective on 'employees' varies, but each sees employees as important for their business model.

5. Social – Community

Community performance was also well reported on. For oil and gas, the focus was moving from 'charitable contributions' to 'social business investment'. Companies had clear target areas for social investment, particularly around education, health, building local businesses and developing community infrastructure. Banking's perception of 'community' resulted from seeing customers as intimately connected with and part of the 'community'. However, their reports remain concerned with the 'charitable contribution' philosophy rather than focusing on the business case for social investment. Food reflected banks, but reported much less interaction with the wider community. Banks tended to be moving to use of the London Group Benchmarking Model as a standardized way of measuring their 'contribution' in financial terms, which would therefore be helpful in inter-company comparisons in future. This model is not mentioned by the other industries.

Volunteering by employees was seen as a major part of contributions to community activity, particularly by banks. Matching funding programs exist for oil and gas, banks and some food companies, encouraging employees to contribute their own money to community organisations, with their employers supporting them in their choices through matching donations.

Policies on political lobbying and contributions varied from 'avoid' to 'aggressively promote', but most companies failed to comment at all. US companies were most willing to be aggressively involved, while European companies had little comment. This area of

'community' performance seems to be under-disclosed compared with its likely importance.

Overall then, community is important to each industry, but the conception of community varies significantly and the maturity for dealing with it is similarly variable.

6. Social – Customers

For banks, 'customers' are critical to their business model, as they need to attract very large numbers of individual and business customers. Most reported customer satisfaction outcomes, similar to employee satisfaction outcomes. The global financial crisis had yet to develop at the time of the reports (reports covered 2007 and were released in early-mid 2008). While banks noted the 'US' sub-prime crisis and emerging 'volatility' in the industry, non-US banks claimed that their 'responsible lending policies' and risk management processes meant they would not be affected significantly by these issues. Even the US banks (JP Morgan Chase, Citi and Wells Fargo) claimed to be superior to industry averages in loan practices and loan outcomes, while all claimed to be drivers of industry proposals aimed to minimize the residential housing industry disruptions (eg Hope Now Alliance, Fast Track). Not one mentioned any expected wider or long term effects in the global industry from the 2007 events. Not one took any responsibility for poor lending practices, poor marketing practices or poor remuneration practices that might have impacted the results we are now seeing in this industry.

By contrast, customer performance was largely ignored by oil and gas companies, presumably because of the commodity nature and spot global pricing mechanisms that exist in the industry. Food companies fell between these two extremes. Attention was given, but specific measures and outcomes were rare. Though discussed positively, pressure for changes to recipes, to resist genetically-modified foods, to decrease fats, sugars, salts or other 'bad' ingredients, or to address obesity or diabetes were rarely attributed to customer or external demands. One food company made the remarkable declaration that it had reduced its sugar content to around 30% of a particular product but, as sales had fallen, it raised the content back towards 60%, thereby reflecting its positive response to consumers. It also charted the sugar content of its major competitors (all of which were extremely high) to indicate that its own sugar content was within the acceptable range... Food companies did focus on marketing practices, but only on the positives with few negative issues being reported eg complaints, recalls, product failures to meet standards.

Table 7 shows the state of customer satisfaction reporting in the survey. Overall here we see a very positive view of customer impact where it is considered, but only one industry – banking – reports customer satisfaction. This may be an idiosyncratic finding, based on the limited number of industries. However, it was surprising that food manufacturers, who deal with a small number of large retailers, do not see customer satisfaction as a key issue.

Table 7: Customer satisfaction reporting

Industry	Reported	Partially Reported	Not Reported
Oil and gas	0	1	9
Banking	6	0	4*
Food manufacturing	1	2	7
Total	7	3	20

* All 3 US banks did not report this.

7. Social – Suppliers

With the exception of some support for small, diverse (minority- and women-owned) and local suppliers, particularly in developing countries, from oil and gas companies, and some cases in food where traceability was important for eg ‘pure’ or ‘natural’ ingredients, suppliers received surprisingly little attention, despite increasing NGO/public focus on ‘supply chain management’ (see Table 4 for supplier scores). No company reported supplier satisfaction, comparable to customer or employee satisfaction measures.

8. Performance Tables

While not in the framework, those companies which developed performance tables significantly enhanced the ease of understanding what was being reported, what the targets were and what actual performance was. Just as financial reporting has standard formats comparing annual performance, performance tables that report 2 or more years of actual performance against an indicator (eg CO₂-equivalent emissions, energy usage), together with the stated target for the indicator (eg 5% reduction 06 to 07), the actual performance (eg reduced by 4.3%) and some comment provide focus and clarity on sustainability performance (see Table 8 for an example of a possible layout). Recently Craib (2008) concluded that performance scorecards were one way of improving the readability of reports and we would concur.

Table 8: Hypothetical performance table

Indicator	2007 actual	2008 actual	2009 target	2009 actual	Comment/Planned actions	2010 Target
Economic						
Return on Equity	14.7%	12.8%	15.0%	3.5%	Global financial crisis impacted sales. Slow recovery expected.	10.0%
Environment						
CO ₂ -e emissions	23.2t	22.6t	22.0t	21.8t	Achieved absolute target, due to fall in sales. Further efficiency gains planned.	21.5t
Social						
Employee satisfaction	68%	75%	77%	52%	Layoffs and lack of communication impacted morale. No further layoffs expected and culture being addressed.	70%

Unfortunately, some companies showed their performance tables at the end of the report, thus distancing the text from the reported outcome, and reducing focus on the table. Financial reporting generally has the tables at the front, connected to the text. For those trying to properly discuss performance this seems to be the model to follow.

9. Developing Standards

We have referred to a number of 'standards' that are emerging in industries for measuring some aspect of performance eg the London Group Benchmarking Model, the Equator Principles, HACCP, ISO 9001, ISO14001, Lost Time Injury Rate, Carbon Disclosure Protocol, Hewitt Engagement Score. If these measures do become 'standard', the comparability of the information across companies and industries will be substantially improved. At this stage, no standard exists in any area. This lack of any standard makes it 'Rafferty's Rules' (anything goes) in terms of what is currently able to be reported and makes performance comparisons across companies impossible.

Summary

I have been studying reporting of organisational performance as part of strategic assessment now for almost 30 years. I have written many case studies on good and bad organisation strategy and performance and am very familiar with assessing both standardized financial reporting and annual report performance assessment. As society's expectations of organisations change to include environmental and social performance, sustainability reports are clearly the major current vehicle for reporting the non-financial organisational performance of organisations which needs to be included in future for a properly balanced assessment of organization strategic performance.

This analysis of 30 of the world's leading, sophisticated and mature sustainability reporting companies has been a personally depressing experience in terms of the quality, objectivity and relevance of the information found, despite this being a relatively new and voluntary field. If this study is typical of sustainability reporting – and it has some of the best reporting, given the selection process – such reporting is simply unsustainable. A great deal needs to be done to improve the quality of reporting for it to be regarded as of any use at all. The following are the key issues that need to be addressed:

1. Greenwash

A great deal of the information in these reports could be classified as 'greenwash', due to it being:

- not material
- not assured
- not measured
- not aggregate information
- not comparable with other organisations and
- presenting a favourable view rather than a realistic view of the organisation's performance.

First, while a lot of information is given – these reports are quite long – only some oil and gas companies have really developed a good process for identifying the material issues, involving external stakeholders. The discussion of the involvement of external stakeholders, the development of a matrix of material issues to both internal and external stakeholders and inclusion of external stakeholder comment on the report itself are leading practices that seem necessary to provide some comfort that the report is not

just a marketing communication, but is in fact reporting accurately on issues of importance.

Second, virtually none of the information is assured, even if assurers are used. Who would value a financial report which is unaudited? Similarly, until sustainability reports are assured, by independent professional assurers, the value of the information must be treated with considerable scepticism, given the research evidence of the positive bias on reported information confirmed in this study. Based on this, only a very few of the 30 reports could be considered as accurately conveying organization performance. No wonder these reports are currently not influential in business case investment decisions.

Third, while many sustainability policies are given, few are measured in any objective way. The lack of reporting of employee satisfaction is a clear case in point. Employees are an important part of each business model and known to be important for good business performance. We know that most large companies collect this information every year because of its importance, yet only 33% of these companies report their employee satisfaction level in any quantitative way.

Fourth, reporting information by product, line of business or country is easier than reporting aggregated international information. However, it makes it difficult to assess the sustainability performance of the whole company. Information must be reported at the aggregate level if the organisation's overall performance is to be understood, just as financial information is so reported.

Fifth, information which is reported is reported in a way that is unique to the particular organisation and so is not comparable. Even in the most obvious area of safety, injuries are reported variously in terms of Lost Time Injuries, Total Recorded Injury Rate per 200,000 hrs, per million hours, in total numbers of injuries etc, thus making it difficult or impossible to compare performance across organisations.

Related to this, there appears to be a move to the use of 'per unit' targets and measures, such as CO2 emissions per tonne of product, per square metre of office space, per full time equivalent staff member or grams per km traveled by the car fleet or air km. While apparently good for comparisons of diverse companies, this potentially deflects the argument (in environment reporting particularly) of the need to cut *absolute* levels of use, not just *relative* levels. Notably, the focus in the text is often on the cut in relative use and not on any recorded increase in absolute use from a table or graph.

Sixth, while a lot of information is given, it is often one-off examples of good practice (eg a case study or an example, which, since it is almost invariably an example of good practice, seems unlikely to represent 'average' or 'typical' performance). Most of the information is about good performance. Customer complaints, employee complaints, suppliers failing quality tests, turnover, fines, penalties are not usually reported. When targets are achieved, they are noted. But many targets are given with no actual performance comparisons, or negative performance is given, but not highlighted.

The reports typically have a number of 'case studies'. However, these well presented cases – highlighted, pretty pictures, big print, smiling faces – seem unlikely to be typical or average. They are more likely to be best case examples. Unfortunately, they leave the reader with the impression of how well the company is doing, even when other evidence in the report indicates the contrary. The use of marketing communications

consultants to develop and write reports does make them more 'readable'. However, they almost certainly become less objective. In financial reports specific items need to be reported in particular specified formats – which are audited. By contrast, there is no format for sustainability reporting that would automatically highlight poor performance. Reports are wide open to presenting 'good' information prominently and 'bad' information at the end, the bottom, or not at all.

Another potentially deceptive practice is the focus on measuring input activities (eg amount spent on community contributions, R&D, training) rather than the outcomes (eg reductions in use of non-renewable resources, decreases in employee turnover rates, improved supplier practices). Despite the large amount of positive information presented, we found significant gaps in expected information from our framework eg employee, customer and supplier satisfaction, political contributions, board independence, external stakeholder engagement, use of non-renewable resources. Without a clear framework, it is often not clear what information is 'missing' as opposed to what information is being presented. Is a statutory requirement needed for sustainability reporting?

2. Reporting maturity: US companies and food companies

These overall conclusions are particularly true for US companies across all industries and for food companies in general. US companies performed poorly within each industry, while food companies performed worst of the three industries. This suggests that there is a maturity cycle, with oil and gas companies at the most mature end (since they face the biggest direct pressures due to the nature of their products). Banks are reporting solidly on what they believe to be important (but not necessarily on the main social issues). Food companies are still reporting primarily on their good performance and are not really addressing the social issues of their products either. Food companies have high profiles with end customers but often have a range of brands, often unknown to the customers – especially in the case of generics – which acts to diffuse stakeholder pressures.

US companies seem considerably behind in their philosophies. Their reporting focus is often on 'citizenship' rather than 'sustainability' ie what 'good' they do for the community, rather than how they address the negative impacts on the community of their actions or involve the community directly in their processes. They are very focused on positive reporting. They give away little real information eg employee/customer/supplier satisfaction. There is little true involvement/engagement in the process from outside. US reports are mostly marketing documents, not reports on sustainability performance.

This may well reflect the relative immaturity of US reporting practices or of the wider immaturity of the US business and government policy and culture which has opposed major environmental initiatives over the last 8 or more years. With the election of a new US government which seems clearly intent on catching up on environmental issues, we may well see dramatic changes in US company sustainability reporting. That would be a good thing.

Conclusions: The future

The current state of sustainability reporting is simply unsustainable, based on the results of this survey. Yet sustainability reporting is needed to present a better account of 'true'

overall performance of the organization and it is valued by external stakeholders. How can sustainability reporting develop credibility before it sinks as a wasted emission?

We suggest the following changes are needed to make sustainability reports sustainable:

- Reports focused around the specific needs of a particular organisation with a particular corporate or business strategy, operating in a particular context are needed, not general, generic reports. They will be industry-specific to some extent, based around business models, but will need to address issues of materiality for the particular company.
- Materiality issues need to be determined by joint involvement of external and internal stakeholders with specific dialogue during the report preparation process and on the final report itself. It is clear organisations cannot be trusted to identify the key issues themselves or report on them themselves.
- Aggregate reporting for the organization must be the focus, not individual case studies or examples, as these are likely to be misleading. Indeed, analysts should ignore case studies or detailed examples in their analysis of reports.
- Standardized measures must be developed in all major areas, both absolute and relative, probably by industry eg carbon emissions/unit, percentage of packaging that is recycled, diversity indicators, employee satisfaction, community contribution valuation models
- Clear performance tables must be mandatory, showing at least 2 years of performance, preferably 3, linked to the text and to the targets set.
- Reports must be comprehensively assured by independent, professional assurers. The accounting bodies are well advanced here, and financial reporting could easily make sustainability reporting mandatory as part of the total financial report.
- Reports must go to and come from the board of directors, which should have a majority of independent directors.
- Sustainability reporting must be integrated with the financials. If this means significant financials need to be 'double reported', so be it. Clearly a smarter way is to integrate current financial reporting with the non-financial elements.

The development of such future sustainability reporting will be meaningful, credible, comparable information about the key drivers of overall business success, taking account of external impacts of the organisation. This will mean that sustainability reporting does make a difference to the business case of the organisation. Each company is on a journey, changing over time, but the reports analysed here are some of the best! It's time to properly address the real issues.

Appendix 1: The CorporateRegister.com Disclosure Framework

CorporateRegister.com's view is that, for balanced reporting, we need to disclose the key elements of the organisation's performance to be able to assess its performance. The framework begins by assessing the disclosure and understanding of the corporate/business strategy which the organisation is trying to deliver and the sustainability strategies which it has to make that strategy work. Strategically, we want to know that the report considered material items and that what is reported has credibility through being professionally assured. Given the current perceived importance of governance, we want to see to what extent independent directors and external stakeholders are involved and engaged.

The disclosure 'elements' included should be broadly applicable to all companies in all sectors. That is to say that there are no issues which could be explicitly immaterial (eg offshore flaring for a bank), though there may be some which are potentially immaterial (eg water use in a media company).

In terms of specific reporting areas, we feel that, to get a good understanding of the whole organisation, economic performance needs to be covered sufficiently well to be able to form a view. There's not much point having good environment and social performance if you go into liquidation! Within environment performance, we focus on key issues of use of non-renewable resources, energy and water use, greenhouse gas emissions (not just CO₂), other emissions and wastes, biodiversity impacts and any industry-specific issues.

In terms of 'social' performance, we classify it into internal social (ie employees), up and down the value chain/business system (customers and suppliers) and community, including political relationships, which are very important for large companies. In the areas of specific performance, we are particularly interested in whether there is a clear policy or strategy for the indicator (eg is there a policy or strategy for employee satisfaction, training, supplier purchasing practices etc), whether there are SMART targets for that indicator and whether performance is reported and discussed.

What we would expect is that all organisations would have material issues of strategy, governance, economic, environment, employees, customers, suppliers and community to deal with and that, given this wide range of areas, applying a materiality criterion, only a few of these areas will be able to be covered. Thus we do not expect a perfect 'score', but one that reflects the materiality of the issues for the organisation. Over time if it can be numerically demonstrated that an issue is simply not covered by reports from a specific sector, it would be a strong signal that the issue is not material.

The number of questions in each area is not equal. At a philosophical level, we debated whether they should be equal, perhaps in terms of a 'balanced scorecard' or 'triple bottom line' approach. However, as we are interested primarily in what is disclosed, we simply take the items which seem to be strategically important, based on prior frameworks within our strategic focus. We assign heavier weightings to questions in the strategy and governance areas, on the basis that, unless the organisation has clear strategy which we can measure performance against and has clear governance processes, we would have limited faith in the outcomes reported. Experiments with different weighting systems have not revealed a great deal of change about the relative

scores of the organisations however. In fact we are interested in the *relative* scores, not the *absolute* scores.

What we expect is that companies with clear materiality approaches will score well in the areas which they chose. Within industries, we expect that organisations will see the same issues as material, but across industries we expect that different issues may be material. Organically, through the application of the framework, over time, CorporateRegister.com believes that it will become evident where such issues are immaterial in certain sectors.

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