

Embarking on Preparing a Sustainability Report? Here are some Tips

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Your CEO has asked you to prepare a sustainability report. What exactly is that, what should it look like, and where do you begin? The purpose of this white paper is to give you a quick background on sustainability reporting and offer some suggestions with regarding to content, format and publishing. We'll then wrap up with some recommended best practices for sustainability reporting.

Brief Background

Corporate reports covering non-financial information; sometimes referred to as sustainability; corporate social responsibility; citizenship or even environmental, health and safety (EHS) reports are relatively new compared to financial reports. Sustainability has increasingly become the umbrella term under which all non-financial reports fall. For the most part, sustainability reports tend to include data regarding the environmental, financial and social performance of an organization; whereas a corporate responsibility report is likely to contain data pertinent to EHS, community and social performance. The fact is however, that non-financial reporting is growing in significance as corporations, their shareowners and stakeholders recognize that non-financial issues impact financial performance.

It goes without saying then; the first noticeable trend in sustainability reporting is its growth. Corporateregister.com¹ reports nearly two thirds of the Global FT 500 is preparing corporate responsibility (CR) reports (CR Reporting Awards '08, March 2009). Reporting has grown steadily since 1992 and no significant slow-downs have been experienced (Scott and Jackson, 2002); though exactly what kind of an impact the state of the global economy will have on this trend remains to be seen.

Over 3,200 CR reports were published on the corporateregister.com website in 2008; up from 1,300 in 2003. The largest reporting prevalence is in Europe. North America and Asia have shared similar growth rates over the past few years (CR Reporting Award '08, March 2009). Similar trends are reported in the Accountability Ratings Reports² which show that companies headquartered in Europe are the most accountable, with Asian companies retaining a slight lead over companies based in the U.S. Socialfunds.com reports similar trends in sustainability reporting as did Kolk (2003). In short, the common question for many organizations has become what to report, as opposed to whether or not to report (Marshall and Brown, 2003).

¹ Corporateregister.com maintains an online directory of corporate non-financial reports from approximately 116 different countries. The site creates awareness of new corporate responsibility reports, facilitates online stakeholder dialogue and connects service providers with report developers.

²The Accountability Rating is a tool for measuring the extent to which companies have built responsible practices into the way they do business and their impact on the economies, societies and environments in which they operate. The Rating was developed by leading CSR consultancy csrnetwork and international think-tank AccountAbility

So Who is Reporting?

For the most part, it is typically the larger sized enterprises that are preparing sustainability reports (Morhardt, 2009; Martin and Hadley, 2008; Tagesson et al., 2009). Kolk (2003) noted that the chemical and pharmaceutical sectors lead the pack with respect to reporting, followed by computers and electronics, automotive, utilities and oil & gas.

Interestingly, Kolk (2003) also noted a pronounced increase in reporting in the food and beverage industry. This is not unexpected as most businesses within this sector are brand-specific and have much to gain with the positive information contained in these reports. Haddock-Fraser and Fraser (2008) found that businesses whose names were also a brand were likely to adopt some type of environmental reporting. This study further demonstrated that proximity to market was a factor directly influencing likelihood to report. The Marketing component to sustainability reporting becomes very real when dealing with brand-sensitive companies. As such it is likely that sustainability reports, when viewed from this perspective, may serve as a tool to build and maintain customer loyalty and market share (Holder-Webb et al., 2009)

Why Are Organizations Reporting?

It has been more difficult to identify trends in the reasons for reporting over the last decade or so. This is because these reasons and motivating factors for reporting vary.

While voluntary disclosures have become more popular for many organizations (Jose and Lee, 2009), there is still some question as to whether sustainability reporting should be mandated. Several countries already have reporting requirements which has led, not unexpectedly, to increased rates of reporting. These countries include Japan, The Netherlands, Norway, Sweden, the UK and Germany (Kolk, 2003; Wheeler and Elkington, 2001). It is not surprising hence, that the rates of reporting in these countries are higher than that of the U.S. (Wheeler and Elkington, 2001).

Many sustainability reports actually began as an environmental report designed to document how an organization was meeting environmental regulations. Truth be told, in some cases, the approaches and tools used to meet regulations, such as more efficient process design, monitoring and chemical substitution, also made good business sense.

It is no secret that a significant motivating factor in writing a sustainability report is the opportunity to re-brand or refresh a company's image. Reporting on economic, social and environmental benefits associated with operating more sustainably can enhance an organization's image (MacDonald & Peters, 2003). This assumes, of course, that the target audience is the external stakeholder, in particular the customer.

Additional research suggests, however, that preparing and publishing reports is an opportunity to communicate internally within an organization. Spence (2009) found that investors and employees are the predominant readers of social and environmental reports. As such, these reports become a vehicle for organizations to communicate with themselves. This trend of "self-

communication” has also been documented by Christensen (1997). Could it be then that sustainability reporting is simply an effort to boost an organization’s self-esteem?

Additional reasons for reporting that have been documented in the literature include to:

- Meet shareholder expectations or requests
- Demonstrate commitments to employees and other internal stakeholders
- Meet external certification or registration requirements
- Document success stories
- Demonstrate leadership
- Set the organization apart from its competitors

Think Carefully About Content

There can be great variety in terms of content with regard to sustainability reports. The most common issues, of course, include the organization’s environmental performance. Trends relevant to waste generation, water consumption and air emissions are the most commonly reported. Interestingly, there has been a mounting movement to see organizations not only disclose environmental impacts, but to elaborate on mitigative efforts being implemented to minimize these impacts. In other words, don’t just report out on your impacts, but give the reader an idea what you are actually doing about those impacts.

Greenhouse gas (GHG) emissions are more commonly reported now as organizations make an effort to define their carbon footprint. Organizations reporting their GHG emissions and climate change strategies to the Carbon Disclosure Project (CDP) have just about tripled since 2006 (Socialfunds.com, 2010). The Carbon Disclosure Project (CDP) conducted a survey of institutional investors last year and found that investors want more than just disclosure. They also want companies to take proactive actions such as adopting emission reduction targets and developing mitigative solutions, such as low carbon alternative chemistry or processes.

SocialFunds.com notes the trend towards inclusion of a wider range of social-related issues such as human rights, ethics, and anti-corruption measures. Indeed, Kolk (2003) also noted the rising number of companies that include social topics in their reports that address community involvement and philanthropy. Corporate disclosure of environmental, social and governance risks and opportunities has indeed increased over the last several years. Organizations have become more comfortable addressing issues that directly affect either the communities within which they operate and where their customers live.

“We have seen through our own experiences—time and again—that our business in any market is only as strong and sustainable as the communities in which we operate.”

Muhtar Kent, President and CEO, The Coca-Cola Company

In the U.S., there has typically been a trend to specifically exclude issues or data that are not already publicly available. This is likely attributable to the structure of our regulatory and legal systems.

While the value of clichéd graphics is low (kids smiling on a playground, a babbling brook, cupped hands cradling the globe and the “footprint”) there is still a trend to include graphics that support the data reported. Pie charts, bar charts and radar graphs may clearly depict trends. Photographs of employees engaging in activities which are described or included in the report may be of greater value and can help validate commitments made. Graphics that help explain the benefit of innovative technologies in which the organization has invested may also be employed with success.

You Want to Build Credibility

Avoiding the appearance of “green washing” is critical. If a report contains basic policy statements, nonspecific commitments or references to standard agreements, the credibility of an organization may come into question. Stand-alone clichéd statements such as “Building a better Future” or “Saving the Environment” don’t carry much weight unless there are data to back them up.

Other factors that influence the credibility of a report include the following (MacDonald & Peters):

- **Stakeholder participation in the report preparation process** – this may demonstrate how the organization has utilized input from stakeholders to improve performance.
- **Data validity** – results of third-party audits or assessments may help validate the data reported and conclusions drawn from the same. Independent verification can help reassure the reader of the validity of the information and give the report an independent seal of approval (Line et al., 2002). In fact, the rates of independent verification of reports rose slightly in the late 90’s (Wheeler and Elkington, 2001) and have continued to do so since then. The AA1000 Assurance Standard is a recognized professional standard for carrying out assurance. Published by the Institute for Social and Ethical Accountability, it is specifically designed with sustainability reports in mind. It does not limit the form that assurance should take nor who can provide it.
- **Identification of report limitations** – while commonplace in scientific peer-reviewed journals, this is becoming a greater trend in sustainability reports. Identifying limitations up front keeps the continual improvement door open for any organization.
- **Unbalanced reports** – credibility can be enhanced by disclosing missed targets or even regulatory actions taken against a company. In fact, if positive effects result from response actions; more value can be derived from the disclosure. We all know the world is not perfect; therefore, an organization that consistently paints a positive picture of goal attainment and target reductions is likely to be viewed as untrustworthy. Suncor routinely published the good news along with the bad:

“Suncor pled guilty on March 31, 2008 to one charge under the Occupational Health and Safety Act for failure to take every reasonable precaution when draining the hydrofluoric acid from pump 1-9 P04A for the protection of a worker. Suncor was fined \$94,000 (\$75,000 plus 25 percent victim surcharge) for this incident.”

Suncor Energy 2009 Report on Sustainability

- **Link the sustainability efforts to an organization's core business practices** – this demonstrates the commitment to sustainability is embedded in the organization's culture and not just a passing fad.

"...it is clear that sustainable development is critical to everyone's future and to our business success."

Jeroen van der Veer, Chief Executive, Royal Dutch/Shell Group of Companies 2007 Sustainability Report

What Format Should You Use?

Notwithstanding, when it comes to sustainability reporting, the question is seldom whether to report or not, but how to report (Marshall and Brown, 2003). In reality however, there is no one particular format for sustainability reports. Formats range significantly and to such an extent that similar content may be presented in various different ways. The Global Reporting Institute (GRI) Sustainability Reporting Guidelines (www.globalreporting.org) are the most widely used sustainability reporting framework.

The GRI is an international, multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental, and social impact of entity-wide activity. Modeled after the Generally Accepted Accounting Principles (GAAP) it was convened by the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute in 1997. Shortly thereafter, the United Nations Environmental Programme (UNEP) joined the GRI as a key partner. The GRI mission is to elevate the quality and comparability of sustainability reporting practices worldwide and to put environmental, social and economic reporting on a similar level as financial reporting in terms of clarity, accuracy, usefulness, comparability and influence with investors.

While the GRI guidelines offer detailed and specific guidance with respect to what should be measured and included in a report, these guidelines are followed inconsistently. It was recently reported that while the number of reports that follow GRI Guidelines has grown since 2002, the majority of reports don't actually follow these guidelines (CR Reporting Award '08, March 2009).

There are other standards and initiatives that influence sustainability reporting. These include:

- The UN Global Compact – a voluntary corporate responsibility initiative that promotes responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. It addresses commitments to act and report.
- AA1000 Assurance Standard – a recognized professional standard for carrying out assurance, published by the Institute for Social and Ethical Accountability, that is specifically designed with sustainability reports in mind. It does not limit the form that assurance should take nor who can provide it.
- The Ceres Principles – Formerly the Valdez principles, Ceres announced the creation of the Ceres Principles in the fall of 1989. They consist of a ten-point code of corporate

environmental conduct to be publicly endorsed by companies as an environmental mission statement or ethic. Imbedded in that code of conduct is the mandate to report periodically on environmental management structures and results.

- ISO 26000 – a voluntary guidance standard just published in November of 2010. The goal of the guidance standard is to encourage voluntary commitment to social responsibility and provide guidance on concepts, definitions and methods of evaluation.
- The Institute of Chartered Accountants and Environment in England and Wales and The Environment Agency – have published new guidance on reporting environmental issues in annual financial reports. The guidance is aimed at those preparing, auditing and using annual financial statements and is written in a question and answer style. They have included examples of good practice from existing annual reports and accounts to assist readers.

Typically, most organizations just develop their own set of criteria for sustainability reporting; hence the variability in terms of format. This variability however, enables creativity and more customized approach to reporting. It is difficult for a single uniform report to meet the needs of different target groups (Isenmann and Lenz, 2002). Customization of reports, hence, becomes another notable trend (Brosowski and Lenz, 2004; Isenmann and Kim, 2006); and nowhere is this trend more evident than on the Internet.

How Should You Publish Your Report?

One clear trend noted by Scott and Jackson (2002) which is still strongly evident today is that the Internet is the most common form of media for publishing reports. As such, very few organizations will even publish their reports as hard copies. They are typically online in either pdf format or as an interactive document in html format that can be accessed from the organization's web site. The ability to access supplemental data and information via hyperlinks, the relatively low cost of publishing compared to a formal edited report, and the ability to utilize specialized features make Internet publishing an attractive alternative (Morhardt, 2009). The markup languages such as XML, XBRL and EML serve as powerful tools for Internet publishing (Isenmann et al, 2007).

Internet publishing enables a great deal of flexibility and creativity in terms of data and information presentation. Drop down and side bar menus allow the user to pick and choose information for perusal. Text, layout and navigation of the annual report are adjusted to simplify reading and accessibility. Organizations may now tell their stories through audio, video, pictures, dialogue and text. Games and surveys can keep users engaged. This trend toward customization of reports has been well documented in the literature (Isenmann et al, 2007; Borowski and Lenz, 2004; Isenmann and Kim, 2006).

Take the Sutter Health 2008 Annual report for instance. It is a good example of a multi-media report that mixes interactive data and multimedia narratives (<http://sutterhealth.org/annualreport/ar2008.html>). Audiences can view compelling testimonial videos, as well as dynamic reports on clinical quality, patient care and more. The new medium allows people to literally speak alongside the facts, humanizing the information through a fresh,

creative platform. It is this potential for two-way dialogue on issues of sustainability that is especially important in building stakeholder respect (Wheeler and Elkinton, 2001).

Patagonia offers the Footprint Chronicles on its web site. This is a creative and interactive method that allows users or customers to track the impact of a specific Patagonia product from design through delivery

http://www.patagonia.com/web/us/footprint/index.jsp/?slc=en_US&sct=US.

Many web-based reports allow for full or partial download of data and information. The Daimler report allows the reader to download certain chapters, submit feedback and order copies of the report (<http://sustainability2009.daimler.com>). The reader is provided with the option to order a full report which includes online content or just the “Facts”. Another nice feature about this report is the “Index” option under the Tools and Services. The index that pops up is a time saver when it comes to searching for a specific topic and selecting specific report content.

Online reporting also enables “real time” reporting. While not very commonplace at the moment, there is the potential for organization’s to link their continuous emission monitoring equipment (CEMS), energy consumption or other monitoring data to their web sites to enable a more dynamic reporting experience. There are of course, disadvantages associated with this type of reporting, but the fact that the possibility exists is intriguing.

Here are Some Recommended Best Practices

Based on a review of the literature and a plethora of sustainability reports, the following best practices are recommended:

- **Purpose** – Why are you reporting? Are you meeting internal or external goals? Identify the reason for reporting before you even begin collecting data so that the data collection and reporting are done within the appropriate context.
- **Audience** – Identify your target audience early on to ensure the language and structure of the report is appropriate for the same.
- **Make it accessible** – Scott and Jackson (2002) identified several “deadly sins” of web reporting, one of which is “death by download”. If it takes forever to download a report or information, the user will not read it. Avoid causing the user to have to wait to download excruciatingly large files or data. Also, make sure the report is easy to find and not hidden behind several layers of inquiry. It should be easy to access from the Home page.
- **Actions Speak Louder than Words** – While Kolk (2003) noted there is a clear move to reporting more societal issues, this effort still lacks in substance. Organizations should ensure they report on actual behavior and/or impacts as opposed to just voicing concerns and policies to avoid the “green washing” perception. The intent is to avoid being the source of the following headlines: “The Most ‘Unethical Company’ is also a ‘Best Corporate Citizen’ ” as Monsanto found itself described earlier this year (Kalan, 2010).
- **Objectives and Targets** – stated objectives and associated targets show commitment to monitoring performance. Company-wide targets related to the sustainability report help employees see the practical implications of broad policy. Targets can be based on

meeting minimum certification requirements (e.g. ISO 14031) or international agreements (e.g. Kyoto Protocol) or on setting goals for constant improvement year-by-year within an individual company (e.g. reductions in NO_x emissions, less use of energy per unit of product).

- **Data collection** – most reports do not indicate how data were collected and who participates in the collection process. Others provide an outline of how management, different divisions and individual units all contributed to the report. A clear, concise description of how data are collected underlines a company's commitment to detailed and responsible reporting. Rio Tinto presents this information in a flow chart that illustrates how both corporate policy and operation specialists in the company drive the reporting process.
- **Level of detail** – several reports provide little meaningful data. A report is data-poor when the only quantitative data consists of percentages in some pie charts. Data aggregated to the company level illustrates a sense of responsibility for all operations. The Rio Tinto report points out the need to identify which indicators are more meaningful when presented at the company wide level (e.g. total emissions of CO₂) and which ones have the greatest impact at the local level (e.g. discharge to surface water). A strategic focus on tracking progress in the areas of most concern to the company (e.g. Procter and Gamble emphasizes water quality and health and hygiene) is one method of determining which data deserve priority.
- **Benchmark** – against those in similar industrial sectors to assess reporting content and formats. While the Internet may act as a “reporting facilitator” (Isenmann et al. (2007), from a user’s perspective, the creativity found in reporting today makes it challenging to perform comparisons, benchmark, rank or rate (Isenmann et al., 2007; Marshall and Brown, 2003). Assessing early on what formats and content are reported within your particular business sector will help ensure a certain amount of continuity and consistency or reporting.
- **Assumptions** – most data are collected, analyzed and interpreted based on a series of assumptions. However, very seldom are these documented in sustainability reports; as such, it would be beneficial to list the same.

Conclusion

Sustainability reporting has experienced significant growth, most noticeably, over the last decade. The most popular method for publishing and disseminating reports is over the Internet as this offers a variety of options for content presentation and reader engagement. While reporting content still varies a great deal from business to business, there has been a movement by several organizations, such as the GRI, to standardize reporting practices. While reporting frequencies, content and formats still vary, companies are still afforded reporting opportunities that enable creativity while avoiding the pitfalls of “green washing”. It remains to be seen whether reporting in this county will continue to be voluntary or whether policy or standards may be written to require the same.

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