

GREEN CAPITAL

'Advancing Corporate Sustainability'
AN INITIATIVE OF TOTAL ENVIRONMENT CENTRE



SUSTAINABILITY REPORTING PROJECT

FINAL COMMUNIQUE

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The DEC is committed to supporting the public debate on sustainability issues. This project is part of our program designed to build sustainability capacity within the community, business and government.

The views expressed in this project are not necessarily those of the DEC.

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INTRODUCTION

The benefits of sustainability reporting have been well documented across a range of publications.¹ Among the advantages claimed are better management of reputational risk; increased competitive advantage; improved staff engagement; superior management; and greater investor confidence. Despite continuing growth in the number of sustainability reports being produced in Australia, however, the proportion of large companies reporting is still very low.²

The objectives of Green Capital's Sustainability Reporting Project have been to explore the reasons why so few organisations are producing sustainability reports and to develop recommendations aimed towards the increase of both the uptake and the quality of reports.

To achieve these objectives, Green Capital conducted nine interviews with individuals from reporting or potential reporting organisations. The results were collated into an Issues Paper which developed the ideas of the interviewees into a set of draft recommendations. A forum attended by a larger group of stakeholders from the reporting community then considered and agreed upon a final set of recommendations (below).

THE BUSINESS CASE FOR SUSTAINABILITY REPORTING

For those companies that have already decided to publicly report on sustainability issues, the decision has usually come not from the Board level, but from staff dedicated to improving their company's transparency and action on sustainability. The decision has to be justified with a business case for going ahead. Some of the positive business benefits identified include:

- **Management of Reputational Risk.** Companies talking the talk on sustainability need to be reporting on sustainability issues to avoid becoming a target of negative media, public perception and stakeholder campaigning.
- **Competitive advantage.** Companies can differentiate themselves from competitors by reporting on their sustainability achievements. This is of most benefit for companies creating a green image for their brand.
- **Improved staff engagement on sustainability issues.** Where sustainability has been identified as a business objective but there is low staff engagement, the process of gathering information for a report from across the organisation can raise staff awareness and build internal support.
- **Better Management.** Good management of complex sustainability issues is increasingly seen by institutional investors as a proxy for good financial management, particularly in the SRI and superannuation sectors. Solid, credible reporting can increase investor confidence with consummate improvement in share price.

This report reflects the issues raised in the interviews and at the following workshop. When it came to identifying the barriers to reporting and ideas for how those barriers may be overcome, the themes of reputational risk, credible reporting, finding assistance, multiple reporting requirements and the involvement of stakeholders quickly became the dominant themes. For this reason, the report has been structured to reflect these themes.

THE RISKS OF REPORTING

Organisations undertaking sustainability reporting believe that *not* reporting creates more reputational risk than reporting. Organisations yet to report, however, cite fear of increased transparency as one of the biggest barriers. Despite this fear, practical experience suggests that those companies which have reported openly and transparently on the issues they face

¹ For example: Department of the Environment and Heritage, *Triple Bottom Line Reporting in Australia*, June 2003; Deni Greene Consulting Services, *A Capital Idea*, August 2001; Centre for Australian Ethical Research and Deni Greene Consulting Services, *The State of Public Environmental Reporting in Corporate Australia*, March 2003; Sustainable Investment Research Institute, *Sustainability Reporting in Australia*, March 2004.

² Centre for Australian Ethical Research, KPMG, Deni Greene Consulting Services, *The State of Public Environmental Reporting in Corporate Australia*, June 2004.

have been praised by NGOs for acknowledging their responsibilities.. It appears that the perception of reputational risk may be stronger than the reality.

Recommendation 1: The peak NGOs should release a communiqué stating their strong support for sustainability reporting and congratulate organisations currently reporting at an acceptable level.

This recommendation supports reporting by facilitating the recognition of progress on sustainability reporting by NGOs. The rights of NGOs to raise issues that emerge from reports is still preserved, as is the right of NGOs to challenge non-reporting organisations to improve their performance.

Recommendation 2: Peak NGOs should be encouraged to produce their own sustainability reports and should develop a framework for the resourcing of those reports.

It is recognised that the large NGOs should be 'walking the talk' when it comes to sustainability reporting. However, the resourcing of sustainability reports for these organisations may be problematic. This recommendation encourages NGOs to address both issues.

CREDIBILITY

Most reporters see the audit process as essential both to ensure the credibility of reports and to guarantee the accuracy of publicly released data.³ An emerging issue, however, concerns the credibility of audits themselves. Social and environmental auditing are new areas of expertise for which financial audit models are inappropriate. In addition, real or perceived doubts about the credibility of audits are driven by the close relationship between auditors and reporters. As a result, a plethora of new audit standards and accreditation systems have emerged which has created some confusion and duplication in the area.

Recommendation 3: The Commonwealth Government should make a statement to encourage Australian auditing groups to:

- (a) take a leadership position in the international context; and***
- (b) take a consistent approach to the certification and accreditation of auditing professionals.***

This recommendation seeks to address the confusing multiplicity of auditing certification and accreditation standards and processes. It also recognises that, by taking timely action, Australia has the opportunity to become a leader in this field.

GETTING HELP

It is recognised that there is a need for greater assistance for both reporters and potential reporters. For 'champions' attempting to convince Boards to undertake reporting for the first time, assistance in developing the business case for the specific organisation would be welcomed. For organisations having already made the decision, support would be welcomed in knowing where to start.

Recommendation 4: State Premiers and Chief Ministers should make a broad statement that indicates the Government's support and the strong business case for sustainability reporting.

This recommendation recognises the impact that statements by Premiers and Chief Ministers can have on the decisions of government departments, agencies and State Owned Corporations. A strong statement in support of sustainability reporting can influence some bodies, particularly SOCs, to undertake sustainability reporting. It also recognises that the strong business case for sustainability reporting is not widely understood, and could benefit from further promotion.

³ Currently, the Global Reporting Initiative does not require the auditing of sustainability reports. A firm position on the issue is yet to be established.

Recommendation 5: Peak industry organisations should provide tailored advice on how to develop the business case for reporting and on how to take the first steps towards reporting.

It is generally agreed that the Commonwealth Government's guide to environmental reporting is too simplistic.⁴ It is also recognised, however, that no printed guide can ever hope to address the particular issues facing individual organisations across a range of sectors. This recommendation recognises that organisations undertaking first or early reports could benefit from personalised or sector specific assistance, particularly in developing the business case for reporting to win over General Managers and Boards. It is recognised that peak industry bodies, in collaboration with experienced reporters in the industry, are well positioned to undertake this role as they have a thorough understanding of the challenges facing the sector they represent.

Recommendation 6: The Commonwealth Government should immediately release the Family and Community Services Department Guide to Reporting Against Social Indicators.

The Department of Family and Community Services consulted widely in the development of its Guide to Reporting Against Social Indicators. Many organisations are awaiting the Guide to provide assistance in the development of social indicators for their sustainability reports. Despite the finalisation of the Draft Guide, however, the Department has failed to release this important report.

MULTIPLE REPORTING OBLIGATIONS

Sustainability reporting obligations for government bodies⁵ are seen as essential if government is to recommend reporting for the private sector. It is also recognised that consistent obligations for government bodies would provide greater equity for those already reporting and trigger improved standards as they compete to deliver the best reports. Mandatory reporting for government bodies would also provide a strong role-model for the private sector.

Multiple reporting obligations for both companies and government bodies, however, can be a burden. The demand on time and resources that sustainability reports create can be difficult to justify on top of existing obligations. Currently, the failure of regulators to take into account the high level of data available in sustainability reports is resulting in duplication in many areas. The package of recommendations below address these concerns.

Recommendation 7.1: There should be a consistent, mandatory sustainability reporting framework for government that stems from a rationalisation of existing regulatory & statewide reporting requirements. This would free up resources which could be used to report on sustainability. This should be seen as a minimum, with competition & innovation to be encouraged.

This recommendation recognises the need to streamline and harmonise reporting requirements for government bodies. The Global Reporting Initiative's development of a 'public sector' reporting supplement would support this move. It also recognises that resources saved by such streamlining might free up funds which can be redirected towards sustainability reporting. Finally, mandatory reporting should be seen as creating a common base from which different government bodies can improve, innovate and compete. Existing, special sustainability reporting requirements that suit the needs of particular SOCs should not be reduced in this harmonizing process.

⁴ Department of Environment and Heritage, *Triple Bottom Line Reporting in Australia: A Guide to Reporting Against Environmental Indicators*, June 2003.

⁵ For the purposes of this Communiqué, 'government bodies' includes: state government agencies, authorities, departments, State Owned Corporations, government trading entities and local governments.

Recommendation 7.2: Government regulatory bodies should make use of sustainability reports before making new information requests.

This recommendation recognises that a whole of government approach to sustainability reporting is necessary. This includes directing regulators to make use of sustainability reports in order to guard against duplication of reporting obligations.

Recommendation 7.3: Government should move towards using sustainability reports in the allocation & prioritisation of policy and resources.⁶

This recommendation seeks to link the allocation of resources to performance against sustainability indicators.

STAKEHOLDER READERSHIP AND PARTICIPATION

Encouraging stakeholders to participate in the development of reports and indicators can be difficult. NGOs may be willing to participate but are under-resourced and community trust can be low. The lack of coordination among stakeholders that occurs when different NGOs call for different indicators has resulted in confusion for reporters.

Recommendation 8: NGOs should design a framework for government or industry associations for 'arms length' funding to assist NGOs and community members to encourage the development of accountability and transparency through reporting.

This recommendation addresses the inability of under-resourced stakeholders to participate in the development and encouragement of sustainability reporting. It also recognises that a more coordinated approach by stakeholders to reporting would be beneficial.

⁶ Green Capital is concerned that this recommendation suffers from a lack of thorough discussion at the forum and seeks feedback on whether it would be prudent to either continue discussions via email on it or delete it from this list of recommendations.

SUMMARY OF RECOMMENDATIONS

Recommendation 1: The peak NGOs should release a communiqué stating their strong support for sustainability reporting and congratulate organisations currently reporting at an acceptable level.

Recommendation 2: Large NGOs should be encouraged to produce their own sustainability reports and should develop a framework for the resourcing of those reports.

Recommendation 3: The Commonwealth Government should make a statement to encourage auditing groups to:

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