



THE MECHANICS OF REPORTING

Preparing a sustainability report may be the first step to understanding organisational exposures and developing strategies to improve social and environmental performance. Bjoern Wilhelms explains how.

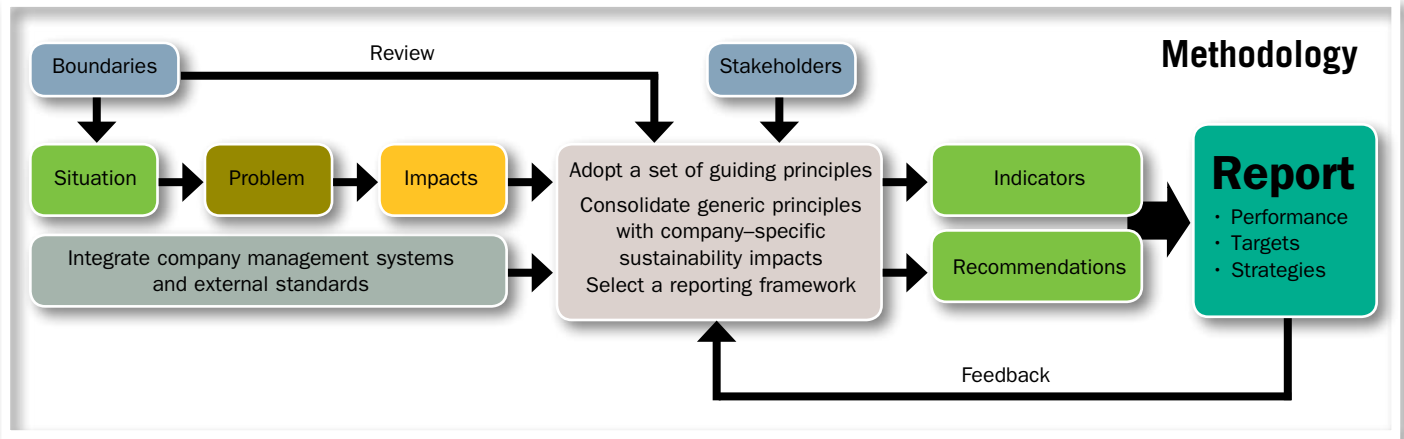
Not even the global economic crisis has been able to completely shadow the growth of public attention on companies' environment and social responsibility towards both internal and external stakeholders. Nowadays, even small to medium businesses are expected to reduce waste and emissions, treat employees with respect and give something back to the community.

In business management terms, reacting to this trend can be labelled 'risk management' as failure could lead to stakeholders withdrawing their support – funding from investors drying up or ethical customers switching to other products. In more opportunistic organi-

sations, marketing people are more likely to look at shifting the firm or product towards the premium end of their market.

There is now a reasonably agreed framework to manage the risks and opportunities. An organisation first has to measure its social and environmental aspects (activities, products, etc) and their impacts, and then report on performance and set targets. Only then can it develop strategies to achieve them – and ultimately reap economic gains from its ecological credentials.

However, the scope of this task can be overwhelming, so a simple but comprehensive methodology is required.



The methodology

The process starts with a Situation/Problem/Impact (SPI) risk assessment analysis, which identifies the organisation's risk profile with regards to social and environmental impacts.

The boundary needs to be only loosely defined at this stage as industry and market risks should be considered. A Porter's Five Forces industry analysis can be helpful at this stage to yield additional understanding of the industry and competitors.

The second input stream into the process is internal organisational requirements such as an environmental policy, legal requirements such as OH&S and environmental legislation, an existing environmental management system or specific requirements from a customer or parent company.

The requirements of both development pathways should then be aligned with a set of guiding principles and globally recognised reporting frameworks. Within this framework, the identified reporting requirements are transformed into customised reporting indicators. This consolidation of risks and requirements generally also yields operational recommendations as it is based on a thorough business analysis.

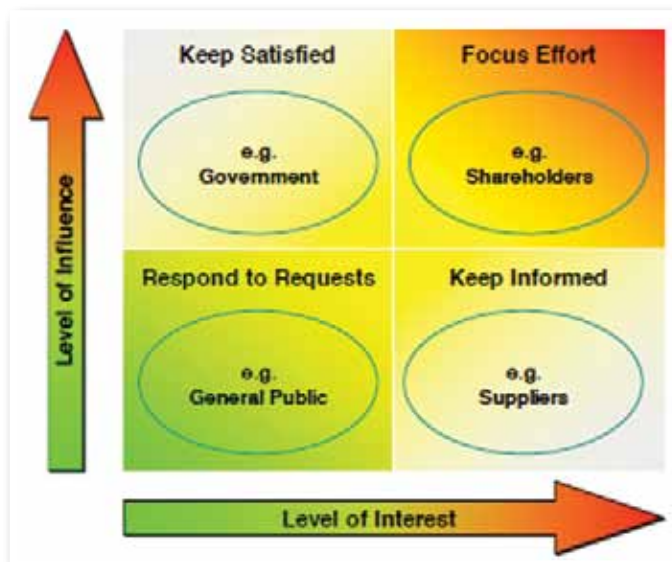
Once the indicators have been selected, the organisation is able to measure its performance, select targets and design strategies to achieve the set goals. It is also important to note that feedback from any previous report needs to be incorporated into the content and indicators of future reports.

Determine your stakeholders

If organisations do not understand their stakeholder profile, the management of social and environmental aspects may miss its target audience. A structured stakeholder analysis is imperative.

Stakeholders can be grouped into four different sectors (right) based on their level of interest and their level of influence:

- Focus effort;
- Keep satisfied;
- Keep informed;
- Respond to requests.



Determine your stakeholder strategy.

Setting boundaries

The report boundary needs to be clearly documented to select the right mix of indicators. Setting the boundary too wide may lead to resources not adequately deployed, while keeping it too tight could lead to false metrics.

While the boundary should only be loosely defined during the SPI process to capture industry and/or market requirements, it needs to be tightened when selecting indicators.

In order to gather the right data and information, it needs to be clear what is included in the report, including which facilities (eg. headquarters, distribution centres, customers, suppliers, etc) and what aspects of the business (eg. production, administration, logistics, etc).

SPI risk assessment

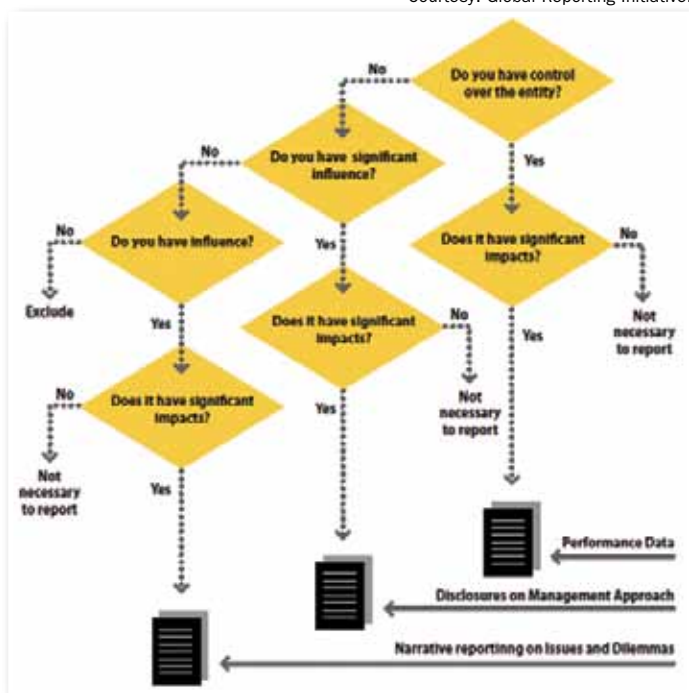
The best approach to expose relevant social and environmental risks is to perform a structured risk assessment. The SPI assessment tool looks at the situation of the organisation and identifies its problems and impacts.

The situation of an organisation can generally be illustrated by analysing the inputs, processes and outputs of its main activities, which could include production, distribution, administration, retail and more.

Based on the situation – the activities determined to be within the reporting boundary – social and environmental problems will become evident. This identification should be extended upstream (suppliers) and downstream (customers, consumers) to capture the whole sweep of social and environmental problems generated by the business activities.

In order to discover the risks, these problems need to be ranked according to the likelihood of the company having to deal with them because of legislation, public pressure, customer requirement or reputational damage, and also the potential financial consequence of the problem to the business.

Courtesy: Global Reporting Initiative.



A decision tree to guide boundary setting.

External requirements

In addition to the social and environmental risks identified in the previous step, external requirements must be considered.

One of the major external requirements that no organisation can afford to overlook are its legal obligations.

On the social front we have to comply with legislation regarding occupational health and safety (OH&S), equal employment opportunities (EEO), labour standards, anti-corruption and human rights. On the environmental side, we have acts covering environmental protection, dangerous goods, hazardous substances and end-of-life, among others.

Other external requirements could come from customers, parent companies, shareholders, local councils and the like, in the form of specifications, design rules, codes of conduct, guidelines, management plans, best practices, standards, etc.

Reporting frameworks

Once all social and environmental requirements have been identified, they should be aligned with a commonly recognised reporting framework to allow for benchmarking against other organisations.

The most common, globally accepted, framework has been developed by the Global Reporting Initiative (GRI). The

guidelines, developed by the GRI, provide organisations with standardised metrics against chosen indicators, making sure performance can be compared globally.

But GRI aligned indicators do not cover the whole territory. An organisation may want to look at a concept called eco-efficiency under which performance ratios are created to render more meaningful information compared with absolute metrics. Performance data could therefore be expressed per \$ of revenue, per employee or per tonne of output to take business fluctuations into account.

Performance related to Environmental Management Systems (EMS) is also not covered by the GRI. Businesses that have already got an EMS in place might therefore decide to create additional key performance indicators in order to document the quality of their EMS. The federal Department of Environment offers some guidance on this topic.

Generating the report

Now that all risks have been identified, all requirements have been listed and all indicators have been developed, the organisation is able to prepare a social and environmental report that complies with global reporting standards.

This then provides a perfect foundation to set targets and develop strategies to improve performance, which can be easily documented in future reports. The further the social and environmental management is established, the more an organisation will focus on strategies rather than just performance.

It is highly recommended to seek some stakeholder feedback once the report has been published, whether through consultation or by issuing a survey. The feedback can be used to generate recommendations to be incorporated into the content and indicators of future reports, creating a continuing learning cycle.

Companies that have engaged in this process have social and environmental concerns on their radar, understand their profile and are therefore more likely to meet stakeholder expectations. These companies are able to benchmark themselves against a global range of businesses and are prepared for new environmental trends, including legislation. They can avoid risky transformational change and extract economic returns from positioning themselves at the premium, socially responsible, end of the market, providing them with a significant competitive advantage in the medium to long term.

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