# TBL Reporting – A Review of Recent Practice

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## Abstract

A growing number of private sector organizations – both internationally and locally - are reporting publicly on their 'Triple Bottom Line' performance.  This paper presents the findings of a study carried out by CSR Europe and AccountAbility UK on the impacts of such reporting as experienced by eleven companies including Unilever, BT, Volkswagen, Nike.  The questions explored are:

- What are companies reporting on?  Where are the challenges and the opportunities?
- How does reporting develop over time?
- What value is TBL Reporting adding to the reporting organizations?
- What impact does reporting have on stakeholder relationships?
- What differentiates good reporters from the rest?
- How effective is TBL Reporting as a tool for moving an organization towards more sustainable practices?

In addition to the international research, an update will be provided on the development of TBL Reporting in New Zealand.

## Introduction

### Where is the external reality check?

This question was posed at the 2003 Edmonds Sustainability Conference held in Auckland.  We had just heard two rather depressing pieces of information presented by John Elkington, Sustainability plc:

- The *2002 Global Reporters* study on the effectiveness of Triple Bottom Line (TBL) reporting found no increase in the overall quality of reporting since the previous study in 2000

- And according to Gallup International's 2002 Voice of the People survey people around the world express the lowest levels of trust in national legislative bodies and large companies "to operate in the best interest of society."

So does all the effort that companies are putting into TBL reporting and sustainability programmes achieve anything?

What difference does reporting make?  Are we any better off having started down the path of reporting?  What value has it added to the business and its stakeholders?

In this paper, I use three sources to explore these questions:

1. The *Impacts of Reporting* study produced by Accountability UK and CSR Europe. The study looks at the value of social and sustainability reporting for both companies and their stakeholders.

2. My own experience in working as a consultant in the field of sustainable business with URS New Zealand and previously with Tall Poppies.

3. A self-assessment survey completed with a range of New Zealand organisations examining the benefits and impacts of reporting as well as the learnings for future development.


## Impacts of Reporting Study

The *Impacts of Reporting* study was developed by CSR Europe in association with Accountability in 2002.  The focus of the study is on reporting practices and company, employee and stakeholder perceptions of reporting.  It aims to present the key questions that should be addressed in order to maximise the usefulness of social and sustainability reporting as a future management and communication tool.

From the reader's perspective the study document presents an analysis of the overall research as well as a brief case study for each of the participating companies - Unilever, McDonalds Restaurants, Danone, Manpower, Nike, Novozymes, Procter & Gamble, Royal Dutch/Shell Group, Volkswagen, Ford Motor Company.

The companies vary in their TBL reporting experience.  With veterans like BT, which have reported for over ten years, and others like Manpower, a potential new kid on the block, which is conducting a feasibility study to assess the value of producing their first report.  Novozymes sprung off from Novo Nordisk and so started its life with a culture of sustainability reporting well established.  Some of the reporters focus on employees and NGOs in their report while others put more emphasis around suppliers or investors.  Many of the companies have been award winners for their environmental, social and sustainability reports, with eight out of the eleven appearing in the Global Reporters 2002 Top 100.

As a practitioner I found the sharing of lessons learnt and the current and future challenges of most value – these reinforced and added depth to my own consultancy experiences and provide some useful insights for companies wanting to build the

business case for reporting by highlighting the actual outcomes people were experiencing.

The case studies provided a good overview of the current status of reporting in these companies and an understanding of the drivers for reporting while the research into the working hypotheses (see insert) helped to tease out common threads and emerging challenges based on actual practice.

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**Working Hypotheses**

The research explored the following hypothesis through a series of focus groups and interviews with a range of people associated with the case study companies, including external stakeholders, investors, employees etc:

1. Social and sustainability reporting must be placed in a broader context in order to fully understand them
2. Pressure, strategy and values are key drivers behind social and sustainability reporting. Over time, an initial pressure driven phase companies will move towards an integrated approach.
3. Companies report on social and sustainability issues in order to change internal and external perceptions. Though stakeholders perceptions can be measured, the resulting change in stakeholder behaviour is more difficult to assess.
4. The impact of reporting depends on its visibility which diminishes over time, as well as its technical quality, which improves with time.
5. The internal impact of reporting is dependent on shifts in stakeholder perceptions, but will be constrained beyond a critical point unless organisational culture and business systems change.
6. Effective reporting requires communication with external stakeholders to be targeted through different pathways.

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What is acknowledged as outside the scope of the study, is any commentary on the quality of reporting (see the Global Reporters 2002 for this sort of analysis) or guidance on how to report (look to the Global Reporting Initiative (GRI) and Accountability's AA1000). But certainly some comparison of new and long-term reporters would have been useful. What can you expect in the first 1-2 years of reporting compared with the later years? What are the characteristics of a mature reporter? What strategies have companies used to maintain the momentum? Answers to these questions are hinted at but took some mining from the information presented.

## What Difference Does Reporting Make - Really?

None of the companies in the study had systematically analysed the full cost-benefit analysis of social and sustainability reporting, although BT has recently started to develop qualitative and quantitative criteria to measure the success of their reporting. The general areas the interviewees considered to be the most important when assessing the benefits of company reporting were:

1. **Attracting and keeping employees and customer loyalty.** This driver emerged as the most important benefit area for the participating companies. A number of the companies referenced their sustainability reporting when bidding or tendering for business e.g. BT and P&G, and when profiling themselves in the labour market. Reporting gave some companies a useful vehicle for being able to demonstrate their values to a tangible way to both employees and external stakeholders. Unilever, for example, has transparency as one of their core values and reporting was an active way to be more transparent.

2. **Concerns about risk and corporate governance in the current post-Enron climate.** Some companies had experienced an increasing demand for information on business practices and others anticipated an increased call for transparency in the future. Sustainability reporting is seen as a way of future-proofing a business to these demands – employees are better informed and more able to respond, relationships with external stakeholders are established and better measurement and management systems are in place. Volkswagen, for example, anticipate the need for political, NGO and consumer support with regard to fuel cell technology. Their in-place reporting and stakeholder engagement processes now provide a well-established mechanism for building such support.

3. **Responding to increasing expression of interest by investors towards socially responsible investing.** While, as with other studies, difficulties are cited with engaging financial investors beyond their traditional worldview, a number of the case study companies indicated a growing interest from socially responsible investors and shareholders. BT for example engages with a number of the UK's top 10 investors about social and environmental issues.

4. **Profitability and intangible assets such as brand and intellectual capital particularly for companies in knowledge-intensive and business-to-consumer sectors like oil & gas, bio-tech and consumer goods industries.** In some cases reporting raises challenging issues, which stimulate internal debate within the company and help management to consider how these issues will be addressed in the future e.g. McDonalds and issues around nutrition and franchisee management.

5. **Strengthening relations with communities as the providers of current and future customers and employees and as guardians of natural resources.** While for many companies reporting is focused on short-term reputation management those who have been in the game for some time are increasingly seeing reporting as integral to involving stakeholders in longer-term business strategy. It seems that more of the long time reporters, those who have persevered, have embedded the challenges of sustainability within the company through permanent governance structures, stakeholder committees and internal decision making processes.

## Stakeholder Engagement

Stakeholder engagement is often said to be at the core of sustainability reporting. It's all about being more accountable to stakeholders and incorporating their concerns and issues into the decisions we make and the way we do business. The study raised a number of questions about the nature and success of stakeholder engagement, especially with external stakeholders.

Companies used various mechanisms, including employee and customer surveys, NGO dialogue and Socially Responsible Investment indices, to assess stakeholder perception their TBL issues and company performance.

Overall companies found it difficult to make the causal link between reporting and stakeholder perceptions but many felt that reporting had a significant impact on their stakeholder relationships.  In reality it is a hard task to get a clear measure of the impact of reporting in isolation as the sustainability report is just one of a number of communication mechanisms used by any company.

While TBL reporting is often sold to companies as a way of improving stakeholder relationships and changing perceptions the study suggests it is important not to oversell in this area.  Many of the companies felt it was difficult to change perceptions of stakeholders who started out with an initial negative view of the company.

What was clear is that a number of companies were involving their stakeholders more proactively in their journey towards becoming more sustainable.  Danone, the French food company, plans to establish a 'Stakeholder Committee' to enhance the company's work with external experts.  They considered their report as a channel for dialogue rather than a tool for communication about performance.  Shell initiated a series of stakeholder dialogues to explore how Shell's performance could best be judged with the outputs from these sessions being used to help to develop KPIs to measure and report performance on sustainable development throughout the company.

## Fickle Fate of Fashion

The longer-term reporters found that the external visibility of sustainability reporting wore off as the initial novelty of the first report is lost.  With a growing number of companies reporting it is becoming harder for both new and mature reporters to make an impression.

The study highlights the reality that unless the reporting process is driven by factors other than just external visibility, in particular the desire to improve performance, companies may be discouraged from investing further in the reporting process.

However, all is not lost.  The study also concluded 'visibility of a company's report need not decrease if new issues are introduced and a variety of pathways are used to promote it'.

Companies needed to be more creative about the range of communication vehicles they used to optimise their effectiveness in connecting with stakeholders.  While the Internet showed up the medium of choice – cheaper, lower environmental impact, wider audience – there was definitely some caution about its effectiveness as a single communications medium.  Some thought the Internet made the report more visible through greater accessibility to a wider audience while others felt using the Internet alone meant they lost the impact experienced in launching a hardcopy report.  Questions of access for lower income stakeholders or those in some areas of the developing world also came into play.  The use of CD-ROMs was a popular choice with

some reporters, allowing them to combine the economics of electronic reporting with the ability to still send out personal copies to selected individuals.

Clearly this is not a one size fits all exercise – at the end of the day companies need to find ways to communicate effectively and hopefully in a two-way manner with their identified stakeholders.  Some reporters have chosen different communications channels for different stakeholder groups taking a segmented approach.  BT, for example, uses a mix of tailored content and appropriate communications vehicle to match the needs of its various stakeholders.
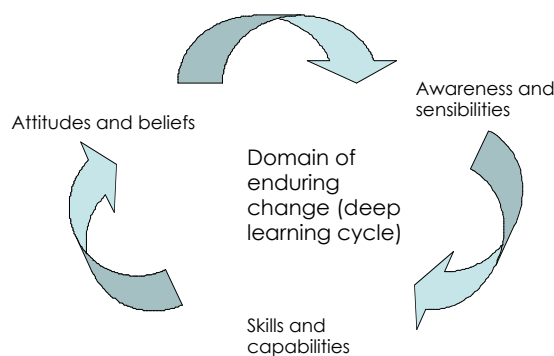
Novelty and being 'first off the rank' were not critical in attracting attention from internal stakeholders – perhaps employees have built-in antennae which have them ignore anything that looks like a fad.  The internal visibility of reports tended to increase with time as new policies emerged and better management systems and measurement tools were set in place.  As more people in the organization became knowledgeable about sustainability and attempts were made to integrate the thinking into the core operations of the business internal stakeholders became more engaged.

## Learning versus Accountability

One of the most significant insights from the study is the identification of sustainability reporting as a facilitator of change within the business.  The process of reporting itself, as well as stakeholder responses to it, can act as a stimulus for internal dialogue that affects big changes in decision-making and strategy.

Whether deciding to the report, as in the case of Manpower, or assessing the impact of reporting as in the case of existing reporters, it is useful for companies to differentiate between the value gained from the visibility of a report, the value gained from improving the technical quality of measurement and reporting systems and the instrumental value from improving decision making and performance.

These findings illustrate that the transformational benefits of sustainability reporting as a result of new knowledge, heightened awareness, external inputs and deeper questioning are not to be underestimated.  What is suggested here is changes in mindsets and attitudes which are indicative of a deep learning cycle at work.  This cycle supports "the development not just of new capacities, but of fundamental shifts of mind, individually and collectively."  Peter Senge (Fifth Discipline Fieldbook, 1994).

A number of the company experiences outlined in the study hinted that there is significant progress being made in the imbedding of policies and practices into day-to-day business operations i.e. enduring change, is taking place.  For example:

- At BT getting an increasing number of managers to take decisions on the basis of corporate responsibility considerations is one of the key objectives of their report.
- At Unilever sustainability policies and targets have been the key driver for generating and embedding internal changes, and the report has been an instrument to support this process.
- Nike seems to be moving from a reactive to a proactive more strategic response to sustainability questions "What is interesting for Nike is the organisational learning accrued following the shift from stakeholders asking questions of them – which is a reactive position – to a more proactive stance where Nike asks questions of itself and challenges external stakeholders to consider new ideas too."

If an organisational learning model is to be supported, there are implications for reporting verification and assurance processes. These need to venture beyond the pure audit function by adding meaning for stakeholders i.e. is the performance good bad or indifferent as opposed to simply confirming the accuracy of the data.

It is not surprising to see that further research to understand the impact of sustainability policies on the culture and practices of companies is currently underway (the Centre for Action Research in Professional Practice at Bath University, 2003). The research outline suggests there is an unmet need to understand more fully which approaches are most likely to lead to a deeper integration of sustainability policies in daily management practice.

## What Happens After the Low Hanging Fruit

In terms of what gets addressed by companies in their sustainability reports the *Impacts of Reporting* research showed that some issues are now well established e.g. human resources, environmental protection and enhancement and community affairs.

It is possible that first reporters are likely to pick these low hanging fruit as an easy place to start and also an area where there are plenty of reporting examples and indicators to copy ideas from.  The challenge, as discussed in other studies, becomes one of materiality.   What issues matter most to particular sectors and companies? What are the most important rather than the easiest issues to report on?

The study found some issues more challenging to address than others e.g. labour issues, socially responsible investment, supply chain management in developing countries, responsible marketing to customers, diversity, ethical risk management and governance.  Social aspects of reporting were also found to be much less straight forward – yet there is a strong interest in this area from stakeholders.  As opposed to the environmental and financial side of reporting the social side is seen as hard to define and to develop quantitative and qualitative indicators for.  Companies also experienced the assurance of the social side to be more of a challenge.

From a materiality perspective, there are clearly some issues which relate more specifically to certain industries. For example:

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| Food & biotechnology sector | GMOs and allergens; |
| Food industry | Animal welfare and nutrition |
| IT and Communications | Mobile phones and health<br>Digital exclusion<br>Human rights |
| Staffing / recruitment industry | Training<br>Diversity<br>Workers rights |
| Biotechnology and automotive industry | Environmental considerations |

While these issues are not necessarily hard to report on from a technical perspective i.e. the data is readily available, they can be more contentious as they reach to the raison d'être of a business – their core products and services.

The study gave a number of examples where seasoned reporters were using their reporting and associated stakeholder processes to raise and explore such issues. Unilever is looking at the internalisation of environmental externalities and at sustainable consumption. Novozymes has used its reporting process to face up to contentious issues e.g. GMO releases, bio-ethics, animal testing, in a proactive way.

A final point made with regard to the challenges involved in reporting is the readiness of the business to report – companies found it was easier to introduce change when the business case is strong, climate is favourable and senior management commitment is considerable. These factors are a continual challenge in maintaining the momentum around reporting and keeping the issues current – avoiding slippage into a compliance mentality.


## Local Experience

In New Zealand a growing number of businesses and public sector agencies are reporting across a wider set of performance criteria. Some publish comprehensive Sustainability Reports while others incorporate social, environmental and cultural perspectives in their future planning documents and annual reports. A number of reporters are now into their third or fourth reporting year.

Indicators of this growing trend are:
• Many New Zealand Business Council for Sustainable Development members (forty-six as at May 2004) are now established reporters. Members must report within their first two years of joining.

• The Institute of Chartered Accountants has a Sustainability Reporting Section in its Annual Reporting Awards.

• The Ministry for the Environment was the first government department to publish a Triple Bottom Line report in 2003. The subsequent establishment of the Govt[3]

programme which encourages sustainable practices within a wider network of agencies will no doubt lead to others.

- Local government are reporting against their environmental, social, economic and cultural performance as required by the Local Government Act 2002.

- A number of smaller businesses and organisations are using a TBL reporting framework eg Tall Poppies, YHA, Waimangu Volcanic Valley.

In late 2003, I carried out a study with a number of New Zealand reporters from the business and the public sectors. Many of the experiences mirrored those highlighted in the study examined above. Here are some comments made by participants on what they felt the biggest impact of reporting had been for their organisation:

- The refocussing of our performance measures on a wider more balanced set of criteria.

- The ability to promote environmental and social responsibility within other agencies as a result of raising our own profile through reporting.

- Better risk management by focussing on the crucial areas of the business. Doing the work to produce our first report highlighted areas we wouldn't have seen just by looking at the financials e.g recruitment, turnover of people.

- A fundamental redesign of our business focus. TBL and Sustainability has given us a new language.

- Reporting now fits on the main agenda. Now we have got to this point we are asking where to next? Getting started has generated its own momentum.

Other benefits commonly mentioned are categorized below:

| Benefit Area | Feedback from Reporters |
|---|---|
| Organisational culture | *Staff have been pleased that we have done something internally about our environmental impacts. It was important to be able to 'walk the talk'.* <br><br> *Increased staff morale and awareness.* <br><br> *The level of passion and commitment inside the organisation to sustainability has increased; the report and the targets have made TBL real.* <br><br> *For some of us we now have a different way of thinking – it has broadened our horizons.* <br><br> *The report came out at the time of a transformation within the organisation with a new CE. It provided a vehicle for delivery of some of the CEO's key messages.* <br><br> *Reporting has let us live the values of the organisation in a more* |

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| | *explicit way and given us a mechanism to share our values with others.* |
| Strategic Focus | *Reporting made us focus on issues that had a major influence in terms of the long term health of the business.*<br><br>*It has put us on the track in terms of a learning curve and a commitment curve.*<br><br>*We now have a broader focus – TBL reporting has encouraged us to do things differently.*<br><br>*Positive impact in terms of teasing out some of the unasked and unanswered questions.* |
| Stakeholder Relations | *We have had different conversations – both inside and outside the organisation. With clients and suppliers.*<br><br>*Enhanced supplier relationships – we have used our measures to raise questions of sustainability with our suppliers. This helps them to meet our needs better and can also enhance their response to the market in general.*<br><br>*We are forming relationships with people we weren't connected to before - in industry, the community and government circles.* |
| Operational Performance | *We have achieved a number of operational efficiencies.* |
| Company Profile | *Gave us good publicity. There was an element of novelty value as we got in at the start of TBL reporting.*<br><br>*The report has raised our profile in the TBL reporting arena – modelling the way. Reporting has increased our ability to influence in the Sustainability Zone* |

## Pointers for Reporters

Sustainability or triple and quadruple bottom line reporting – all terms have currency in different circles – can have real value for organisations. International and local experience is telling us that. However it should not be undertaken lightly – annual reporting can be a hard task master . Second or third reports can be as challenging as getting that first one off the block. The following are learnings and insights which have presented themselves along the way:

1. Know Why - be as clear as you can be on your reason for reporting and keep coming back to this, both as a touchstone and a reality check.

2. Make it Real - consider issues that matter most in your company and in your sector.  As your understanding develops and increased dialogue occurs within your organisation and in your interactions with others the issues you address will mature and become more central.
3. Howard Zinn's quote 'You won't know until you start' is a favourite. While there is a lot of preparation and knowledge building to be done before you first report the most important learnings happened once a business is underway.
4. Involve others.  In many ways your internal and external stakeholders are the ones who will provide your reality check – use the reporting process as a vehicle for investing in your relationships with them.
5. Link to your mainstream business processes – look for ways to connect your social and sustainability reporting work to your strategic planning and performance review processes.  Make this work part of your language and your culture.
6. Do you own reality check – Sustainability plc ask reporting companies the following question: 'How do you use your CSR report to help your people make better decisions?'  In the end, the decisions you make and the actions you take are what matters.
7. Be prepared for change and for surprises – some say if it's too easy you're not doing it right.
8. Make 'redesign' part of your vocabulary – keep scanning the developing theory and look for the emergent themes.  Use these to push the boundaries in your exploration of what sustainability means for your organisation.
9. Enduring change takes time.  Graham Scott the Technical Vice President from Interface US during a visit to New Zealand in 2002 said that his company was 8 years down the track on their sustainability journey and about 25% of the way there.

## To Report or Not – Is That The Question?

Sustainability reporting does not stop the dilemmas in your organisations nor will it fully protect companies in terms of reputation – as highlighted last year in a Financial Times article "The flood of worthy reports cannot obscure an awkward fact in this respect: that companies that have taken up the CSR agenda have often continued to face severe public criticism."  (Daniel Litvin, Financial Times, May 12, 2003).  It is important not to oversell reporting from a public relations perspective – in this sense the 'external reality check' may be an illusion.  Building trust is a long term investment.

Instead the Impacts of Reporting study and local experience points us in another direction at least in in the medium term- that of organisational transformation and learning.  In its conclusion the study identified three areas of further attention for reporters and researchers alike:

- The transformational aspects of reporting seem to be where the real value is coming from.  Driving change within the company – business decisions and outcomes
- Engaging more effectively with stakeholders is needed – different people have different levels of awareness, interest and need for information

- Getting assurance right – effective assurance processes foster internal learning, skill development and more effective decision-making supported by strengthened management systems.

As more companies start to report, understanding the impacts of reporting becomes even more important, especially if we are to stay at the crest of the wave and avoid the slippery slope into a compliance mindset. Let's ensure too that we keep in mind the real driver behind social and sustainability reporting which is to do our bit in building a more sustainable world.  'To meet the needs of current generations without compromising the ability of future generations to meet their needs'.

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