CSR reporting

Carol Adams and **Geoff Frost** report on the findings of their research into how social/environmental performance issues affect firms' strategic decision-making.

Sustainability reporting and related issues have attracted increasing interest from business, the media, policy-makers and the accounting profession. Much of this has focused on the information that is reported, rather than on the sustainability impacts that aren't disclosed. Very little attention has been paid to how the available sustainability information is used by management teams when making strategic decisions. Our CIMA-funded project aimed to fill this gap by exploring the extent to which companies' sustainability performance information discharges their duty of accountability on ethical, social and environmental issues to external stakeholders, and how it is integrated into their strategic decision-making.

The research examined the external reports (annual and, where available, discrete sustainability reports) of 100 large Australian and 100 large UK companies. It focused on how they reported sustainability performance information – including both social and environmental issues. Once identified, the disclosures were analysed against the following seven criteria:

1 Commitment to performance measurement or improvement.
2 Quantified measures of performance – eg, tonnes of carbon dioxide.
3 Identification of specified targets.
4 Performance against these targets.
5 Future performance targets.
6 Acknowledgment of measures used within a management system.
7 Identification of social and environmental performance issues that influenced decision-making or changes in processes.

A summary of the results of our analysis is provided in the graph on the opposite page. The results reaffirm earlier research and highlight that most larger companies now disclose some information on social and environmental issues. But most of them make only general, non-specific disclosures when performance reporting. For example, the 3i Group included the following disclosure (category 1) in its 2003 annual report: "As an international business operating in 14 countries with around 750 employees worldwide, 3i aims to conduct its business in a socially responsible manner. It is committed to being a responsible member of the communities in which it operates and recognises the mutual benefits of engaging and building relationships with those communities… Environmental, ethical and social responsibility issues and standards are also taken into consideration in every aspect of the business."

Three-quarters of the British companies provided at least one instance of quantified data on social and environmental performance (category 2). Surprisingly, 71 per cent of Australian companies provided no quantified data on performance. Similarly, 83 per cent of Australian firms and 41 per cent of British companies failed to identify specific targets (category 3), while 88 per cent and 57 per cent respectively failed to identify performance against targets (category 4). When it came to future performance targets (category 5), 85 per cent of Australian and 54 per cent of British companies failed to provide any information. Only 23 per cent of the Australian and 32 per cent of the British sample reported that performance measures were incorporated within their management systems (category 6).

Examples of disclosures in category 6 include the following excerpt from AstraZeneca's 2003 corporate responsibility report: "During the year we continued our programme of priority audit of main suppliers. In total, 14 sites were audited at our major chemical suppliers. Two potential new chemical suppliers were also audited, and at one of these we identified the need for an improvement in standards before any work could be commissioned by AstraZeneca.

"[Corporate responsibility] is also being integrated into the regular business control meetings that are being introduced into our purchasing practice.

TOPICS COVERED IN CASE-STUDY INTERVIEWS ON THE INTEGRATION OF SUSTAINABILITY KPIS INTO STRATEGIC MANAGEMENT FUNCTIONS

The motivation behind sustainability reporting and the people involved.

How KPIs were developed, refined and used.

How sustainability accounting is being integrated into management functions such as:

- Decision-making.
- Strategic management and planning.
- Performance management.
- Risk management.

Perceived problems, advantages and future directions.

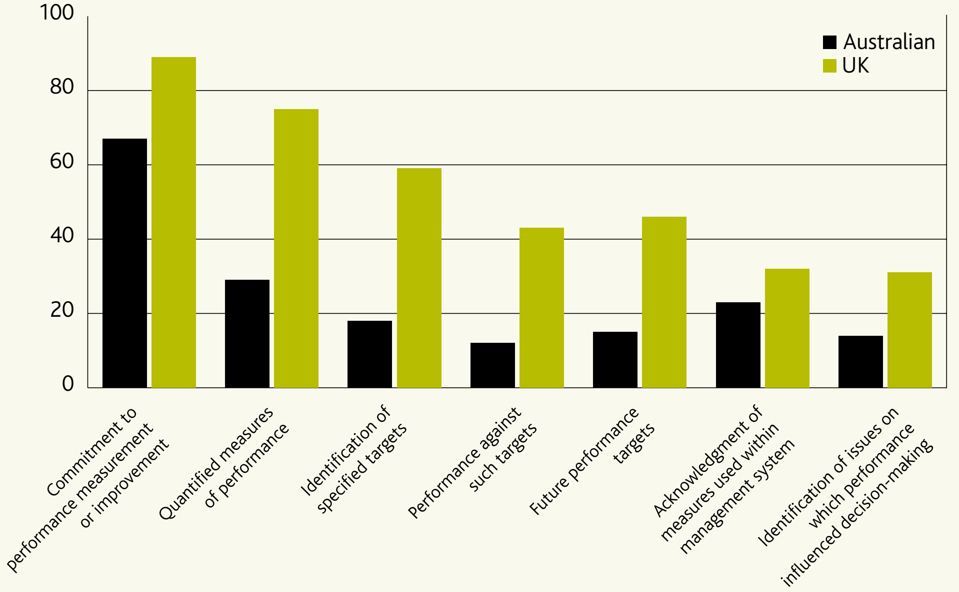
In 2003, approximately 150 meetings that took place included [corporate responsibility] considerations."

Cadbury Schweppes noted that it used environmental performance data and employee opinion surveys in its strategic decision-making (category 6), although it gave little information about how this data was used: "Working to a group-wide environmental management system, we actively manage environmental issues and set detailed local performance targets with a factory audit programme based on a three-year cycle." (Environmental, health and safety report, 2003.)

About a third of the British companies provided disclosures indicating the use of social and environmental performance information in their decision-making processes (category 7). For example, AstraZeneca disclosed changes to products: "During the year we completed a strategic strengthening of our product portfolio with a range of new high-quality medicines that will drive AstraZeneca's future success. Planning for the new products has included making necessary changes to our manufacturing processes and increasing the size of our sales forces (and, consequently, the distance travelled on business). Despite these changes, improvements in efficiency… coupled with a reduced use of our CFC-driven inhalers, led to total emissions from all sources decreasing by two per cent in 2003. We are still working hard to meet our target of a ten per cent reduction in our global warming potential… by the end of 2005." (Corporate responsibility report, 2003.)

BAE took this type of disclosure a step further and identified how its performance information was utilised and how it affected business processes (category 7): "Regular employee opinion surveys are an important barometer of how well we manage the needs of our people. For example, in 2003, acting on feedback from our 2002 survey, our Australian business developed and implemented an employee recognition and performance scheme to reward good performance." (Corporate social responsibility report, 2003.)

NUMBER OF COMPANIES PROVIDING PERFORMANCE-RELATED DISCLOSURES (BY CATEGORY OF DISCLOSURE)



Many companies failed to provide insights into how they incorporated the social and environmental information they were reporting into their strategic decision-making processes

Overall, we observed that, while many companies provided some information on social and environmental performance, this was limited to a few issues. Many failed to provide insights into how they incorporated the social and environmental information they were reporting into their strategic decision-making processes. Given the increasing pressure on companies to report, along with the development of sustainability reporting guidelines such as those of the global reporting initiative, this raises questions about how much social and environmental performance information they are collecting and whether they are using it when making strategic decisions.

With this in mind, we conducted a series of case studies to examine how companies are developing social and environmental key performance indicators (KPIs) and the extent to which they are using sustainability performance data to inform decision-making, strategic management and planning, performance management and risk management.

We conducted interviews with four UK firms and three Australian companies reputed to be either best-practice organisations in their reporting of sustainability information or "good corporate citizens". Despite the low level of reporting we found in the first stage of our project, the findings from these organisations indicate that they are integrating environmental indicators and, increasingly, social indicators, into their decision-making, strategic planning, risk management and performance measurement.

Although all seven companies engaged in some form of sustainability management or reporting, we found no consistency in their approaches to issues such as the motivation for collecting data and reporting sustainability; the scope of the data collected; the use of the data in decision-making; and the development of performance indicators relating to sustainability reporting.

The development of such structures appeared to be motivated by separate factors in each company's history. They had all started integrating sustainability issues into management processes for different reasons and had gone about it in different ways. Each organisation had its own emphasis and integrated sustainability into different management operations. The aspects of sustainability that they considered important and their experiences of implementing it varied. It was hardly surprising, therefore, that their views on future progress also differed. For example, the finance department of one company had recently started to investigate introducing environmental accounting, while another firm was looking into ethically screening its suppliers' parent companies and improving the way it measured its community activities.

These best-practice organisations have recognised the importance of integrating sustainability performance data into their strategic planning, risk management and decision-making processes, and are making significant progress. But the diversity of their approaches and the low level of reporting on social and environmental performance raises questions about how sustainability performance data is collected and used in other companies.

Although our case-study companies were clearly committed to developing their approaches to integration, most UK and Australian companies would benefit from further guidance.

On the role of business in educating society, the corporate environment director at one firm said: "We have an educative role in terms of explaining the consequences of using our product and what kind of things you can do to use it sensibly, but not in terms of the kind of societal shift that would move us towards a society that is actually looking at consuming less. You are talking about a different kind of economics there. It's difficult to ask an investor-owned utility company to do that. That's the role of public education."

The question remains: who will fill this role? FM

CASE STUDY 1

One of the companies in our study has a good reputation as a socially responsible bank, partly because of its involvement in local communities.

Until recently the company was relatively small and tightly knit, relying heavily on a well-developed sense of corporate culture to maintain its focus on the community. Over the past decade it has grown, hired many more people and broadened its geographical spread, which has put pressure on its corporate culture to maintain the traditional community focus.

The management is now exploring how it can use the balanced scorecard and KPIs to formalise the business's interaction with the community.

CASE STUDY 2

One of the companies in our research has a significant environmental impact and it has reported its performance in this area for nearly a decade. In recent years it has issued annual sustainability reports.

Five years ago the firm appointed a sustainability team to develop its external reporting further. One problem it identified was the lack of comparability among the information provided by regional offices and the difficulty of verifying it. In response, the team developed metrics for measuring environmental performance. This has allowed the management to access comparable data, but it has also had some adverse consequences. One problem is that data collection is driven by the external reporting process – head office sends a memo each year requesting specific data that bypasses regional managers. The sustainability team is now seeking more regular collections and a way to allow these managers to make more use of the data.

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