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Does sustainability reporting make organisations more sustainable?

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‘You can’t manage what you can’t measure’ said the renowned management consultant and educator, Peter Drucker. Organisations measure their financial performance and communicate it through their annual reports. But how do they measure and report on the increasingly vital areas of social and environmental performance?

Credit: Spiderbox/istock

In the last decade, a range of sustainability reporting tools (SRTs) has evolved to track the progress made by enterprises in sustainable development.

These SRTs include the Global Reporting Initiative (GRI); the ISO14001 international standard for environmental management; the Dow Jones Sustainability Index; and building/infrastructure indices such as BREEAM, LEED and Gree Green Star.

Sustainability reporting is far more complex than financial reporting. Not only is an organisation required to measure parameters like energy, water and waste across its supply chain, it is also required to assess social outputs such as employment opportunities, fair wages and conditions and good corporate citizenship. The organisation will also need to produce evidence of sound and ethical governance.

Why should organisations bother with SRTs? Today more than ever, governments, NGOs, the public and the media are scrutinising the activities of organisations. SRTs can provide customers and regulators with evidence that a company is ‘doing the right thing’. They can also be used by institutional investors to aid decision making and by companies to identify best practice guidelines.

While sustainability reporting is still more or less voluntary, the adoption of SRTs has increased dramatically in recent years. A 2013 KPMG study found that sustainability reporting is considered mainstream for 71 per cent of the companies surveyed (out of a total 4100 companies); 68 per cent of these companies follow the GRI guidelines.

This may be because companies adopting GRI guidelines are regarded as more transparent and responsive to demand for disclosure on environmental and social criteria by stakeholders such as institutional investors, NGOs, shareholders and the public. A joint report by Sustainability Victoria, the Building Commission and the Green Building Council of Australia (GBCA) noted: 'Green Star buildings have captured serious attention, now accounting for 30 per cent of the new building market'.

Yet, how effective are SRTs? A critical study by experts at the University of New South Wales (UNSW) suggests there is still much room for improvement.

Mainstream building SRTs – such as BREEAM, LEED and Green Star – in particular, have a tendency to ignore areas of uncertainty like the social dimensions of a project, although this is starting to change with the emergence of community development tools. These SRTs also tend to measure sustainability only before or after a building is constructed, making it difficult to collect time-series data that would guide future improvement.

The different benchmarks and standards of performance used across different SRTs also make comparability across projects challenging.

In one study, for example, researchers compared assessment outcomes for a set of similar project conditions by applying three different SRTs: LEED (US), Green Star (Australia) and BREEAM (UK). They found that LEED (US) uses a less rigorous – and to a certain extent 'lower' building code standard – than Green Star (Australia) or BREEAM (UK). So, a building project rated as 'less sustainable' under Green Star and BREEAM could obtain higher ratings under LEED.

In another study, researchers found that only a small number of SRTs have embedded occupational health and safety (OHS) standards (such as OHSAS 18001); in other words, most SRTs have failed to incorporate OHS standards.

Further, the criteria adopted by SRTs also tend to differ from one to another, making it difficult to compare the performance of projects.

How meaningful are the sustainability indicators measured by an organisation – that is, do they truly capture the organisation's sustainability performance? And are they really comparable? Because corporate SRTs are voluntary, comparability is a problem. Here, the concept of 'materiality' is important.

The GRI defines materiality as issues that 'have a direct or indirect impact on an organisation's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large. Determining "materiality" for a sustainability report also includes considering economic, environmental and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the ability of future generations'.

In short, corporations have the option to disclose whatever they wish to, and assess 'materiality' of issues in a non-regulated way. In fact, materiality may even be interpreted differently for organisations operating within a similar industry sector.

Studies of the quality of Australian enterprises' sustainability reports have confirmed that different corporations have a tendency to 'cherry-pick' sustainability indicators so they will be seen in a favourable light.

For example, when I compared the carbon emission indicators reported by Australian construction companies between 2007 to 2010, I found differences not only in the units of measurement adopted, but also in the reporting time frame and the specific details of the information disclosed (see following table).

Company	Time frame	Units	Nature of information disclosed
Company 1	2007, 2008, 2009, 2010	Million tonnes CO_2-e (carbon dioxide equivalent)	Distinction made in reporting of scope 1 and 2 emissions"
Company 2	2007, 2008, 2009, 2010	Million tonnes CO_2-e	Report on scope 1 and 2 emissions, indicating corrections from previous years
Company 3	2007/2008, 2008/2009	Tonnes CO_2-e	Distinction made in emissions based on different sources (diesel, electricity, petrol and gas)
Company 4	2007/2008, 2008/2009, 2009/2010	Kilotonnes CO_2-e	Distinction made in reporting of scope 1 and 2 emissions
Company 5	2008, 2009, 2010	Tonnes CO_2-e/tonne of production	Emissions of total carbon dioxide equivalent per tonne of production
Company 6	2007/2008, 2008/2009, 2009/2010, Target 2010/2011	Tonnes CO_2-e/MWH	Carbon intensity of operated generation portfolio
Company 7	2007, 2008, 2009, 2010	Tonnes CO_2-e	Distinction made in reporting of scope 1 and 2 emissions
Company 8	2009, 2010, 2011	Tonnes CO_2-e and tonnes CO_2-e/FTE	Gross emissions, additional emissions, and gross emissions per full time equivalent (FTE)
Company 9	2007, 2008, 2009, 2010	Tonnes CO_2-e/FTE	Carbon emissions per FTE
Company 10	2008, 2009, 2010	Tonnes CO_2-e	No clear distinction of scope 1 and 2 emissions

Credit: R. Siew

The use of SRTs merely as a tool for corporate spin, rather than as benchmarks to seriously address real issues, has been discussed at length by the media. My research has uncovered attempts by corporations to manipulate graphs to 'greenwash' their achievements. In such cases, there is little or no evidence of benchmarking or comparison with industry peers.

So the science of SRTs is really in its infancy. There's an urgent need for a paradigm shift from 'what to report?' to 'how do we report?' corporate sustainability performance in a meaningful, transparent and consistent way. Precision is key and the development of future SRTs must strive towards this goal.

Should sustainability reporting be made mandatory? Would having sanctions ensure more accurate reporting? Given the proliferation of SRTs, which is the best tool for a business or project? These are all pertinent questions that need addressing to advance the current state of sustainability reporting.

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