



The Use of Guidelines in Australian Corporate Sustainability Reporting

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Abstract

Corporate Environmental Reporting (CER) has increased significantly in the last decade. However in Australia KPMG report that only 23% of companies undertook CER in 2005 despite the appearance of significant drivers for CER such as share value and community pressure. The relatively recent introduction of Australian government guidelines on CER has meant that there is limited common ground between CER in different organisations making it difficult to benchmark performance. The Australian Government Department of the Environment and Heritage (DEH) has recently recommended Global Reporting Initiative (GRI) 2002 guidelines be followed however it is too early to see any effect as business and industry engagement with sustainability is still limited.

This paper reports on research that involved assessing the Annual and Sustainability Reports of ten leading Australian companies including for comparison one subsidiary of an international company based in Australia. An assessment of Annual Reports against GRI guidelines was undertaken to determine the actual level of compliance between companies including those that follow GRI guidelines and produce sustainability reports and companies supplying only an Annual Report. The GRI guidelines were also used to assess the probable level development of environmental management within the organisation. The research identifies compliance, benefits and impediments related to the use of GRI in Australian reports. It also assists in determining the usefulness of GRI in contributing towards sustainability benchmarking locally and internationally and in assessing the level of commitment to sustainability from an organisation.

The analysis shows that the ten Australian companies in the study show varying levels of commitment to sustainability reporting. The majority of those engaged with environmental and sustainability issues do so primarily from a strategy, vision and profile perspective rather than at a systemic level. This may indicate that most of the companies are weighing the advantages of sustainability as a policy against the cost to the organisation.

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Background

Environmental reporting has its origins in the reporting of extreme events with high mortality for example the smogs of post war London (Simpson & Carless 1997) Early environmental reporting concentrated on Health, Safety and Environment (HSE) indicators both internal to the organization and directly impacting the public (Hart 1997, Piasecki et al. 1999). Society now expects more than compliance with regulation and is looking for long term environmental sustainability from corporations (Hammond et al. 1995, GRI 2002). Corporate reporting is gradually evolving towards sustainability reporting as defined by the Global Reporting Initiative (GRI) as

“a process for publicly disclosing an organisation’s economic, environmental, and social performance” (GRI 2006).

Globalisation, growth in ethical investing and stakeholder ‘trust’ are now cited as key drivers for environmental reporting (Welford 1999, NSW State Chamber Commerce 2000, KPMG 2005) however despite a management pledge to implement voluntary environmental schemes a number of organisations have not made a commitment to reporting (KPMG 2005). Research has demonstrated that even amongst companies who do publish environmental reports it can be difficult to compare results and to determine whether the information published is reflective of a significant move towards risk management or sustainability or is in fact designed simply as public relations (PR)

“As things stand, the most inadequate voluntary code can be hyped by the company concerned – while even excellent ones are difficult to defend against the critics.” (ERM 2001)

Early CER concentrated on the reporting of key indicators or involved Environmental Impact Assessment (EIA) which did little to address the complexity of environmental concerns (Gunningham and Grabosky 1998, Marsden 2002 & Dovers 2002). The sustainability reporting now being driven internationally requires a more comprehensive view of the data integrated over a number of disciplines (Susskind, Jain & Martyniuk 2001). The World Business Council for Sustainable Development believes sustainability is becoming one of the basic criteria for judging the social responsibility of organisations (WBCSD 2004). The move towards sustainability reporting is occurring worldwide with the latest survey by KPMG in 2005 stating

“A dramatic change has been in the type of CER which has changed from purely environmental or EHS reporting up until 1999 to sustainability.” (KPMG 2005)

Large companies with potentially environmentally damaging processes tend to produce the most comprehensive reports (Kokle 2000) and have therefore been the subject of the majority studies. A significant increase in reporting has been seen in the last 10 years with an estimated 1,500 – 2,000 sustainability reports produced annually worldwide (ACCA 2004) with much of the recent growth in Australia and Japan.



CER standards

The debate surrounding CER has now turned towards which reporting standards to use. Erik Ligteringen of GRI commented that:

“Executives no longer wonder whether to use such tools; they wonder about which ones to use, and in what combination.”(Ligteringen & Zadek 2006)

There is still limited common ground between CER in different organisations or across industries which makes meaningful research in the area difficult (KPMG 2005). GRI under the auspices of the United Nations Environment Program released its *Sustainability Reporting Guidelines* in 2002 (GRI 2002). Awareness and use of the GRI (2002) guidelines is growing internationally and much has been written on the TBL approach especially by accountancy organisations. Guides, such as that produced by the Global Compact contain principles used across CSR. (Brownlie 2005).

However there remains considerable confusion amongst organisations as to which guidelines to follow and many adopt the approach of using multiple guides to ensure compliance (GRI 2006, KPMG 2005). The proliferation of codes and standards on CSR has resulted in some confusion for business as to what society's expectations are (Doane 2002).

In the current climate it is difficult to compare CER across organisations or to benchmark results. As stated by GRI, until companies adopt a generally accepted reporting framework for sustainability reports they will lack the features that could make them broadly useful: credibility, consistency, and comparability (GRI 2006).

Differing standards across regions and between industries may have hampered progress to date however there is now increasing adoption of GRI as the framework for sustainability reporting (ACCA 2004) so much so that it is being quoted as the ‘de facto’ international standard (Dickson et al. 2005). The GRI standard is being adopted by a large number of companies, e.g.40% of companies completing CER's internationally were identified as using GRI guidelines in the 2005 KPMG survey. This framework provides researchers, governance and assurance agencies and stakeholders a vehicle to compare a company's performance with that of similar organisations in a sector and across industries and regions.



Australian CER

CER in Australia still reflects its HSE origins, with the leading ‘reporters’ traditionally being large mining organizations (Longstaff 2005, Gilding 1996). Changing community expectations are helping to drive wider CER (Deegan 1998, Hughes 2004). Shubert of the Business Council of Australia in his introduction to *Sustainability: A Guide to Triple Bottom Line Reporting* (G100 2003) commented that:

“Triple bottom line reporting therefore ties in with one of the greatest challenges currently facing the corporate sector – our reputation in the community. The Australian community has a low opinion of big business... We are expected to set a higher ethical standard and help build a better society for us all.” (G100 2003)

The reasons why Australian companies adopt and report on their environmental performance reflect those cited internationally. Managing sustainability is rapidly becoming an integral part of good company management. Improved sustainability reporting and successful business success seem to go hand-in-hand (Davidson 2005).

Fayers’ (1998) discussion of the findings of Crosbie and Knight (1995), Deegan (1994) and Gilding (1996) remains a relevant outline of the reasons for the Australian implementation of corporate reporting, as follows:

- Companies that have an EMS in place are likely to have reduced exposure to future environmental liabilities;
- Companies that pioneer reporting and performance measurement have built-in advantage in being able to influence the ongoing debate on indicators; and
- Companies that invest in the area reap rewards in public relations, stakeholder relationships, employee confidence, improved ability to recruit staff and improved internal standards of environmental management.

The Australian Government first released voluntary guidelines for public environmental reporting in 2000 that were developed by SMEC for Environment Australia (now incorporated in the Australian Government Department of the Environment and Heritage (DEH)) (Environment Australia 2000). However, corporations must now also comply with legislation. Australia’s mandatory reporting requirements include:

- s299(1)(f) of the Corporations Act 2001 requires companies to include details of breaches of environmental laws and licences in their annual reports; and
- ss1013(A) to (F) of the Corporations Act 2001, requires providers of financial products with an investment component to disclose the extent to which labour standards or environmental, social or ethical considerations are taken into account in investment decision-making. (DEH 2006)



Despite these drivers Australian organisations are lagging behind their European counterparts in terms of corporate reporting. Longstaff (2005) in his recent introduction to the *Corporate Responsibility Index* (CRI) survey stated that:

“...the response of Australian companies to the call for more sustainable business practice has been mixed.” (Longstaff 2005)

KPMG (2005) report that only 23 percent of Australian companies undertook CER in 2005. Although this has grown from 14 percent in 2002 the comparative figure in the UK is 71 percent. The Australian CRI survey had a relatively low response rate of 27 companies out of the top 250 invited to contribute (Ernst & Young 2005).

DEH (2005) has reviewed ‘sustainability reporting’ implemented by Australia’s largest companies. Only 24 percent of the entire 486 companies covered by the survey were producing a sustainability report and only 32% of these had independently verified reports. However, there is growing enthusiasm in Australia for CER which is reflected in the growth in sustainability reporting being one of the fastest in the world (ACCA 2004).

Implementation of CER in Australia

In Australia, very few businesses have an integrated strategy to manage their CSR activities (Tilbury and Adams 2005). For most Australian businesses, CSR initiatives have been developed in an isolated manner without due consideration as to how they could be aligned with corporate goals, to many it is a goodwill exercise (Hughes 2004). This may reflect a lack of agreed standards around corporate activity and reporting despite the presence of government guidelines which should provide a conceptual framework (Burritt 2002, Deegan 1996). Even the widely publicised Australian CRI index itself was developed in the UK and ‘imposed’ on Australian companies (Redmond 2004).

Guidance on CER for Australian organizations is emerging from government departments, accountancy firms and in education (Ernst & Young 2005, Tilbury & Adams 2005). DEH (2006) has recently recommended GRI (2002) guidelines be followed; however, it is as yet early to judge the effectiveness of sustainability reporting in Australia as business and industry engagement with sustainability is still limited (Tilbury & Adams 2005).

To date, the GRI(2002) guidelines have been adopted in Australia by companies who are the leaders in sustainability reporting. Often their implementation is combined with other reporting standards and the use of local and major accounting firms to provide assurance (ACCA 2004). Of the companies producing sustainability reports in the DEH (2005) survey mentioned previously, reports produced ‘in accordance with’ the GRI Guidelines increased from five to six, and reports produced ‘with reference to’ the GRI Guidelines increased from 35 to 61, representing an increase from 30 percent to 51 percent of reports using the GRI Guidelines (DEH 2005). However these results contain an inherent bias as 60 percent of the companies using the GRI Guidelines are internationally owned.



Reinforcing the view that GRI is being adopted as the standard in Australia, is a study on the public sector reporting that 70 percent of the respondents had an awareness of GRI with 50 percent adopting its use (Dickson et al. 2005)

Even though the overall progress of sustainability reporting in Australia has been recently surveyed by KPMG (2005) and DEH (2005), these surveys do not provide any analysis as to the overall compliance against GRI, although the KPMG survey does examine some specific aspects of compliance such as materiality (KPMG 2005). Nor do they provide any benchmarking or any indication of whether the reports may reflect a commitment to sustainable development by an organisation, an attempt at minimal compliance or are simply a PR exercise.

This research therefore uses GRI guidelines to assess the progress of sustainability reporting amongst selected Australian companies and to try and determine if this framework can provide a realistic assessment of an organisation's sustainability performance or provide a vehicle for inter-comparison with other organisations.



Methods

The research described in this paper was undertaken to gain an understanding into corporate sustainability reporting in Australia with an emphasis on environmental rather than social indicators. The focus was on evidence of the environmental progress of companies because performance with regard to physical environmental impacts is a fundamental component of sustainability. The aim was also to look at the governance and assurance of an organisation as this provides information on the diligence of the reporting and therefore acts as an indicator of the potential reliability of the data presented.

The research analysed the reports against the GRI guidelines, which although not accepted as a universal benchmark remain the most commonly used framework in Australia and internationally. As part of the research an assessment of the suitability of the GRI guidelines for use as a benchmark framework between organisations was undertaken. The research also tries to determine if application of the guidelines allow a reader of a report to understand a company's level of commitment to sustainability initiatives.

Report Selection

Annual reports were sourced from primarily from the DEH website or from the websites of the companies themselves. If a company also produced a sustainability report then that was included in the analysis.

The research included a limited number of reports as this study was not intended to provide an overview of CER in Australia as this work has been completed by both KPMG (2005) and DEH (2005) surveys. The reports were analysed against the GRI guidelines and assessed both quantitatively using a scoring methodology and qualitatively.

The sample reports were selected from the Australian Stock Exchange ASX top 300 Australian listed companies as this was the group surveyed by DEH (2005). Two organisations were included to broaden the study, Australia Post as a government owned organisation and BP as a multinational company with its head office outside Australia but represented by a branch in Australia. The study therefore covered ten companies from a range of industry sectors:

Industry sector	Company
Mining	BHP Billiton
Government	Australia Post
Construction	A V Jennings
Retail	Coles Myer
Telecommunications (ICT)	Telstra
Energy	BP, AGL
Finance	Westpac
Manufacturing	Nylex
Logistics (Transport)	Toll



Analysis Against GRI Guidelines

First Phase of Analysis

The initial analysis of the reports against the GRI guidelines utilised a framework similar to that recommended for completing a GRI compliance table (GRI 2006). The analysis aimed to evaluate the reports against: specific indicator questions (for example those numbered ECxx for environment); guidelines on the inclusion of statements of intent, for example on Visions and Strategy; and questions regarding the level of compliance and governance. As indicated previously, the focus of this work was on environmental performance. Questions from the GRI which concentrated on social indicators were not included.

It was felt that analysing the company reporting via a two dimensional matrix was a convenient approach. Rows represent GRI guideline questions (including indicators, overall profile and compliance questions – see Appendix for examples of questions in each GRI sector) and columns display simple scoring demarcations. The scoring method was developed to allow analysis of a report itself and comparison with the other reports in the study and was based on the GRI guidelines conformity. The scoring response to each GRI guideline question was rated as a binary choice of either one (1) or zero (0), with the former flagging conformity and the latter non-conformity, for the following categories:

- Exceeds
- Complies
- Complies but with exceptions
- Fails by admission
- Fails
- No information

The analysis matrix therefore provides a score for compliance against each sector of a report and an indication of overall compliance with the GRI guidelines (in percentage terms), for example, a report may have included compliant information for 45 percent of the questions/indicators.

The use of a more complex method, for exemplifying grading the responses, was not considered appropriate, as the level of compliance to a question was not relevant to the many of the responses to the questions, e.g. where data was present for an indicator, or not. Also where the answers could be graded, the results would have been highly subjective.



Second Phase of Analysis

A review completed after the initial analysis showed that whilst the method used for the first phase of analysis provided an overall indication of the compliance with GRI it was difficult to differentiate a company's results beyond that. This was because the profile and economic/financial rigour questions were answered by most companies (using data easily available from regulated finance and governance reporting). These positive results tended to overwhelm the environmental sustainability indicators making it difficult to obtain an overview of actual progress in key areas of environmental reporting. This finding may represent a limit of GRI in benchmarking. It was therefore decided to undertake two further analyses to clarify the results based on:

- Environmental sustainability indicators
- Commitment by a company to sustainability via broader sustainability criteria.

Analysis of Specific Environmental Sustainability Indicators

First, an analysis of the GRI guidelines was undertaken to select key questions which represent progress in environmental sustainability. These included:

- Company stated intention with regard to sustainability: company process, strategies and visions;
- Actual performance against indicators: use of benchmark and cross cutting indicators;
- Inclusion of eco-efficiency;; product lifecycle and environmental footprint measures;
- Internal governance and process: assurance;
- Cross cutting indicators and benchmarks against industry or other standards; and
- Stakeholder engagement and supply chain management.

The questions which were selected as probable indicators of environmental performance were scored in a similar manner to the overall analysis. The scores for each company were then compared against a performance scale developed with reference to the phases of development of corporate sustainability as suggested by Dunphy et al. (2003).



Table 1. Performance Scale Related to Phases of Development of Corporate Sustainability (Dunphy et al. 2003)

Phase	Description	Rating
Rejection	Manages hostile to environmental initiatives	No compliance
Non Responsiveness	Environment is irrelevant	Projects only
Compliance	All legislative and high risk activities acted on	Internal Indicator Compliance
Efficiency	Systematic implementation of environmental processes to avoid risk and cost	Internal Process Compliance
Strategic pro-activity	Proactive environmental strategies supporting ecological sustainability	External compliance
Sustaining corporation	Promotion of ecological sustainability	External Influence

The non responsive category was expanded to allow for the type of reporting observed in reports where a company attempts to make it appear that it is environmentally proactive, but is only undertaking a few projects or making donations.

Once the companies had been categorised the reports were assessed qualitatively to ensure that the categorisation achieved by scoring was consistent with the information represented in the report. For example two of the reports, categorised as 'no compliance' discussed environmental projects undertaken but had no data on overall company results or against key indicators and had been correctly placed in the 'projects only' category.

Analysis of Company Commitment to Sustainability via Broader Sustainability Criteria

A final analysis was performed based on the categorisation of the GRI guideline questions. Key indicators and questions in the guidelines were categorised into specific broad sustainability criteria:

- GRI compliance and assurance
- Lifecycle management
- Stakeholder engagement
- Cross cutting or sustainability indicators
- Supply chain management

These categories were established from the guidelines and selected as they reflect differing levels of commitment by a company to sustainability. The selection of categories was based both on the World Business Council for Sustainable Development (WBCSD) definition of spheres of influence of a company (detailed in the Figure 1 below) and factors considered by the CRI index, which has evolved to give more weight to performance and impact, tuning the results to the actions of companies and not just their “strategic planning prowess” (Ernst & Young 2004)

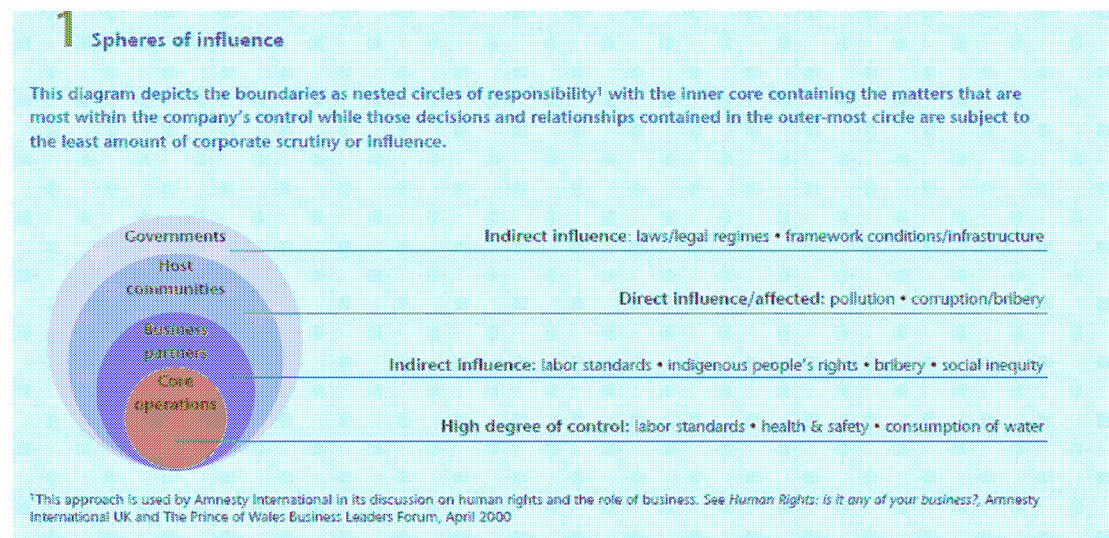


Figure 1. Spheres of Influence for an Organisation (WBCSD 2002)

The total in each category was used to determine how a company was performing in the different initiatives; for example, a company could respond well to all questions on stakeholder engagement and have a good lifecycle processes but may have made no progress in supply chain management.

As part of the scoring it was necessary on occasions to 'remove' a question which was not relevant to an organisation. For example Westpac would not be expected to report on emissions of particular gases or biodiversity in World Heritage protected areas. In these cases the whole question was removed ensuring no distortion of the percentages

