

NON-FINANCIAL REPORTING TRENDS OF AUSTRALIAN POWER GENERATORS

A Research Paper by Amanda Keogh



Graduate School of the Environment

Table of Contents

Table of Contents.....	2
1.0 EXECUTIVE SUMMARY.....	4
2.0 INTRODUCTION.....	5
2.1 Assumptions.....	5
2.2 Background	5
2.3 Drivers for disclosure	5
2.4 Response	6
2.6 CFEI context.....	6
3.0 RESEARCH FRAMEWORK	7
3.1 Methodology.....	7
3.4 Research methods	7
3.5 Interview questions.....	8
4.0 LITERATURE REVIEW: INTERNATIONAL AND AUSTRALIAN TRENDS IN NON-FINANCIAL REPORTING	9
4.1 Reasons for non-financial reporting.....	9
4.1.1 Stakeholder expectations	9
4.1.2 Scrutiny related to socially responsible investment	9
4.1.3 Reputation ranking industry	9
4.1.4 Regulation	10
4.1.5 Perceived benefits.....	10
4.2 International levels of reporting activity.....	10
4.3 Australian levels of reporting activity	11
4.4 Decline	11
4.5 Challenges and barriers.....	11
4.5.1 Reputational risk.....	12
4.5.2 Credibility.....	12
4.5.3 Low levels of support.....	12
4.5.4 Low levels of stakeholder engagement	12
4.5.5 Low levels of interest.....	12
4.6 Types and formats of report.....	13
4.7 Standardisation	13
4.8 Assurance and materiality	13
4.9 Conclusion.....	14
5.0 FINDINGS: AUSTRALIAN COAL-FIRED ELECTRICITY INDUSTRY TRENDS IN NON-FINANCIAL REPORTING	15
5.1 Reasons for non-financial reporting.....	15
5.1.1 Community and employee expectations.....	15
5.1.2 Reputation ranking industry	15
5.1.3 Perceived benefits	15
5.2 CFEI levels of reporting activity	16
5.3 Decline.....	17
5.4 Challenges and barriers.....	18
5.4.1 Stakeholder communication and engagement	18

Non-financial Reporting Trends of Australian Power Generators

5.4.2	Reputational risk.....	18
5.4.3	Credibility.....	19
5.4.4	Low levels of support.....	19
5.4.5	Multiple reporting obligations.....	19
5.5	Types and formats of report.....	19
5.6	Standardisation, assurance and materiality.....	20
6.0	DISCUSSION AND RECOMMENDATIONS.....	21
6.1	Stakeholder relations: from pressure to partner.....	21
6.2	Reporting: from disclosure to engagement.....	22
6.3	Reporting: means to an end or an end in itself?.....	22
6.4	Reporting: stakeholder dialogue or company monologue?.....	23
6.5	Return on reporting investment.....	24
6.6	Standardisation, assurance and materiality.....	24
7.0	CONCLUSION.....	26
8.0	References.....	29

1.0 EXECUTIVE SUMMARY

This paper describes research conducted between March and June 2005 into non-financial reporting¹ trends amongst coal-fired power generators in Australia. The aim of the project is to identify patterns in non-financial reporting in this sector and to explore their significance with a view to making recommendations. This project is part of the researcher's course requirements for the Master of Sustainable Development at Macquarie University.

A preliminary literature review was conducted to identify the broader trends in non-financial reporting worldwide and within Australia and a series of questions designed on that basis. Australian coal-fired power generators were invited to participate in the research project. One-on-one telephone interviews with those individuals involved in preparing non-financial reports were the primary means of data collection. Online information was also sourced for these companies in question to ascertain general levels of disclosure and inform this discussion. Themes emerging from these findings form the basis of the report's findings.

The report explores the drivers for non-financial reporting, levels of reporting activity, the barriers to reporting and other significant and emerging issues in this area of inquiry such as regulation, standardization and materiality. Exploring the significance of these developments reveals that non-financial reporting amongst Australian power generators, whilst at a proportionately high rate, is at the early stages of development and undergoing a period of review and optimisation.

Most reporters have yet to realize the role of non-financial reporting in a broader process of change towards sustainability. Non-financial reporting is most commonly used as a tool to communicate incremental improvements in practice to stakeholders, especially staff and the local community. However response from stakeholders has been sparse and in some cases has been so negative as to result in a withdrawal from reporting. The initial uptake in reporting is beginning to show decline. The cost associated with these reports has also been identified as a significant constraint on reporting activity. In other cases lack of support from board and senior management is a barrier. However, amongst those who do report, the use of reporting guidelines and external verification is increasingly common.

The outcomes of this research include a series of recommendations, which address stakeholder relations, disclosure, engagement and return on reporting investment, in addition to touching on the issues of standardization, assurance and materiality.

¹ The term *non-financial reporting* describes the practice of preparing and publishing public reports that disclose information relating to a company's environmental performance, social responsibility and its contribution to sustainable development in general.

2.0 INTRODUCTION

2.1 Assumptions

- Corporate sustainability is an ongoing process of organizational change that actively engages all relevant stakeholders and addresses their interests in strategy and operations².
- Non-financial reporting presents an opportunity to enable that change by informing stakeholders, monitoring performance and encouraging reflection on corporate practice and its contribution to sustainability.

2.2 Background

In Australia, reports commissioned by the Department of the Environment and Heritage (DEH) have observed an increase in the numbers of companies reporting on their environmental performance and social responsibility³. However, some have questioned the value of non-financial reporting both to companies and their stakeholders⁴. Levels of stakeholder response to reports are low and there are some initial indications that reporting companies do not perceive adequate return on their investment in this process of internal review and disclosure⁵. This research aims to relate these trends in non-financial reporting policy and practice to the coal-fired electricity industry (CFEI) in Australia, specifically coal-fired power generators.

2.3 Drivers for disclosure

Australia is not unlike any other developed country - the more polluting industries are coming under increasing pressure from government, non-government organizations (NGOs), shareholders and the local communities in which they operate to assess, address and disclose their impacts on the environment⁶. Mandatory disclosure measures such as the National Pollutant Inventory (NPI)⁷ and the rapidly developing corporate social responsibility (CSR) agenda is also driving the sector towards voluntary disclosure in the interest of building trust and maintaining their social and environmental licenses to operate⁸. One convincing business case for voluntary reporting has been premised on risk management – by managing and being transparent about social and environmental impacts, a

² Smith (2002)

³ CAER et al (2003); CAER et al (2004)

⁴ Doane (2002); Adams & Evans (2004)

⁵ Sustainability (2004); ACCA (2004)

⁶ Kolk (2004)

⁷ See: <http://www.npi.gov.au/>. Accessed 31 May 2005.

⁸ Sustainability (2004a)

company will better manage risk and ultimately perform better financially⁹. In the Australian context, Westpac and Rio Tinto both illustrate good practice in non-financial reporting and stakeholder engagement¹⁰. They have successfully differentiated their corporations in their respective markets and on the socially responsible investment (SRI) playing field on the basis of this leadership position.

2.4 Response

Responses to drivers for managing and disclosing environmental performance in the CFEI have included implementing environmental management systems (EMS), installing pollutant mitigation measures, community programs and in some cases broadening energy portfolios to include renewable sources¹¹. Non-financial reporting provides power plants with an important means to communicate how they are addressing sustainability issues, especially to staff and the local community. In fact, non-financial reporting is but one tool in a suite of codes, standards, systems and frameworks used to manage and communicate sustainability issues. Progressive organizations in other sectors such as Insurance Australia Group are beginning to go 'beyond reporting' and building value and trust by understanding and developing the relationship between accountability, sustainability and their core business strategy¹².

2.6 CFEI context

Power generation is a significant industry in Australia, with assets valued at \$110 billion, employing 40,000 people and contributing \$11.3 billion to the Australian Gross Domestic Product in 2004¹³. Due mainly to the carbon and pollutant emissions from coal-fired combustion this industry also has significant negative environmental and social impacts. Their operations are a major factor in climate change and also affect ambient air quality with potentially damaging consequences for human health. The high-impact nature of this sector led to its early adoption of environmental management and reporting and these reports are still used to communicate how generators are addressing sustainability issues such as environmental performance.

⁹ Doane (2002)

¹⁰ Corporate Responsibility Index (2004)

¹¹ See: <http://www.esaa.com.au/store/default.pl>. Accessed 31 May 2005.

¹² WBCSD (2005)

¹³ esaa (2004)

3.0 RESEARCH FRAMEWORK

3.1 Methodology

The methodology of this research project was designed to facilitate the development of insights into non-financial reporting based on interviews with companies in the CFEI. Grounded theory development was used as the basis for an approach that would identify and explain trends in generators' reporting activities¹⁴. Developed in the 1960s grounded theory is an innovative and still-evolving qualitative research methodology that allows new theories to 'emerge' from observed behaviour and is usually used to explore questions related to the social sciences¹⁵. This methodology is also congruent with sustainability-related research questions because it is suited to emergent areas of inquiry not amenable to quantitative analysis¹⁶.

Grounded theory construction was considered an appropriate research framework for this project as it does not require inquiry into a great number of cases, which suited the small-scale scope of this project. So a handful of companies could be used to generate initial ideas and a few more cases used to confirm or adjust them. Those initial ideas are generated during data collection as information begins to form patterns and interrelations. Once data collection is complete the data is reviewed, coded and compared in order to properly identify the predominant themes emerging from the data. These themes form the basis of the answer to the research question.

3.4 Research methods

- A literature review into global non-financial reporting trends;
- Generators' web sites searched for information regarding non-financial reporting;
- Interview questions designed and piloted;
- All coal-fired generators invited to participate by e-mail;
- Interviews conducted with professionals involved in non-financial reporting to identify and analyse corporate policy and practice and to discuss reporting trends more broadly;
- Information gathered during telephone interviews summarized in interview report and sent to interviewees for validation;
- From those reports predominant themes emerged, forming basis of research findings.

¹⁴ Glaser & Strauss (1967)

¹⁵ Glaser & Strauss (1967)

¹⁶ See: <http://www.scu.edu.au/schools/gcm/ar/arp/grounded.html>. Accessed 31 May 2005.

3.5 Interview questions

The interview questions were designed to allow a broad exploration of each company's non-financial reporting policy and practice. They provided a flexible structure that could be adapted in situ as the issues of greatest significance to each company came to the fore during conversation. Companies were asked to explain why and how they report on environmental and social performance, what factors affect reporting policy and what they perceive to be the broader trends in non-financial reporting.

4.0 LITERATURE REVIEW: INTERNATIONAL AND AUSTRALIAN TRENDS IN NON-FINANCIAL REPORTING

The researcher reviewed several key reports on international and Australian non-financial reporting in order to compile a consolidated list of trends. An understanding of the broader landscape informs and gives context to the exploration of non-financial reporting trends in the CFEI that comes later. The material reviewed was based on industry practice and included recent reports commissioned by the Australian Department of the Environment and Heritage, annual global reviews of non-financial reporting conducted by KPMG, Sustainability Consulting Group, and the Association of Chartered Certified Accountants¹⁷.

4.1 *Reasons for non-financial reporting*

4.1.1 Stakeholder expectations

For many companies the original decision to report is driven by a desire to enhance credibility with stakeholder groups and address demands for transparency and accountability, especially from local community and employees¹⁸.

4.1.2 Scrutiny related to socially responsible investment

Many leading financial services firms have confirmed the material relevance of governance and sustainability performance on decisions to invest in organisations¹⁹. Sustainable Asset Management, the research partner of the Dow Jones Sustainability Index has recently launched the Australian SAM Sustainability Index²⁰.

4.1.3 Reputation ranking industry

Benchmarking programs such as the Corporate Responsibility Index highlight those companies which meet ethical, environmental and social or sustainability criteria²¹. This is supported by the ongoing development of more demanding reporting guidelines (Global Reporting Initiative), values based initiatives (UN

¹⁷ Allen Consulting Group (2002); CAER et al (2003); CAER et al (2004); Sustainability (2004); ACCA (2004).

¹⁸ Sustainability (1998)

¹⁹ Sustainability (2004)

²⁰ See: www.sam-group.com. Accessed 7 June 2005.

²¹ See: http://www.bitc.org.uk/programmes/key_initiatives/corporate_responsibility_index/. Accessed 7 June 2005.

Global Compact), numerous reporting awards and stakeholder engagement frameworks (AA1000), all of which raise the bar on reporting practice²².

4.1.4 Regulation

Environmental reporting has been regulated in Denmark, France, Holland, Norway and Hong Kong over the past 15 years. New regulation is beginning to address companies' social responsibilities. In France the Nouvelles Regulations Economiques was enacted in 2003 and requires listed corporations to report against a range of environmental *and* social indicators²³. The Australian Government is currently examining the extent to which the duties of directors under the *Corporations Act 2001* should include social responsibilities, and whether companies should report on the social *and* environmental impact of their activities²⁴.

4.1.5 Perceived benefits

Once reporting has commenced, the benefits it delivers can create a momentum to continue reporting. Chief among these are the added rigour for internal data gathering, enhanced reputation, improved reporting systems and improved employee awareness and morale²⁵.

4.2 *International levels of reporting activity*

The incidence of non-financial reporting has grown exponentially in the last 10 years – between 1993 and 2003 the number of reports jumped from 100 to 1,500²⁶. However, non-financial reporting is still at the early stages of adoption and yet to achieve mainstream acceptance outside the domain of large transnational and national corporations²⁷.

A global overview of non-financial reporting conducted in 2004 shows that North America and Western Europe are the most active regions in absolute figures²⁸. Traditionally the industrial, more polluting sectors have been the most active reporters²⁹. However, the number of financial services organizations that publish sustainability reports is rapidly increasing³⁰. Although the numbers of organizations producing reports are still increasing, the rate at which it is increasing has slowed³¹. In North America it has become static, in Europe it has

²² Green Capital (2004)

²³ See: <http://www.senat.fr/dossierleg/pjl99-321.html>. Accessed 7 June 2005.

²⁴ See: http://www.legislation.act.gov.au/a/db_8099/default.asp. Accessed 16 June 2005.

²⁵ Sustainability (1998)

²⁶ ACCA (2004)

²⁷ Kolk (2004)

²⁸ ACCA (2004)

²⁹ Kolk (2004)

³⁰ Kolk (2004)

³¹ CAER et al (2004); Sustainability (2004); ACCA (2004)

slowed but in Japan and Australasia it remains dynamic³². This could be because Australasia tends to lag two years behind North America and Europe in terms of developments in corporate sustainability³³. While mandatory and stakeholder-driven pressures to report increase there is evidence to indicate that fewer newcomers are accepting the challenge³⁴.

4.3 Australian levels of reporting activity

The federal government commissions regular reports into non-financial reporting trends. The DEH 2004 report surveyed 509 companies of which 116 produce sustainability reports³⁵. This is an increase on the 57 companies identified in 2003 from the same pool of candidates. However this number is not just a reflection of the growth in reporting but also a widening of the scope of the project to include sustainability sections in Annual Reports and web sites. The greatest incidence of reporting activity emerged from the manufacturing (35.3%) and mining (17.2%) sectors³⁶. This is consistent with trends identified in 2003³⁷.

4.4 Decline

An international decline in the rate of uptake in non-financial reporting has been noted above. In addition, Richard Welford has maintained that the quality of environmental reporting has decreased³⁸. He maintains that whilst social reporting through tools such as stakeholder dialogue has developed, environmental reporting has become static and stale³⁹. Others have observed diminishing amounts of environmental information available in print reports⁴⁰.

4.5 Challenges and barriers

A recent report from the Total Environment Centre attempted to explain and identify the barriers to non-financial reporting in Australia⁴¹. The themes of reputational risk, credible reporting, finding assistance, multiple reporting requirements and the involvement of stakeholders emerged as common issues across industry sectors⁴². Cost and resource constraints are also frequently cited as a significant impediment⁴³.

³² ACCA (2004)

³³ Adams (2005)

³⁴ Sustainability (2004)

³⁵ CAER et al (2004)

³⁶ CAER et al (2004)

³⁷ CAER et al (2003)

³⁸ Welford (2005)

³⁹ Welford (2005)

⁴⁰ Sustainability (2004)

⁴¹ Green Capital (2004)

⁴² Green Capital (2004); Allen Consulting Group (2002); Sustainability (1998)

⁴³ CAER et al (2004)

4.5.1 Reputational risk

Organisations undertaking sustainability reporting believe that not reporting creates more risk than reporting⁴⁴. However organizations yet to report cite fear of increased transparency as one of the biggest barriers. Practical experience suggests otherwise with NGOs often rewarding organisations for acknowledging responsibilities. This would indicate that the perception of reputational risk may be stronger than the reality.

4.5.2 Credibility

Criticisms of non-financial reporting as a form of green-wash are common⁴⁵. Increasing numbers of companies commission independent audits to guarantee accuracy and verify the content of their disclosures. However the cost is prohibitive and the credibility of the audit process itself is an emerging issue.

4.5.3 Low levels of support

Low levels of board and senior management support for non-financial reporting can be a significant barrier⁴⁶. Long-term sustainability issues are rarely prioritized in an environment that encourages a short-term profit focus. Change agents in these organizations require assistance⁴⁷.

4.5.4 Low levels of stakeholder engagement

Encouraging stakeholders to participate in the development of reports and indicators can be difficult. NGOs may be willing to participate but are under-resourced and community trust and interest in the process can be low⁴⁸.

4.5.5 Low levels of interest

For many companies the external visibility of non-financial reporting decreases over time as the initial novelty of the first report wears off and companies tackle the contentious issues that made their reports newsworthy⁴⁹. Environmental reporting in particular is garnering less of a response as stakeholders have become more concerned with broader sustainability issues such as community engagement⁵⁰.

⁴⁴ Allen Consulting Group (2002); Green Capital (2004)

⁴⁵ ACF (2000); ACF (2002)

⁴⁶ BITC (2004)

⁴⁷ BITC (2004); Green Capital (2004)

⁴⁸ Green Capital (2004)

⁴⁹ CSR Europe (2002)

⁵⁰ Sustainability (2004)

4.6 Types and formats of report

It has also been suggested that the increasingly broad range in types and forms of disclosure have reduced the numbers of exclusive sustainability or TBL reports. The trend towards online disclosure, the inclusion of social and environmental content in annual reports as well as integrated reports are driving down the incidence of stand-alone sustainability reports⁵¹. Australia lags behind this trend where the largest proportion of reports is still environmental⁵².

4.7 Standardisation

The GRI has become the de facto global standards body for the development of non-financial reporting guidelines. However, despite the good efforts of the GRI, reporting is far from standardized and the lack of comparability across reported metrics makes meaningful comparison challenging⁵³. Side by side performance comparisons – whether between companies in an industry, or facilities within a company – can provide valuable perspective on what constitutes good performance, and raise the bar on what's possible. In Australia 40 of the 116 reporting companies make use of the GRI guidelines.

4.8 Assurance and materiality

Until the AA1000 Assurance Standard was released in 2003 almost no external assurance statements were based on a named standard of any kind, and most still are not⁵⁴. This has led to some negative reactions against the process of assurance⁵⁵. Some assurance methods have also been criticised because they do not address what is *not* included in reports. This is where the question of 'materiality' arises. Content that is material can be broadly defined as that which would influence stakeholders' opinions regarding organizations' sustainability performance. Some reporting companies have been accused of 'carpet-bombing' their stakeholders with reams of irrelevant information that ignores the issues of greatest concern to them⁵⁶. Nonetheless, there has been an upward trend in the process of external assurance of annual reports worldwide, with a particularly fast uptake in Australia⁵⁷. CAER identified that in Australia, of the 116 companies producing a sustainability report, 32 have had or will have their report independently verified.

⁵¹ Sustainability (1999); Wheeler & Elkington (2001)

⁵² Green Capital (2004)

⁵³ Sustainability (2004)

⁵⁴ Sustainability (2004)

⁵⁵ Green Capital (2004)

⁵⁶ Sustainability (2002)

⁵⁷ CAER at al (2004)

4.9 Conclusion

This author has identified a gap in the literature relating to reporting in Australia. While there is generic information relating to trends in non-financial reporting, there is little industry specific research into the policy and practice of disclosure. Industry-specific reporting guidelines recognize the contextual nature of reporting dynamics and individual companies have expressed an interest in understanding in greater depth the trends within their own sector. The following sections of this report will identify the trends in the CFEI, relate those trends back to the Australian and international arena more broadly and explore their significance.

5.0 FINDINGS: AUSTRALIAN COAL-FIRED ELECTRICITY INDUSTRY TRENDS IN NON-FINANCIAL REPORTING

Twelve companies were asked to participate in the study. Six generators agreed to be interviewed, as well as an association representing their industry. A number of themes emerge from these interviews.

5.1 Reasons for non-financial reporting

A company's reasons for reporting will determine the objectives for the activity, how it is evaluated and also indicates underlying levels of commitment to non-financial reporting. In this study one company had its own particular reasons relating to difficult industrial relations, which increased transparency and communication had helped alleviate.

5.1.1 Community and employee expectations

Reasons common across the interview group included the high-impact nature of an industry that needs to *demonstrate its sustainability credentials in an increasingly hostile stakeholder environment*. The sense of environmental and social responsibility is strong in this sector and there is a marked desire to act as good corporate citizens and maintain the support of all stakeholder groups. The existence of a *corporate culture that favours disclosure* is another common factor, as long as that disclosure does not expose the company to undue risk. Public control of these plants contributes to greater levels of disclosure in some cases and in others it is a barrier as there is a perceived risk in reporting activity.

5.1.2 Reputation ranking industry

There were divergent views regarding the awards culture developing around non-financial reporting. Most welcomed the incentive and recognition it provided but some felt it encouraged a perception of reporting as a public relations exercise. One company had made a policy decision against *playing that reporting game* and another felt that it was actual change towards sustainability that should be rewarded, and not the reporting process that might help bring about the change. *Industry codes* also drive this sector forward and establish a path upon which companies can map their sustainability progress.

5.1.3 Perceived benefits

The benefits associated with reporting activity also encourage companies to continue reporting. *Improvements made to internal environmental management and measurement systems and enhanced communication* are commonly cited

advantages. Some companies saw a benefit in managing regulatory requirements, as it was thought that increased openness and transparency could create opportunities for co-regulatory approaches.

5.2 CFEI levels of reporting activity

The table below summarises levels of non-financial reporting activity in this sector. It is based on information available on these companies' web sites and through interview. A broader investigation was not within the scope of the project.

Table A: Non-financial reporting activity of coal-fired power generators

Company	Non-financial Reporting Activity	Assurance	Reporting Guidelines	Comment
Eraring Energy	First 'Community and Environment Report' published 2004.	Consultants used for external verification.	esaa reporting guidelines employed.	Will repeat again this year with greater levels of disclosure.
Delta Electricity	Published comprehensive environment reports in 1999 and 2002 with annual environmental reviews published in intervening years.	This information not available.	esaa reporting guidelines employed.	In 2003, it was decided that detailed environmental information should be incorporated into the Corporation's Annual Report, together with Social and Economic, Governance and Financial reports.
Macquarie Generation	First 'Community Report' published 2004.	Environmental component of annual report is externally verified.	This information not available.	Plan to repeat community report in 2005.
Tarong Energy	Published separate environmental reports since 1997. As of 2004 environmental and social content features in annual report.	Environmental component of annual report is externally verified.	This information not available.	Will continue with inclusion of social and environmental content in annual report.
Stanwell Corporation	Environmental and social content features in annual report.	Plans for external verification.	GRI and esaa reporting guidelines employed.	Interest in publishing separate non-financial report.
Hazelwood Power	Published separate environmental reports every year from 1998 to 2003.	This information not available.	This information not available.	No comment.

Non-financial Reporting Trends of Australian Power Generators

Company	Non-financial Reporting Activity	Assurance	Reporting Guidelines	Comment
Loy Yang	Environmental and social content features in annual report.	This information not available.	This information not available.	No comment.
Yallourn Energy	Published its first 'Safety, Health Environment and Community Report' in 2003.	The report is externally verified.	GRI, WWF and esaa reporting guidelines employed.	Believes integrated sustainability reporting is the way forward.
Western Power	Environmental and social content features in annual report.	This information not available.	This information not available.	No comment.
NRG	This information not available.	This information not available.	This information not available.	No comment.
Pacific Western	This information not available.	This information not available.	This information not available.	No comment.
Redbank Power	This information not available.	This information not available.	This information not available.	No comment.

Of the six companies interviewed, three publish separate reports on environmental and/or social performance and the other three include this content in annual reports. Decreasing levels of disclosure were noted as two of the latter group had previously published comprehensive reports, but had *streamlined the non-financial reporting process* by including this content in their annual reports. However, there had been three new entrants to non-financial reporting within the last two years.

No company produced a so-called sustainability report and one interviewee believed integrated sustainability and financial reporting was the way forward. When asked to outline future trends most expected there to be increasing levels of disclosure but this was inconsistent with their immediate plans for non-financial reporting. One company was planning to publish a separate environmental report for the first time in 2005 and one other was planning to increase levels of disclosure in their community and environment report. Every company for which information was available conducted some form of non-financial reporting.

5.3 Decline

Some maintained that the CFEI was in a *review and optimization phase* and others referred to a sense of *reporting fatigue* amongst reporters. One company asserted that a readjustment after the initial exponential uptake in non-financial reporting was to be expected, and could be interpreted as part of the evolutionary

journey towards corporate sustainability. Another interviewee thought this decline was a *necessary shake-out* that would encourage greater reflection on the value of the reporting process. There was a sense in which this retrenchment might ultimately establish greater levels of commitment to the process of reporting as part of a more profound corporate commitment to sustainability.

5.4 Challenges and barriers

The following factors help to explain that decline and the sense of caution in the sector regarding non-financial reporting.

5.4.1 Stakeholder communication and engagement

- Stakeholder communication and engagement is the single most frequently cited reason for reporting in this study, and the most prevalent challenge. Most plants use non-financial reporting as one communication tool in a suite of programs aimed to increase levels of stakeholder engagement. However, great difficulty was universally expressed in engaging local communities in any part of the non-financial reporting process. Disclosure is commonly complemented by other forms of engagement such as community newsletters and forums.
- When further questioned on this issue some interviewees referred to the importance of designing communication and engagement programs to meet the needs of the audience. Some felt that the report format was not conducive to broad levels of readership and had aligned their reports with a newsletter format rather than an annual report. Some companies use surveys to gather information on what people want to read in these reports and most will use feedback forms to gather a response. However little response was evident.
- Levels of internal stakeholder engagement are higher. This was the case in companies where internal communication and engagement was facilitated by the active participation of employees in the development of the report.

5.4.2 Reputational risk

- In one instance comprehensive non-financial reports had been prepared and approved but not published due to the board's reluctance to expose the company to any risk that may have resulted. A focus on environmental compliance and meeting legal obligations was evident. There was a perception in this company that increased levels of disclosure would open the company to greater risk and legal liability. This interviewee explained that reporting is perceived from a financial and regulatory perspective as opposed to a means to engage stakeholders in dialogue and change towards sustainability.

- For another company reasons for declining levels of disclosure were short-term and related to a sensitive corporate environment due to merger and acquisition activity, which increased the risk associated with disclosing potentially material information.

5.4.3 Credibility

One interviewee referred to a *siege mentality* amongst the generators. There was a sense in which even the company's best efforts at disclosure did not receive a positive response. This was supported by another interviewee who maintained the sector had *been beaten* for their efforts at disclosure and their completeness and objectivity questioned.

5.4.4 Low levels of support

- Securing the support of board and management within these organizations is also a pivotal step in establishing commitment to the non-financial reporting process. Reorganisations and staff turnover also affect levels of support for non-financial reporting in this sector as the commitment to disclosure can be associated with a specific management team. In one company a new management team was perceived to be reaping the rewards of the previous team's efforts whilst refusing to commit to greater levels of disclosure or change.
- Securing resources for non-financial reporting is also problematic in many cases. Cost is a commonly cited barrier. There was common difficulty in quantifying the return on investment in reporting activity in a way that would convincingly demonstrate its value to the board and management.

5.4.5 Multiple reporting obligations

Multiple reporting obligations can be an impediment to further voluntary disclosures⁵⁸. The demand on time and resources that sustainability reports create can be difficult to justify on top of existing obligations such as disclosures to the National Pollutant Inventory and the fulfillment of environmental licensing reporting requirements from environmental agencies.

5.5 Types and formats of report

Good practice in this sector represents a combination of print non-financial reports with information also made available from company web sites. In some instances levels of online disclosure exceed those of print non-financial reports. This is usually the case in companies which had produced full reports at one stage but had streamlined that activity. In some cases only print version of reports were available, with little environmental and social reporting online. Some

⁵⁸ Green Capital (2004)

corporate web sites were not well enough developed to support non-financial disclosures.

5.6 Standardisation, assurance and materiality

The use of reporting guidelines was an important issue for the sector. Most recognized the importance of establishing comparability and consistency. However, the growing depth and complexity of some reporting guidelines was off-putting for most with few companies using GRI guidelines. There was a positive response to the development of sector-specific reporting guidelines.

Four of the nine companies producing non-financial reports used or were planning to use external assurance to verify their disclosures. This rate is high in comparison with national trends and could be an indication of the sector's need to build trust in stakeholder relations. Materiality was not perceived to be an issue although the scope of most non-financial reports is determined internally with little external stakeholder engagement. It was maintained that this was due to a lack of response from external groups who had been asked to participate in determining the scope of non-financial report.

6.0 DISCUSSION AND RECOMMENDATIONS

This section relates the international and national trends in non-financial reporting to those identified for the CFEI in Australia including drivers, barriers and levels of activity. Such an exploration gives rise to discussions about the significance of these developments. It raises the question, to what extent companies will continue to be motivated to publish non-financial reports and its reasons for doing so. A crucial issue in this regard is whether companies have really implemented and internalized what they address in their report, whether their deeds reflect their words. The whole quest for appropriate, standardized performance indicators and the request for external verification arise from this question.

6.1 *Stakeholder relations: from pressure to partner*

This study shows that pressure arising from community and employee expectations is one of the most important drivers for non-financial reporting in the CFEI. NGOs impacted on levels of disclosure in so far as they increased community expectations and demands for full disclosure. An implicit societal demand from both primary and secondary stakeholders has emerged for greater levels of disclosure regarding social and environmental performance across other industry sectors and regions⁵⁹.

However some argue that voluntary disclosure does not go far enough and assert that both supply (push) and demand (pull) drivers are required to encourage continual improvements in sustainability reporting and corporate sustainability practice⁶⁰. The contentious question of regulated non-financial reporting (beyond license requirements) rarely came up during CFEI interviews. Regulation of reporting was a factor for one company, which would have welcomed the standardization and certainty, associated with such an approach.

It has been maintained that any company pushed into improving environmental and social outcomes will only ever do the bare minimum and pay lip service to sustainability concepts⁶¹. This study revealed that community, industry and government relations are characterized by a pressurized rather than a partnering approach, an indication that there is still a long way to go before trust is achieved through measures such as transparent disclosures.

Recommendation:

Initial issues with credibility and a negative response from the community is a natural first step in non-financial reporting, especially for an industry with such significant environmental impacts. Companies need to continue to build trust with

⁵⁹ Zadek (2001); Sustainability (2004); Green Capital (2004); Caer et al (2004)

⁶⁰ Kolk (1999)

⁶¹ Cowe (2001)

stakeholder groups through greater transparency and disclosure in order to lay the ground for a partnership-based approach to addressing sustainability issues. Early withdrawal from disclosure can signal a lack of commitment to transparent stakeholder relations and make it even more difficult to re-engage stakeholders at a later stage.

6.2 Reporting: from disclosure to engagement

There is another significant driver for increased disclosure in Australia that did not come through strongly in CFEI interviews. This relates to how communication of environmental and social performance can enhance levels of staff awareness of sustainability issues, begin to engage them in dialogue and contribute to a corporate culture of change towards sustainability. One explanation for this could be that non-financial reporting and corporate sustainability is still in its early stages in this traditionally conservative sector. Allowing space for internal reflection on the findings of those reports is not yet a priority, although it would enable continuous improvements and greater return on investment in non-financial reporting.

Recommendation:

Companies should encourage broad-based internal workshops that review the non-financial reporting process and its output. This will engage employees in continuous improvements and develop their sense of ownership in addressing sustainability issues.

6.3 Reporting: means to an end or an end in itself?

Declining levels of non-financial reporting and difficulty in quantifying the return on investment in non-financial reporting suggests that the CFEI does not yet perceive value in this activity. It was evident that some companies had accrued benefits from initial incremental improvements in performance but those benefits did not seem to be adequate reason to continue reporting.

There is still too much emphasis placed on the report itself rather than the reflection and action associated with it, in which the real value of reporting lies. It has been noted that the best reporters are not necessarily the best performers in terms of sustainability outcomes⁶². Nonetheless, having set out on a path that involves transparency and self-reflection, the performance of reporters is more likely to improve than not. Progressive elements of the CFEI are aware that deeper change towards sustainability is the ultimate goal. There is also a desire to be sincere about the commitment to reporting and not engage in green-washing. In fact there was a sense in which reporting was approached with caution due to the backlash some had received from their community.

⁶² Sustainability (2005)

Reporting is not an end in itself although it can help to transform practice if it challenges current unsustainable practice and helps to engage stakeholders in changing it⁶³. *Reporting is essentially an element of the communication, dialogue, learning and decision-making process, rather than the endpoint in a retrospective analysis*⁶⁴.

Recommendation:

Companies need to re-position non-financial reporting from an output-driven communication exercise to an integral part of a broader process of engagement with sustainability issues. It needs to be integrated *into* internal management, monitoring and planning routines, as opposed to added *onto* these routines as a communication tool.

6.4 Reporting: stakeholder dialogue or company monologue?

External stakeholder communication and engagement is a widely acknowledged driver and challenge associated with non-financial reporting⁶⁵. Despite a veritable outpouring of information from companies about their social, ethical and environmental performance, there is ample evidence to suggest that stakeholders rarely believe what they are told by companies⁶⁶.

It is important here to distinguish between communication, dialogue and active engagement. While one-way communication is usually evident, there is little two-way dialogue between stakeholder groups and even less active involvement from external groups in issues such as sustainability indicator development. Some companies have observed increased levels of engagement when their stakeholders have been actively involved from the beginning of the process. However despite the best efforts of the CFEI external stakeholder groups have proven resistant to attempts at engagement in any stage of the process.

Recommendation:

Further research is required regarding the efficacy of stakeholder communication and engagement as it relates to non-financial reporting. There is a need for each company to develop its own contextual framework for stakeholder engagement of which reporting is but one element. One innovative research project in the UK is examining the processes and impacts of dialogue surrounding corporate responsibility⁶⁷. It actively involves industry in an action research process that is closely aligned with the needs and concerns of those engaged in the project. There is an opportunity to establish a network of reporters in Australia that allows for shared learning and capacity building of professionals in this field. Industry associations could play a key role in the development of such a network.

⁶³ Bebbington (1997)

⁶⁴ Zadek (2001, P. 194)

⁶⁵ Zadek (2001); Sustainability (2004); Green Capital (2004); Caer et al (2004)

⁶⁶ Zadek (2001)

⁶⁷ See: <http://www.le.ac.uk/ulmc/cradle/index.html>. Accessed 26 April 2005.

Recommendation:

More effective communication is required. Companies need to take their reports back to their constituent messages and find elegant and effective ways to bring these messages to key users. The one-stop-shop report serves a purpose, but a limited one. Internet reporting presents an opportunity to make information more accessible and usable.

6.5 Return on reporting investment

Making a convincing business case for non-financial reporting has proven difficult. Indeed that cost is a barrier points to the poorly perceived value of non-financial reporting activity in the CFEI. Benefits associated with reputation, risk management and improved stakeholder relationships have been communicated, however they have not been adequate to outweigh the perceived risks and build a case for greater disclosure.

Recommendation:

Companies need assistance in developing a business case for non-financial reporting that speaks to issues of core business value such as enhanced risk management. Industry associations could have an important role to perform in such an exercise.

6.6 Standardisation, assurance and materiality

The use of reporting guidelines and external assurance is increasingly prevalent in the CFEI. This is a step in the right direction. However, Carol Adams of Deakin University has asserted that the extent of omissions contained in many corporate sustainability reports would not be tolerated in financial reports⁶⁸.

Recommendation:

Adams suggests that the lack of completeness could be tackled through stakeholder consultation on all material aspects⁶⁹. She also argues that the increasingly common practice of non-financial reporting audits also provide an opportunity for ensuring completeness and could incorporate a review of external coverage against disclosure in non-financial reporting⁷⁰. Auditors should also work to develop a consistent approach to the certification and accreditation of auditing professionals and processes.

Recommendation:

Materiality is a rapidly emerging issue and needs to be addressed in the CFEI sector. Further research is required to identify appropriate methods of engaging

⁶⁸ Adams & Evans (2004)

⁶⁹ Adams & Evans (2004)

⁷⁰ Adams & Evans (2004)

Non-financial Reporting Trends of Australian Power Generators

community stakeholders in the non-financial reporting process at initial stages, when the scope of the report is being defined. It is hoped that once a working approach has been developed, responses to non-financial reporting will increase as the community will have an enhanced sense of ownership and trust in the reporting process.

7.0 CONCLUSION

There are indications of a withdrawal from the initial interest and enthusiasm in non-financial reporting in the coal-fired electricity industry. While some benefit is perceived in the exercise, response from stakeholder groups has been disappointing. Given stakeholder communication and engagement is the key driver behind much non-financial reporting in this sector that retrenchment is logical. The sector is going through a period of review and optimization that might well lead to reflection on the significance of the activity within a broader process of stakeholder engagement in change.

The most important question to be asked about non-financial reporting is what its significance is for the company in question. Ans Kolk maintains that the answer to this question lies in assessing the 'implementation likelihood' of the report's findings⁷¹. This can be done by assessing the focus and scope of the report, examining the organizational arrangements established to address social and environmental performance, assessing whether performance indicators are adequate and how internal management systems are monitored and reports verified⁷². It is beyond the scope of this project to conduct such an assessment however such an exercise would have real value in determining companies' commitment to reporting as part of a broader process of change towards sustainability.

It can also be helpful for companies to benchmark against best practice in order to establish a way forward. According to a recently published World Business Council for Sustainable Development (WBCSD) publication, 'Beyond Reporting', companies that find value in the non-financial reporting, codes and guidelines associated with compliance and corporate social responsibility:

- *Articulate their own vision of accountability and sustainability, and embed it within core business strategies;*
- *Use accountability codes as tools to change mindsets about the relationship between value creation and sustainable development, not simply in compliance efforts; and*
- *Integrate sustainable development and accountability across corporate functions rather than create specialized centers*⁷³.

Leading companies develop sustainable businesses by embedding strong governance and corporate responsibility into their strategies and culture. By earning the trust of their employees, communities and industry partners, companies with a culture of corporate responsibility are able to generate value

⁷¹ Kolk (2004)

⁷² Kolk (2004)

⁷³ WBCSD (2005)

where others cannot. This is the essence of the opportunity that change towards sustainability provides.

However, apart from some few pioneers such as Interface Corporation business and industry has yet to seize the potential that sustainability presents. This opportunity rests upon understanding the business case for sustainability and building it *into* business strategy, not adding it *onto* business operations. In this scenario measurement and reporting is the last in a series of steps that takes businesses from corporate social responsibility to 'corporate social opportunity'⁷⁴. Some argue that this progression requires a learning process that involves critical reflection on corporate purpose and capacity building for organizational change⁷⁵. Clearly it is early days for such in depth engagement with sustainability issues, and yet the urgency of those issues could not demand a more timely response.

My own position on the value of non-financial reporting has been informed most recently by a paper of Rob Gray in AAAJ. In his paper provocatively entitled "Social, environmental and sustainability reporting and organisational value creation: whose value, whose creation?" he maintains that "Substantive social and environmental reporting, and especially high quality reporting on (un)sustainability will demonstrate that modern international financial capitalism and the principle organs which support it are essentially designed to maximize environmental destruction and the erosion of any realistic notion of social justice"⁷⁶.

He maintains that while the different varieties of non-financial reporting may at best reveal the environmentally unsustainable and socially unjust use of natural resources, the process of reporting as currently framed cannot contribute to change towards sustainability. This is because there is nothing 'sustainable' about our current liberal democratic economic model and that reporting designed to perpetuate it will never achieve the transformative change required.

However we seem to be conceptually bankrupt when it comes to alternative models of 'green capitalism', as Jonathan Porritt would put it. It seems the best way we can hope for is an accounting model for economic development that replaces GDP with a value for human wellbeing⁷⁷. Non-financial reporting goes somewhat towards forcing consideration of environmental and social impacts from economic development, but something much more radical is required to achieve sustainability. I feel the need to ask much more confronting research questions in order to push the sustainability agenda forward through corporate responsibility research. I have enjoyed the opportunity for such a dialogue at this conference

⁷⁴ Grayson & Hodges (2004)

⁷⁵ Dunphy et al (2003); Welford (1998)

⁷⁶ Gray (2006)

⁷⁷ Porritt (2005)

Non-financial Reporting Trends of Australian Power Generators

and thank the organizers and my fellow speakers and delegates for their contributions.

8.0 References

- ACCA (2004) *Towards Transparency – progress on global sustainability reporting 2004*. Available online at:
http://www.accaglobal.com/pdfs/environment/towards_trans_2004.pdf Accessed 30 August 2005.
- Adams, K. (2005) in discussion 20 April. Katharine Adams has worked in the field of non-financial reporting and corporate sustainability for ARUP Consulting for 2 years and is employed as a consultant in the GRI's G3 initiative.
- Adams, C., & Evans, R., (2004) *Accountability, Completeness, Credibility and the Audit Expectations Gap* in *Accounting, Auditing and Accountability Journal*, 17, 5, pp 731-757.
- Allen Consulting Group (2002) *Triple Bottom Line Measurement and Reporting in Australia: Making it Tangible* Canberra: Commonwealth of Australia.
- Australian Conservation Foundation (2000) *A different look at the performance of australia's top 100 companies* Available at:
<http://www.acfonline.org.au/docs/publications/rpt0013.pdf>. Accessed 31 May 2005.
- Australian Conservation Foundation (2002) *Corporate Australia: Stuck-in Reverse* Available online at:
<http://www.acfonline.org.au/docs/publications/rpt0033.pdf>. Accessed 31 May 31, 2005.
- Bebbington, J. (1997) *Engagement Education and Sustainability* in *Accounting, Auditing and Accountability Journal*, 10, 3, pp 365-381.
- Bennett, M. & James, P. (2002) *The Green Bottom Line* In *Business and Sustainable Development* eds Starkey, R. & Welford, R. UK: Earthscan.
- Burritt, R. L. (2002) *Environmental Reporting in Australia* in *Business Strategy and the Environment*, 11, pp 391-406.
- Business in the Community (2004) *Summary of discussions of the first reporting peer group programme 2003-04* Available online at:
<http://www.bitc.org.uk/resources/publications/reporting.html>. Accessed 31 May 2005.
- CAER & Deni Greene (2003) *The State of Public Environmental Reporting in Australia*. Available online at:

<http://www.deh.gov.au/settlements/industry/corporate/reporting/pubs/final-report.pdf> Accessed 30 August 2005.

CAER, Deni Greene & KPMG (2004) *The State of Sustainability Reporting in Australia*. Available online at <http://www.deh.gov.au/settlements/industry/corporate/reporting/pubs/final-report.pdf> Accessed 30 August 2005.

CSR Europe (2002) *Impacts of Reporting* Available online at: <http://www.csreurope.org/publications/impacts/>. Accessed 31 May 2005.

DEH (2000) *A Framework for Public Environmental Reporting – an Australian Approach*. Available online at: <http://www.deh.gov.au/settlements/industry/finance/publications/pubs/perframework.pdf> Accessed 30 August 2005.

DEH (2003) *Triple Bottom Line Reporting in Australia*. Available online at: <http://www.deh.gov.au/settlements/industry/finance/publications/indicators/pubs/indicators.pdf> Accessed 30 August 2005.

Doane, D. (2002) *Market Failure: the Case for Mandatory Social and Environmental Reporting* London: New Economics Foundation

Dunphy, D., Griffiths, A., Benn, S. (2003) *Organisational Change for Corporate Sustainability* UK: Routledge.

Elkington, J. (1999) *Cannibals with Forks*. Oxford: Capstone.

Esaa (2004) *Annual Review* Available online at: <http://www.esaa.com.au/images/AnnualReview2004.pdf>. Accessed 30 May 2005.

Foran, B., Lenzen, M. & Dey, C. (2005) *Balancing Act: a triple bottom line analysis of the Australian economy* Canberra: Commonwealth of Australia.

Glaser, B. G. & Strauss, A. L. (1967) *The Discovery of Grounded Theory: Strategies for Qualitative Research* Chicago: Aldine Publishing Company

Gray, R., Owen, D., Adams, C., (2002) *What is Social Accounting?* In Business and Sustainable Development eds Starkey, R. & Welford, R. UK: Earthscan.

Grayson, D. & Hodges, A. (2004) *Corporate Social Opportunity!* UK: Greenleaf.

Green Capital (2004) *Sustainability Reporting Project* Sydney: Total Environment Centre.

- Ligteringen, E., & Zadek S., (2005) *The Future of Corporate Responsibility Codes, Standards and Frameworks* London: Accountability.
- Kolk, A. (1999) *Evaluating Corporate Environmental Reporting in Business Strategy and the Environment*, 8, pp 225-237.
- Kolk, A. (2004) *A Decade of Sustainability Reporting: developments and significance*. *International Journal of Environment and Sustainable Development* vol 3 no 1 pp 51-64.
- Macroinnovation (2004) *Corporate Sustainability Reporting: what's wrong and how to fix it*. Available online at:
http://www.macroinnovation.com/images/Corporate_Sustainability_Reporting.pdf
Accessed 30 May 2005.
- Sapideen, R. (1997) *Economics Law and Business Ethics: some reflections in Australian Business Law Review*, 25, 6, pp. 422 – 432.
- Sherman, W. R., Steingard D. S., Fitzgibbons D. E., (2002) *Sustainable Stakeholder Accounting beyond complementarity and towards integration in environmental accounting* in *Research in Corporate Sustainability* eds Sharma, S., Starik, M., UK: Edward Elgar
- Smith, K. (2002) *ISO Considers Corporate Social Responsibility Standards in The Journal for Quality and Participation*, 25, 3, pp 42 – 62.
- Sustainability (1998) *The Non-Reporting Report* London: Sustainability.
- Sustainability (1999) *The Internet Reporting Report* London: Sustainability.
- Sustainability (2002) *Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting* London: Sustainability.
- Sustainability (2004) *Risk & Opportunity Best Practice in Non-Financial Reporting* London: Sustainability.
- Sustainability (2004a) *Gearing Up: From Corporate Responsibility to Good Governance and Scalable Solutions* London: Sustainability.
- Welford, R. (1998) *Corporate Environmental Management, Technology and Sustainable Development: postmodern perspectives and the need for a critical research agenda* in *Business Strategy and the Environment*, 7, pp. 1- 12.
- Welford, R., (2005) *Engaging Business in Environmental Reform* in *CSR Asia Weekly*, 1, 10, pp 12-15. Hong Kong: CSR Asia.

Wheeler, D., & Elkington, J., (2001) *The End of the Corporate Environmental Report* in *Business Strategy and the Environment*, 10, pp 1-14.

Zadek, S. (2001) *Balancing Performance Ethics and Accountability* In *Business and Sustainable Development* eds Starkey, R. & Welford, R. UK: Earthscan.

WBCSD (2005) *Beyond Reporting: Creating Business Value and Accountability* Switzerland: WBCSD.