

# The pitfalls in mandatory reporting

The UK government is now threatening to force firms to produce environmental reports. But mandatory reporting elsewhere has had mixed results, says **Paul Scott**

**V**oluntary environmental and social reporting has progressed by leaps and bounds over the past decade', and an estimated 1,000 companies worldwide now produce regular reports. However encouraging this may be, it is a drop in the ocean compared with the tens of thousands of companies which should be reporting.

This is why UK environment minister Michael Meacher has challenged the UK's 350 largest listed companies (the FTSE 350) to report on their environmental performance by

the end of this year. This follows a similar challenge by Prime Minister Tony Blair in October 2000 at an address to the Green Alliance in London.

Meacher has long threatened to introduce mandatory reporting if companies do not do so voluntarily. He appears to be upping the ante. In two recent speeches in London – at the Association of Chartered Certified Accountants (ACCA) environmental reporting awards on 23 March, and at the Environment Council's Stakeholder Accountability conference on 29

March – he emphasised his readiness to take appropriate steps. At the ACCA Awards, for example, he said: "I end by giving this warning – if we do not get an adequate and prompt response to our demand for proper environmental reporting from the leading 350 companies that we have asked for, then, in the light of good practice already well established in the UK and against a background of repeated requests for co-operation from the government over the last four years, I am inclined to include a requirement for companies to report their environmental impacts in an early environmental bill in the next parliamentary session."

The day before, Meacher's department sent FTSE 350 firms a consultation draft of its 'General Guidelines on Environmental Reporting', aimed specifically at companies' new to reporting. (See [www.environment.detr.gov.uk/envrp/index.htm](http://www.environment.detr.gov.uk/envrp/index.htm).)

Other countries have set precedents in this area. Within Europe, Denmark, Norway, Sweden and The Netherlands have already introduced reporting legislation (see Table 1).

In addition, related legislation has been passed, or is being considered, in Australia, Canada and the US.

The experiences of other countries that have introduced mandatory reporting are mixed. The UK is in the vanguard of environmental reporting – both in quantity (see chart) and in quality, as evidenced by the successes of UK reports at the European Reporting Awards. Any attempt to introduce mandatory reporting should balance the need to ensure wider company take-up with continuing high standards. The experience of reporting via EMAS statements – and of countries where legislation encourages EMAS-style reporting – shows that any such legislation introduced by Meacher must be finely judged.

**Table 1. Recent measures towards mandatory environmental reporting in Europe**

<b>Denmark</b> (Green Accounts, adopted 1995)	Around 3,000 companies with 'significant' environmental impacts required to report to public and authorities (approx 1,500 such reports to date)
<b>Norway</b> Accounting Act <i>Regnskapsloven</i> , introduced 1999	Health, safety and environmental information must be included in annual financial reports – all companies
<b>Sweden</b> (Legislation from 1999)	Environmental information for approximately 20,000 companies to be provided in annual reports
<b>Netherlands</b> (Legislation from 1999)	Report to public and authorities on activities, processes and main environmental changes since previous year, for several hundred companies

**Table 2. Simplified comparison of reporting and EMAS statements**

<i>EMAS Statements</i>	<i>Reporting (Environment, EHS etc)</i>
Site specific – if a company has several sites, these report separately	Across entire company
Focus on inputs/outputs (resources used and site emissions)	Includes inputs/outputs as one specific aspect among a range of procedures
Can be very superficial, with no coverage of overall targets, product/service policies and general direction	Attempts to give the 'big picture'

**Overview of EMAS statements – reporting to a restricted framework**

Within Europe, EMAS (the Eco-Management and Audit Scheme, based on EEC Regulation EEC No 1836/93) has been in operation since late 1995. Its aim is to encourage companies to develop environmental programmes and management systems voluntarily, and to report publicly by way of statements (usually on a three-yearly cycle).

These statements are, in certain aspects, similar to corporate environmental reports – covering environmental impacts, measures to improve performance, general background, and environmental management systems (see Table 2).

EMAS can only be applied to individual sites and was originally aimed at companies in specific industrial sectors such as manufacturing and energy generation. It has since been expanded (EMAS II was signed earlier this year) to include companies in sectors such as commerce, retailing and service industries, as well as drawing in local authorities.

EMAS has boomed in Germany, which currently accounts for around two-thirds of all EMAS statements. The UK, in contrast, has relatively few EMAS registered sites, despite the country's general lead in environmental report-

## Comparison of reporting and EMAS across Europe

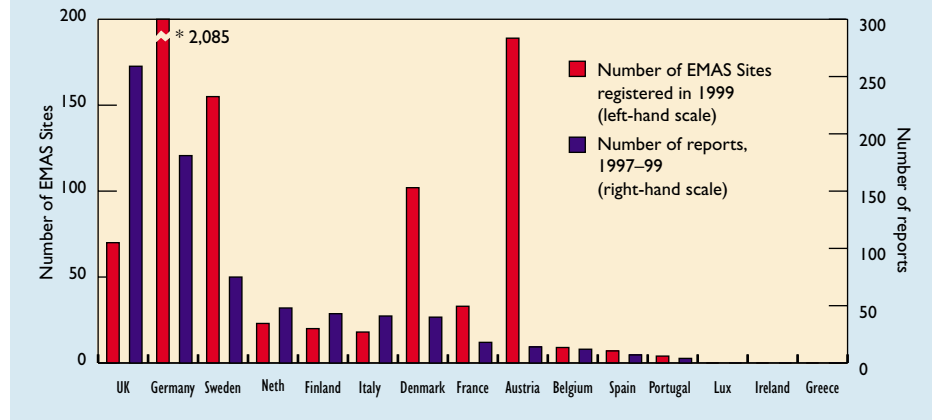
ing. The chart shows the comparison between registered EMAS sites in 1999 (all producing statements) and reports from European countries. By the end of last year Germany had further increased its lead, with over 2,500 registered EMAS sites. EMAS statements are produced on a three-year cycle, so the report statistics are for 1997-99 inclusive to show a comparison for the same time-frame..

### Why this emphasis on EMAS after the discussion on mandatory reporting?

As outlined above, Denmark and the Netherlands introduced mandatory reporting for many companies in 1995 and 1999 respectively. This has undoubtedly resulted in the desired growth of reports. However, these reports largely follow an EMAS statement approach – EMAS is a voluntary scheme, but companies compelled to report have seen it as a useful framework.

This has led to a lack of overview and loss of the 'big picture' – in the same way that companies switching from 'real' reports to EMAS in Germany have concentrated on site specific input/output data, which is only of interest to a limited audience. The net result is more quantity, less quality.

It also encourages an emphasis on statistics rather than on real, significant impacts. A service company, for example, may report its impacts in terms of resources used at its offices (paper, paper clips, toner cartridges, electricity



etc) and be fully in line with reporting legislation – and certainly within an EMAS II framework. But such impacts bear no relation to the really significant issues of where money is being invested and according to which guidelines.

In some cases, a company may have only one main site, in which case an EMAS statement may indeed represent its 'real' report. However, where a group of companies, or one company with several sites, decides to follow the EMAS model for reporting, these reports become fragmented and far less informative. Only in a few cases have companies produced combined EMAS statements and 'real' reports.

This is not to say that EMAS is entirely unhelpful. The revised EMAS II – along with several further improvements – follows ISO 14001, the international environmental management standard, for its framework on man-

agement systems, which is useful in combining separate environmental initiatives.

Introducing mandatory reporting would undoubtedly expand the range of reporting companies – and this is sorely needed. The more important issue is: can this range be increased while still encouraging the development of meaningful, transparent and informative reports? Or must this expansion necessarily be based upon a defined (and therefore restrictive) reporting framework which necessarily leads to less useful information from individual companies?

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† For country and sector reporting statistics please refer to [www.corporate-register.com](http://www.corporate-register.com).