

The rise of reporting

Twenty years ago, environmental reporting barely existed. Now, companies across the world are disclosing their environmental performance. **Paul Scott** examines how best-practice is developing

Since its genesis in the late 1980s, environmental reporting has established itself as a mainstream business communications tool. Early reports were typically produced either by companies in industry sectors being criticised for environmental short-comings (such as petrochemicals and utilities) or by a small number of environmental front-runners keen to be seen as proactive.

As reporting has progressed, companies across a wide range of countries have become involved. Originating in the United States, Europe soon followed, and more recently Japan has shown a strong surge in the number of reporters. At the same time, companies in new sectors have reported, putting pressure on their peers to follow suit (see Figure 1). In some sectors – such as UK utilities – all major companies now report, which re-focuses attention from the lone reporting companies of a decade ago onto the recalcitrant non-reporters of today. Indeed, UK environment minister Michael Meacher has announced his intention to ‘name and shame’ prominent non-reporters within the UK FTSE 350.

While reporting has increased steadily (see Figure 2), with approximately 350 major companies reporting in 1999, this still repre-

sents only a tiny fraction of the hundreds of thousands of companies which could report their environmental performance. Many companies include cursory environmental statements in their annual reports and accounts, but even these are a small proportion of non-reporting companies.

Reporting parameters

Publication of stand-alone environmental reports is still voluntary (although there are moves towards mandatory reporting in countries such as Denmark and the Netherlands), which leaves companies free to communicate their objectives to those audiences that they see as being most relevant. Many guidelines and checklists have been developed in recent years, such as from the United Nations Environment Programme, Deloitte & Touche, and Germany's Insitut für Ökologische Wirtschaft, with several attempts to ‘score’ reports. These checklists have been aimed at standardising what is often a fragmented and confusing range of approaches to reporting. All too often, however, attempts on the part of reporting companies to comply with extensive ‘score cards’, comprising of upwards of 50 separate headings, has been at the expense of concise, readable communication.

Standard elements

Successful reports over the past decade, judging by reporting awards and media commentaries, include the following elements:

- Company overview (operations, geographical location, markets, turnover, number of employees).
- Overview of environmental impacts. Outside of universal impacts such as CO₂ emissions, water consumption and waste production, these impacts are usually sector-specific.
- Outline of how these impacts are being addressed. Includes policies, systems and targets.
- Demonstration of how policies and systems are implemented.
- Performance data – often pages of statistics, and preferably linked to targets.
- References to further information, contacts and an invitation for comment.

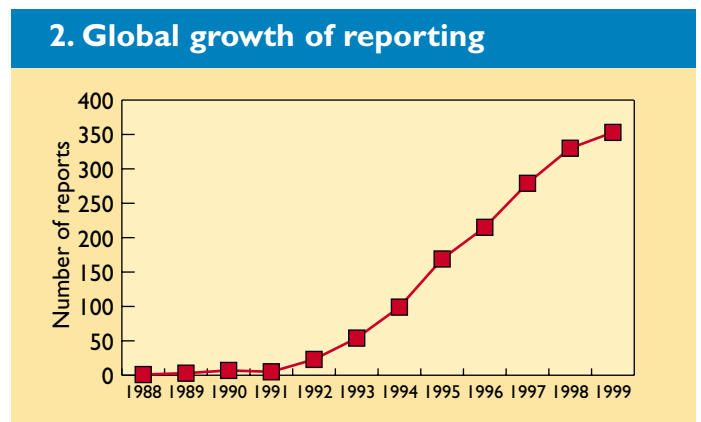
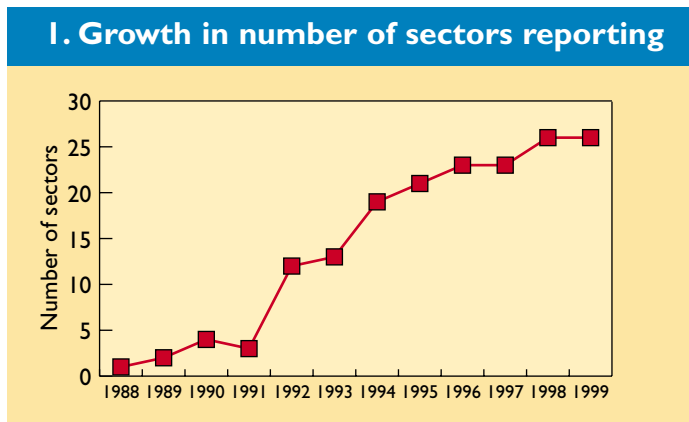
Parameters for credibility

It's important for the credibility of these reports that they are seen as being distinct from public relations material – the bad news should be reported as well as the good. Parameters such as compliance, which outlines prosecutions, fines and compensation payments, help establish the honesty and credibility of a report. Similarly, a comprehensive third-party statement by independent consultants or auditors can help establish the report's credentials.

Unfortunately, the approaches to such statements are almost as fragmented as some of the reports themselves – some statements consist of barely a paragraph of impenetrable legalese, whereas others comprise several pages of detailed findings and recommendations. It is clear that some organisations supplying these statements see them as a lucrative income stream, and rely solely on the reputation of their companies to establish their value. This will probably continue until legal action by investors against one of these third parties – relating, for example, to losses incurred on the basis of misleading statements on environmental liabilities – succeeds in focusing minds.

What report audiences need (especially potential investors) are statements by independent third parties which:

- Establish the independence and objectivity of the third party



- Outline the methodology used to develop the statement
- Establish the accuracy of the report – whether data or qualitative statements (is it 'true?')
- Establish that the picture given by the report is comprehensive and balanced (is it 'fair?')
- Specify any shortcomings and recommendations so readers can monitor progress

Financial parameters

Financial audiences often do not use environmental reports in making judgements and decisions about companies. There is a mismatch between the information available in environmental reports and the types of information needed by the financial community, not to mention a language barrier. Despite isolated attempts at publishing 'Green Accounts', and a number of publications outlining the types of information which might be published, a trend towards publishing meaningful 'green' financial data cannot yet be identified. This is an area which should be monitored and where progress needs to be made.

Progress across countries

Analysis of 1,540 reports published between 1988 and 1999 gives the breakdown by country shown in Figure 3.

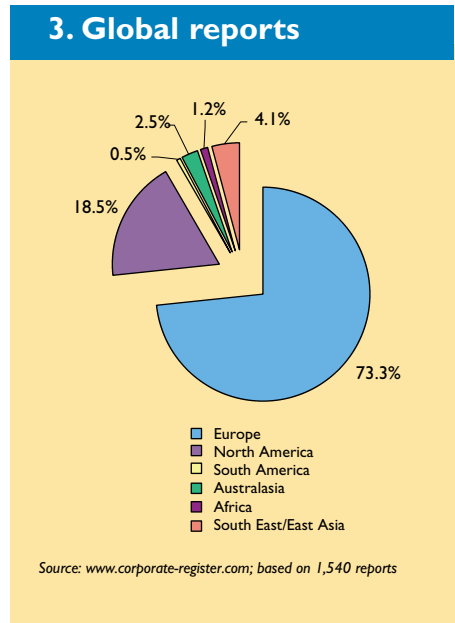
Clearly, Europe has taken a global lead in reporting, with the UK and Germany leading the pack. In Germany, the picture under-represents the total number of reports: it does not include EMAS (Environmental management and auditing system) Statements. These statements, prepared in compliance with European Council Regulation No. 1836/93 and allowing voluntary participation by industrial sites in the European Union's eco-management and audit scheme, have been enthusiastically adopted by German industry, which has been responsible for the majority of all such statements to date. In many cases companies which published separate environmental reports have switched to EMAS Statements. If we include these statements then Germany becomes a clear world leader in reporting.

Taking a closer look at European reporting, it emerges that 'northern' countries such as the UK, Germany, Sweden, Finland, Denmark and the Netherlands are leading the field. 'Southern' European countries, with the exception of Italy, are poorly represented. Central and Eastern European countries are conspicuous by their absence (see Figure 4).

The growth in European reporting is set to continue. The European Environmental Reporting Awards, which on 19 April announced Neste Fortum Group as being the 1999 overall winner, included entries this year from 10 countries. Next year the number of participating countries is expected to rise to 14 – a significant indicator of the growing importance of reporting.

Progress across sectors

Figure 5 tells its own story. Despite a tenfold increase in the number of reporting sectors over the decade, several sectors – notably



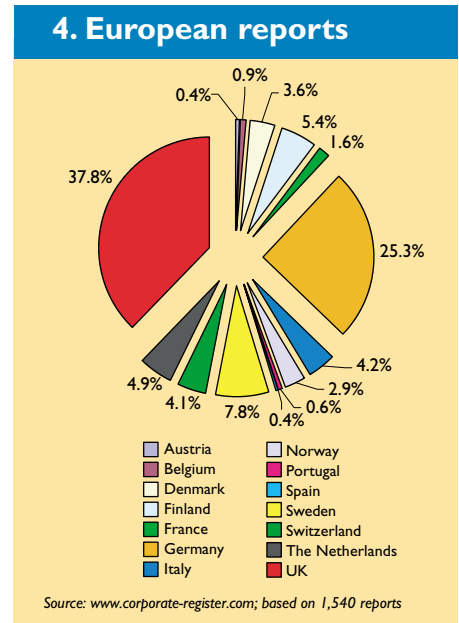
entertainment/leisure/hotels/restaurants, property/real estate and wholesalers/distribution have not accepted the reporting challenge.

Current trends

Company audiences – the 'stakeholders' – are beginning to demand information on social as well as environmental parameters. Leading companies are producing separate social reports, but the added costs of producing an annual suite of reports is contributing to the growing trend of combining these separate publications. Taking this a stage further, and combining economic parameters, leads to 'sustainability reports' – overviews of the three essential ingredients of economic, environmental and social parameters. This is a relatively recent development, and only around 30 such reports have been produced to date.

An important trend is that of electronic reporting. Here are clear advantages and disadvantages. The resources and costs associated with printing hard copy reports are avoided, and the reports are accessible to every online stakeholder. On the other hand, important stakeholders, such as some employees and members of local communities, may not have access to the internet. Around 30 companies which previously produced hard-copy reports have switched to electronic reports, but the majority have decided to follow both routes in parallel. An advantage of this approach is that printed reports can be more succinct – background and detailed data can be confined to the internet.

A recent approach to



standardising reporting, the Global Reporting Initiative (GRI) was launched in 1997. Companies piloting an initial set of guidelines have been comparing their experiences, and a revised set of guidelines will be published in May (see www.globalreporting.org).

What is clear from these trends is that environmental reporting is a developing discipline – and a relatively immature one at that. **Paul Scott** is director of Next Step Consulting, a London-based consultancy focusing on policy, strategy and communication aspects of corporate environmental and social issues. E-mail: post@nextstep.co.uk Fax: 020 8930 9333

Charts and graphs compiled by Mark Dwyer of Next Step Consulting
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