

Reporting Value to Stakeholders



CHAPTER OBJECTIVES

- A. Introduction
- B. Purposes of Sustainability Reporting
- C. Benefits of Sustainability Reporting
- D. Overview of Sustainability Reporting
- E. Reporting Economic Value
- F. Reporting Environmental Value
- G. Reporting Social Value

A. Introduction

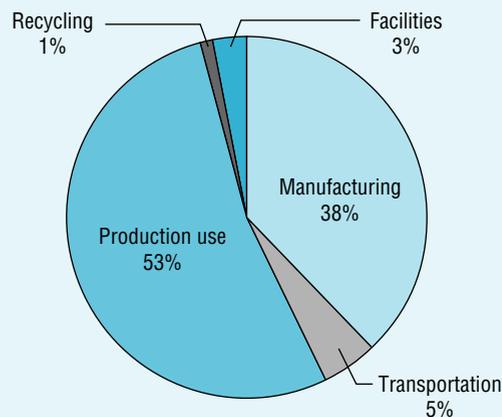
APPLE, INC.

On November 24, 2008, the environmental activist group Greenpeace released the 10th iteration of its *Guide to Greener Electronics*.¹ This guide urges producers of electronics to eliminate hazardous substances, responsibly recycle obsolete products, and reduce the climate impact of their products and operations. This guide also ranks the various producers of computers and electronics based on their environmental influences throughout the life cycles of their products. The guide notably ranked Apple below most of its competition due to Apple's use of brominated fire retardants (BFRs). These chemicals are coated on printed circuit boards to prevent fires inside computers. The company also uses a polyvinyl chloride (PVC) coating on cables.² BFRs have been implicated as deterrents to neurological development and hormone system functionality, whereas the incineration of PVCs produces chemicals that are toxic at low concentrations.³

Over the past 20 years, continued assessment of the environmental impact of the firm's products has enabled Apple to illustrate sustainability efforts and quantify progress in environmental concerns.⁴ The recent negative evaluation by Greenpeace called public attention to the need for Apple to reestablish its commitment to the environment. Since the publication of this greener electronics guide, Apple has developed a number of initiatives to improve its environmental performance. Importantly, the company no longer uses PVC or BFR in its personal computers or in its iPhones and iPods.⁵ These improvements have been praised by Greenpeace and have led the NGO to call on competitors such as HP, Dell, Lenovo, Acer, and Toshiba to follow suit.⁶ Soon after the publication of the Greenpeace guide, Apple began a television campaign that proclaimed Apple's MacBook line of laptops to be the world's greenest family of notebooks. The ads emphasized MacBook's low power consumption, the ability to recycle the enclosure, and the lack of hazardous materials.⁷ These ads are not greenwashing because they are supported by environmental action within the firm and an increasing commitment to the environment that Apple initially publicized in 1990.

Apple's efforts toward enhanced sustainability are made available to the public via a series of analyses of the supply chain for the company and each of its products. The company's environmental Web site outlines the influence

FIG. 15-1 Life Cycle Impact of Apple Products



Source: Adapted from “The Environment,” Apple.com, <http://www.apple.com/environment/> (accessed October 16, 2009).

of each step in the product life cycle (see Figure 15-1). The manufacture of products accounts for 38% of emissions; and transportation (5%), facilities (3%), and recycling (1%) are also factored into the emissions costs. Interestingly, product use accounts for 53% of all emissions associated with Apple products. Each product report provides analyses of climate change, energy efficiency, material efficiency, and restricted substances. Moreover, Apple provides sustainability reports that address its recycling efforts, facilities management, and suppliers. These reports are developed to reflect the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.⁸ GRI is a nonprofit organization established in 1997 that developed the world’s most widely used sustainability reporting framework. GRI provides guidelines on the development and use of sustainability reports and maintains a database of reports developed throughout the world. For example, Apple’s 2008 report is one of more than 1,000 sustainability reports collected by GRI in the year.

The Apple example illustrates how companies are following closed-loop systems in which they plan, implement, and report on their sustainability efforts. Cradle-to-cradle logic is employed in efforts to minimize energy use throughout a product’s life. Firms that report on this activity are more inclined to yield sustainable results relative to their competition. In this chapter, we will look closely at the sustainability reporting practices of firms. We begin by examining the purposes and benefits of sustainability reporting. We proceed by outlining the components of sustainability reports, and we subsequently examine the reporting of financial, environmental, and social performance.

B. Purposes of Sustainability Reporting

The magnitude and urgency of the sustainability risks faced by organizations demand that firms provide complete information regarding their financial, environmental, and social performance. This information enables stakeholders of all types to make decisions about their relationships and commitments to the firm. If the firm

offers complete disclosure of its actions as they relate to sustainability, stakeholders can make better decisions.

The ability of stakeholders to make evaluations about the firm is contingent on their ability to view the firm's operations. **Transparency** refers to the degree to which an entity provides complete disclosure of all activity related to economic, environmental, and relational performance.⁹ Firms that provide complete disclosure concerning all interaction with stakeholders that is relevant to triple bottom line performance offer evidence of the transparency of their operations. In order to assess the level of transparency, it is germane to determine the sustainability topics and indicators that a firm employs. Although firms are not required to report on all facets of triple bottom line performance, they are increasingly providing financial and social performance indicators as well as environmental outcomes. In addition, it is essential for the firm to ensure the quality of the information provided in the report.

Transparent disclosure enables sustainability reports to be used for three purposes:¹⁰

Demonstrating. Firms demonstrate their commitment to sustainability by illustrating how the firm influences and is influenced by sustainable development.¹¹ For example, the Best Buy 2009 sustainability report acknowledges the critical importance of electronics recycling, and it illustrates the measures undertaken by the firm in Canada and the United States to increase recycling rates.¹²

Benchmarking. Benchmarking refers to comparison of a firm's performance relative to laws, codes, norms, and voluntary initiatives. For example, Bayer Corporation's 2008 sustainability report indicates that approximately one third of its production sites have been certified in accordance with ISO 14001 or the European environmental management regulation EMAS (Eco-Management and Audit Scheme) standards.¹³

Comparing. Comparing enables a firm to illustrate changes in performance over time. These comparisons illustrate improvements in sustainability efforts by a company and illustrate its longitudinal performance relative to the competition. The Ford 2008 sustainability report indicates, for instance, the performance of current auto models relative to previously sold products.¹⁴ Firms that view themselves as industry leaders that engage in best practices can confirm these perceptions via comparison. For example, Apple's report that it no longer uses PVC or BFR in its products makes its stand out relative to the competition.¹⁵

Because sustainability reports provide insight to stakeholders, it is relevant to consider what should and should not be incorporated into these documents. The Global Reporting Initiative uses the following four criteria to guide the development of sustainability reports:¹⁶

Materiality. Because firms face a wide range of topics that could be the subject of these reports, it is relevant to establish what *material* is relevant. The firm must determine which facets of the economic, environmental, and social context substantially influence the evaluations made by stakeholders. Firms use internal and external factors to determine whether information is material. These factors include the firm's mission and competitive strategy as well as the concerns expressed by stakeholders.

Stakeholder inclusiveness. The insight offered by the report is contingent on the interaction with all entities that are significantly affected by the firm's action.¹⁷ These groups include employees, suppliers, customers, NGOs, governments, and

other groups with a vested interest in the firm's sustainability efforts. Stakeholder inclusiveness requires the firm to identify all these interest groups and to report on how they have responded to the groups' expectations and interests. For example, the Sun Microsystems 2008 sustainability report emphasizes the need to gain input from customers, employees, partners, NGOs, CSR experts, and investors.¹⁸

Sustainability context. The sustainability context criterion ensures that the organization explains how it is meeting the demands of achieving sustainability.¹⁹ The action of the firm must be viewed not in isolation, but in the context in which the firm operates. Consequently, the firm should not only provide a summary of its sustainability efforts, but it also should indicate how these efforts contribute to improvements to environmental, economic, and social conditions at the local, regional, and global levels.²⁰

Completeness. Due to the breadth of issues associated with triple bottom line performance, the firm faces a daunting task in determining the amount of information to present. *Completeness* refers to the provision of sufficient information about economic, environmental, and social performance to enable stakeholders to make informed decisions.²¹ Completeness encompasses the dimensions of *time*, *scope*, and *boundary*. In order to track progress, it is essential to specify the time period associated with the report. The scope of the report should be broad enough to cover significant influences on triple bottom line performance. The boundary of the report concerns the range of groups represented by the study. Firms need to consider their broad supply chains in this regard and examine the influences of upstream suppliers, employees, and downstream customers. For example, Apple recognizes that 53% of the energy impact of its products is associated with downstream product usage. The boundary of the report is a difficult consideration because different firms in the same industry may make different evaluations of the boundaries of their consumption. While sustainability reporting guidelines suggest that firms should report on any entity over which they have control or influence,²² different companies may interpret their level of influence via contrasting decision logics.

C. Benefits of Sustainability Reporting

Sustainability reporting is a relatively new phenomenon that is increasingly employed by firms in many sectors of the economy. It is difficult to state the origins of this type of reporting. Some annual reports, for instance, have addressed corporate interaction with the environment for decades. The first separate environmental reports were developed in 1989, and the number of these types of reports has risen substantially since that time.²³ This genre of reporting takes on a variety of names that bear *social*, *environmental*, and *sustainability* monikers. Sustainability reports that address the role of the firm with respect to the triple bottom line of financial, relational, and environmental performance provide insight into the broadest spectrum of sustainability and its importance to the firm. Nevertheless, there are many forms of reporting that focus on environmental or social facets of sustainability without regard for other facets of triple bottom line performance.

More than 10 years ago, the United Nations began analyzing motivations for developing sustainability.²⁴ Their research indicated a number of reasons why some firms do not develop sustainability reports. Some firms are skeptical of the advantage that is derived from this type of reporting, whereas other companies believe

there are other ways to communicate a message about the environment to consumers. The motivation to develop a sustainability report also varies by market. Although most firms participating in the chemical or computer industries publish these reports, firms operating in the retail and banking sectors develop substantially fewer sustainability studies.²⁵

Some companies continue to refrain from developing sustainability reports, yet the number of these studies is increasing in most sectors of the economy.²⁶ The benefits that accrue from sustainability reporting include:²⁷

Increased discipline about environmental performance. The Kyoto Protocol and other international activity designed to control greenhouse gas emissions have prompted many firms to recognize that carbon rationing and trading affect an organization's business strategy and financial performance. Firms that report on efforts to control carbon emissions are simultaneously confronted with efforts to control the firm's interaction with the environment. Strategic cost management systems, for instance, provide the ability to evaluate the carbon emissions costs of products and services over their product life cycles. Firms that develop this information provide insight into human resource management, marketing, supply chain operations, and financial performance.²⁸ The organization that develops sustainability reports develops a broader awareness of environmental issues throughout the organization, and this awareness should yield a smaller carbon footprint for the firm.

Conveys an environmental message to all stakeholders. One of the primary benefits of sustainability reporting lies in the ability to promote dialogue with stakeholders. Recall from Chapter 2 that the stakeholders for the firm include consumers, suppliers, employees, competitors, the legal system, financial institutions, government, media, stockholders/owners, the scientific community, nongovernment organizations, and the general public. Companies recognize that they can enhance credibility with each of these groups via transparency. For example, Apple Computer Company became vocal about its sustainability policies in 2007. At the time, CEO Steve Jobs noted Apple ordinarily does not proclaim its plans for the future, but the current policies had left important stakeholders (customers, shareholders, employees) in the dark.²⁹ By taking a proactive stance toward sustainability reporting, Apple and other firms can have a strong influence on the way they are perceived in the markets in which they compete. Thus, sustainability reporting provides a context that enables the firm to model changes in employees' values, beliefs, and core assumptions about the organization.³⁰

Track progress versus targets. When sustainability reporting is completed on an annual or regular basis, it enables the organization to chart its progress against objectives over time. For example, Electrolux has been developing sustainability reports since 1998. In its 2008 report, the company identifies its objectives over the past several years and also identifies the extent to which it has achieved these objectives. The report not only identifies past progress, it lists specific targets for the future.³¹ The charting over time of performance indicates progress to all stakeholders and further emphasizes the gravity of the firm's sustainability interests.

Reduce environmental risk. Sustainability poses a series of risks that are distinct from other forms of risk. Firms must address risks associated with climate change, boycotts, ecosystem services, social justice, and harmful substances; and these risks can pose specific liabilities for directors and officers of the firm.³²

Firms that examine the risks encountered in the procurement, processing, consumption, and disposition of products can reduce their liabilities due to environmental factors.

Identify savings and efficiencies. Organizations that begin to monitor the use of energy subsequently begin to recognize the magnitude of energy expenses and the distribution among alternative needs. Firms that annually provide sustainability reports quantify their energy use and begin to find ways to reduce these expenditures. For example, by charting energy use over successive years, IBM was able to reduce consumption throughout the company by more 3.5% in 2008.³³

Identify new business opportunities. In order to develop a sustainability report, a firm must necessarily review all of its business operations. In this review, firms on occasion find resources within the firm that have not been marketed. For example, Shell Oil pumps carbon dioxide from Dutch refineries to greenhouses. Before Shell assessed the sustainability of the refinery, this carbon dioxide was released into the atmosphere.³⁴

D. Overview of Sustainability Reporting

Many firms adopt contrasting styles and formats to present their efforts to achieve some level of sustainability. Despite these alternative styles, several essential elements should be addressed if the firm is to offer a meaningful discussion of its sustainability efforts and performance. The firm initially outlines its strategy with respect to sustainability, and it then provides specific economic, environmental, and social indicators of its efforts. Although the firm may use a variety of styles to present this information, many companies illustrate how their sustainability analyses dovetail with the GRI Sustainability Reporting Guidelines.³⁵ For example, General Electric indexes its 2008 sustainability report with the point-by-point criteria outlined by GRI. Figure 15-2 provides an overview of the elements of a sustainability report.

Strategy and analysis. The initial component of a sustainability report provides a summary of the corporate strategy and the managerial approach to sustainability. The discussion of corporate strategy should focus on the relationship between the

FIG. 15-2 Elements of a Sustainability Report

- I. Summary of Corporate Sustainability Strategy
 - Strategy and Analysis
 - Organizational Profile
 - Report Parameters
 - Governance, Commitments, and Engagement
- II. Performance Indicators
 - Economic Indicators
 - Environmental Indicators
 - Social Indicators
- III. Third-party Validation

firm and its stakeholders with respect to economic, environmental, and social conditions. Importantly, the strategic overview should include a letter from the senior decision maker of the organization about the relevance of sustainability to the organization and its strategy.³⁶ In addition, this initial discussion should provide a review of the key influences of the firm as well as a treatment of its risks and opportunities in the markets it serves. For example, the General Electric 2008 sustainability report provides a letter from Chairman Jeff Immelt about the company's commitment to sustainability. The report also provides a review of the commitments and progress made by the firm over the last year's report and the progress made toward achieving those objectives in 2008, as well as expectations for 2009.³⁷

Organizational profile. The organizational profile identifies the name of the company, the nature of its ownership, and its headquarters. In addition, the company describes the countries and markets served as well as its primary products, brands, and services. The company also indicates its level of involvement in the production and the amount of outsourcing employed during production.

Report parameters. The report parameters concern the period represented by the study and the frequency of reporting by the company. The firm also identifies the scope and boundary of the study at this point, and it recognizes known limitations with respect to these parameters. The firm also provides a review of its measurement techniques, and it describes the policies and practices associated with gaining external assurance about the report.

Governance, commitments, and engagement. The governance system provides an overview of how the firm seeks to attain its objectives. Governance includes the structure of the organization and the committees responsible for the firm's strategy and organizational oversight. The firm also outlines its mission and values with respect to economic, environmental, and social performance. The incentive structures of the senior officers are also outlined, and the firm indicates procedures for employees and other stakeholders to provide recommendations.

The firm also outlines its external commitments. One vital part of a firm's commitment lies in its participation in the development of industry standards. Companies supply lists of industrial groups and affiliates. In addition, they report on externally developed triple bottom line principles that they endorse. For example, the United States Climate Action Partnership is a nonpartisan coalition of 26 corporations along with the Environmental Defense Fund, the Pew Center, Natural Resources Defense Council, World Resources Institute, and the Nature Conservancy.³⁸ GE's 2008 sustainability report recognizes the company's support for this group and its efforts to develop legislation creating a nationwide cap-and-trade system.³⁹

The final component of the strategic overview is the engagement of stakeholders. Since all of the information in the report derives from these groups, it is essential to identify their level of involvement. The firm provides its rationales for the selection and identification of stakeholders and describes the frequency of engagement with each type of stakeholder. The company also provides a review of the topics addressed in meetings with stakeholders.⁴⁰

Third-party validation. When the firm has completed its summary of the corporate sustainability strategy, it then reports on the economic, environmental, and social performance as outlined in the following sections. After these performance indicators have been provided, firms increasingly provide some evidence of assurance via a third party.⁴¹ Although many firms have established procedures for determining sustainable action, assurance is significantly enhanced via evaluation

by some entity external to the organization. In reporting on third-party evaluations, firms indicate that the evaluation is performed by an external party that uses individuals who are not limited by their relationship with the firm. The third-party report should be completed by persons competent in the subject matter and related practices. In addition, the report should be developed in a systematic, documented approach, and it should result in the development of a publicly available opinion of the firm's sustainability performance.⁴²

E. Reporting Economic Value

The economic value provided by an organization is not a substitute or replacement for accounting and financial reporting. On the contrary, this part of the sustainability report is designed to illustrate the flow of capital among stakeholders and illustrate the economic influence of the firm throughout society.⁴³ Economic reporting includes reviews of *financial performance*, *local market presence*, and *indirect economic influences* of the firm (see Figure 15-3).

Financial performance. **Financial performance** refers to the presentation of the firm's value in terms of accounting and financial standards. The **value added statement** identifies the direct economic value generated and distributed to capital providers and government. This section of the report summarizes revenues, employee compensation, operating costs, donations and other community investments, retained earnings, and payments. For example, Henkel is one of the world's leading suppliers of laundry and home care products (e.g., Purex), cosmetics and toiletries (e.g., Schwarkopf Professional hair care), and adhesives (Loctite glue). Table 15-1 illustrates the value added to the company in financial terms.

TABLE 15-1 HENKEL VALUE ADDED STATEMENT 2008

| | € MILLIONS | RELATIVE VALUE, % |
|-------------------------------|------------|-------------------|
| <i>Source of funds</i> | | |
| Total sales | 14,131 | 90.6 |
| Other income | 1,458 | 9.4 |
| <i>Distribution of funds</i> | | |
| Cost of materials | 6,508 | 42.3 |
| Depreciation and amortization | 540 | 3.5 |
| Other expenses | 3,973 | 25.5 |
| Value added | 4,472 | 28.7 |
| Employees | 2,436 | 54.4 |
| Central and local government | 437 | 9.8 |
| Interest expense | 366 | 8.2 |
| Shareholders | 227 | 5.1 |
| Minority shareholders | 12 | 0.3 |
| Reinvested in the company | 994 | 22.2 |

Source: Based on "Sustainability/CSR at Henkel", Henkel AG & Co. KGaA, <http://www.henkel.de/SID-0AC83309-45A7D75E/nachhaltigkeit.htm> (accessed October 14, 2009).

A second financial consideration is the disclosure of the financial implications of climate change for the firm. As the level of regulation associated with climate change increases, firms face regulatory risk due to increased costs. These regulations also provide opportunities via new markets and technologies. Firms report on these considerations to illustrate their planning efforts and control risks. For example, Timberland reports on its efforts to attain carbon neutrality by 2010. This strategy notably involves reductions in its demand for energy, procurement of renewable energy, and investing in renewable energy through carbon offset purchases.⁴⁴

The firm supplies two additional pieces of information that are pertinent to employees, investors, and other stakeholders. Firms disclose the financial obligations associated with benefit plans.⁴⁵ In addition, they indicate whether they receive significant financial assistance from government.⁴⁶

Local market presence. The second set of economic indicators addresses the role of the firm in the local markets in which it has a significant presence. The firm reports on the relative wage rate by illustrating the relationship between company wages and local minimum wages.⁴⁷ It also reports on the policies and practices associated with hiring personnel from the local community. Similarly, firms report on the procedures associated with securing locally based suppliers. For example, Unilever's 2008 sustainability report outlines the efforts of the company in the areas of leadership development and corporate diversity. It further outlines the business partner code that specifies sourcing requirements for business ethics, health and safety, labor standards, and the environment.⁴⁸

Indirect economic influences. Indirect economic influences are the firm's efforts to enhance public welfare. The organization reports on the development of infrastructure and services. For example, Unilever reports that it invested more than \$136 million (€91 million) in communities in 2008, enabling them to support around 16,500 community organizations.⁴⁹ In addition to investments in infrastructure, firms also report on other economic activity derived from their sustainability efforts. The Unilever 2008 report, for example, reports on the company's ongoing efforts to address political unrest in Kenya.⁵⁰

F. Reporting Environmental Value

The reporting of environmental performance addresses the extent to which the action of the firm is associated with *material usage, energy, water, biodiversity, by-products and waste, products and services, and transportation.*⁵¹ Consider first the firm's material use.

Materials. Material usage directly addresses the overall cost of operations, and the tracking of this factor enables the firm to monitor material efficiency and costs associated with the flow of material. Companies report on raw material, processed material, semimanufactured goods, and packaging materials. They also report on the extent to which they use recycled materials as inputs. For instance, the 2008/9 Ford Motor Company sustainability report indicates that recycled materials account for more than 20% of the content of cars sold in North America.⁵² The report also indicates that Ford employs a life-cycle design strategy.

Energy. The monitoring of energy usage is instrumental to achieving fuel efficiency. Firms monitor direct and indirect energy consumption. **Direct energy** refers to consumption of energy without conversion, whereas **indirect energy** refers to use of energy that has been transformed via some process. For example, an electrical

plant has a direct use of coal to produce its output—electricity. The use of this electricity by an auto plant is a form of indirect energy use. In the direct energy category, firms provide reports of the use of nonrenewable forms of energy that include coal, natural gas, gasoline, and others. Direct energy also includes renewable sources of energy such as biofuels, ethanol, and hydrogen. Similarly, reporting on indirect energy use distinguishes nonrenewable energy purchases of electricity, heating/cooling, steam, and nuclear energy from renewable sources such as solar, geothermal, wind energy.

Reporting on energy utilization over time enables companies to illustrate results of their efforts to limit the amount of energy consumed. For example, the Merck 2008 Sustainability Report tracks purchases of coal, fuel oil, and electricity over five years.⁵³ Firms offer evidence of the degree to which conservation activities increase energy efficiency leading to reductions in direct and indirect energy consumption. They also indicate the extent to which they provide products that rely on energy-efficient technologies or that employ renewable sources of energy. For example, the Ford 2008/9 sustainability report outlines the firm's efforts to reduce its direct and indirect energy consumption. The report also highlights Ford's development of products that strive to achieve efficiency via alternative fuels, electrification, and new drive train technologies.⁵⁴

Water. Because access to clean freshwater is declining, the firm's reporting on its use of water provides insight into the financial and social risks faced by the organization.⁵⁵ Firms report on the amount of water withdrawn from surface sources (*rivers, lakes, oceans, and wetlands*), ground water, rainwater, municipal sources, and waste water. They further identify sources of water significantly influenced by water removal. They also indicate the total volume of water reused or recycled. The Abbott Laboratories 2008 sustainability report, for example, outlines the firm's efforts to reduce water consumption by 40% relative to 2004 standards.

Biodiversity. Given the imminent risks to flora and fauna, it is essential that environmental reviews take stock of the firm's efforts associated with enhancing habitat. Firms report on their strategies, operations, and influences on wildlife in areas of high biodiversity value and in protected areas. The reporting further indicates the number of endangered species affected by operations and the habitats restored or protected by the firm. For example, Shell Oil indicates how it uses its partnerships with Wetlands International and the International Union for the Conservation of Nature to conserve tundra ecosystems in the Arctic. This partnership also enables them to protect wetlands along the flight paths of migratory birds.⁵⁶

By-products and waste. By-products and waste are the gaseous, liquid, and solid outputs discarded in the supply chain. Gaseous by-products include **greenhouse gas emissions** as well as **ozone-depleting substances**. Firms report on the process used to determine the level of these outputs as well as their initiatives to lower emissions. For instance, Vodaphone's energy performance report indicates its total direct and indirect greenhouse gas emissions.⁵⁷ Liquid by-product reporting indicates total water discharges and discusses spills of oil, chemicals, and other materials. Shell, for instance, reports that it carried more than 40 million tons of cargo in 2008 without a single spill. It further reports, however, that a single-hull ship on short-term hire dropped about 300 tons of diesel fuel into the Elbe River in Germany. Shell's sustainability report indicates that it is phasing in double-hull ships to reduce the likelihood of spills.⁵⁸

Firms also report on the total waste and the methods of disposal for waste. This material includes liquid, solid, hazardous, and nonhazardous waste. Abbot

Laboratories, for example, indicates that in 2008 it achieved a 21% reduction in the relative amount of hazardous waste over 2007.⁵⁹ Firms indicate the degree to which they use composting, reuse, recycling, recovery, deep well injection, on-site storage, incineration, or landfills to dispose of by-products.

Products and services. Conservation efforts associated with products address the inputs into development and production. Firms provide summaries of the material, water, emissions, and other factors associated with their products. Apple's annual sustainability report, for example, provides an account of the life cycle costs associated with each of its products.⁶⁰ Product reporting also considers the degree to which the firm engages in efforts to reclaim products. Since many products (e.g., computers) have historically been made with hazardous materials such as brominated flame retardants, it is pertinent to develop programs to reclaim these products and dispose of them properly. The Lexmark sustainability program, for instance, reports on the company's efforts to reclaim inkjet cartridges, laser toner cartridges, printers, and other products.⁶¹

Compliance. This facet of reporting concerns the extent to which a company complies or fails to comply with environmental regulations. Compliant firms generally face less financial risk and are better positioned to gain permits or otherwise expand operations.⁶² In some sustainability reports, firms provide a review of their environmental policy and provide evidence of their compliance with acceptable industry standards. For example, Merck's 2008 sustainability report outlines its commitment to safety and environmental performance and indicates its compliance with prevailing environmental law concerning spills. Firms also explain conditions under which they have failed to comply with prevailing standards by reporting monetary fines and nonmonetary sanctions associated with environmental regulations. The Merck 2008 report, for example, indicates that the company faced 178 environmental inspections in 2008 and paid more than \$1 million in fines due to violations.⁶³

Transportation. Since the distribution and supply chains for products are primary sources of value for many firms, it is important for companies to report on the influence of transportation. Firms identify their strategies to mitigate transportation costs. Importantly, they report on the energy used in transportation, the emissions associated with transportation, and the waste, noise, and spills associated with transportation. The United Parcel Service (UPS) environmental stewardship report, for example, provides summary statistics on energy use for shipping by road, rail, and air. The report indicates that shifts from ground to rail and air to ground prevented absolute emissions of 3 million metric tons of carbon dioxide.

G. Reporting Social Value

Reporting on social value provides the third component of sustainability reporting. This section includes reporting on human rights, labor practices, product responsibility, and society.

Human rights. In the human rights sector, the firm indicates how it maintains and respects the basic rights of human beings.⁶⁴ The firm indicates the extent to which investment agreements and trading partners have been reviewed for human rights considerations. For example, Ford Motor Company's 2008 sustainability report discusses collaboration on human rights issues with its partners in the supply chain.⁶⁵ Firms report on the extent to which they have invested in training employees about human rights issues, and they report on the number of incidents of discrimination.

The human rights section also outlines some policies that concern working conditions. Firms report on operations that have significant potential to limit **freedom of association** and **collective bargaining**. They also report on operations with potential to engage in child labor or compulsory labor. For example, Starbucks' 2009 sustainability report outlines the firm's effort to achieve a goal of 100% responsibly grown, ethically grown coffees.⁶⁶ Coffee grown under these criteria is unlikely to violate working condition standards.

Labor practices. The analysis of labor practices centers on the concept of decent work.⁶⁷ The firm discloses the scope and diversity of its workforce and emphasizes aspects of gender and age distribution. The firm also provides an account of its employee benefits and discloses the extent to which it uses collective bargaining agreements. In addition, it provides demographic and financial reports of employee data to provide evidence of diversity and equal opportunity. For example, Shell's 2008 sustainability report outlines its progress toward the goal of increasing the proportion of women in senior management to a minimum of 20%.⁶⁸

The well-being and physical protection of employees is covered by occupational **health and safety standards** and the ongoing training provided by the firm. These safety and occupational health indicators chart statistical performance and enable firms to communicate their health and safety programs to employees. Companies report on the amount of training and counseling dedicated to informing community members about serious illness and disease. For example, Coca-Cola reports on the company's prevention and treatment programs to limit the spread of HIV/AIDS.⁶⁹

Product responsibility. Product responsibility reporting addresses the effects of products and services on customers and users. Organizations are expected to exercise diligence to ensure that products are fit for intended use and do not pose any unintended hazards to health and safety. Companies report on the health and safety impacts of their products and report on the incidents of noncompliance with regulations. For example, IBM reports on the assessment of product health and safety in concept development, R&D, product certification, production, marketing distribution, use, and disposal.⁷⁰ Firms also indicate the type of product labeling.

Product responsibility reporting also includes consideration of marketing communications and security of customer information. Companies must outline programs for adherence to standards and laws concerning advertising, promotion, sponsorship, and other marketing communiqués.⁷¹ For example, the Ford 2008 sustainability report indicates the company's adherence to the Federal Trade Commission Act and its amendments.⁷² Reporting firms must also reveal the number of incidents of noncompliance with regulations and report any fines incurred due to noncompliance. Customer privacy is also a concern addressed within product responsibility reporting. The organization indicates the number of substantiated complaints regarding breaches of privacy and losses of consumer data.

Society. Whereas human rights, labor, and product considerations focus on a specific stakeholder group, the society performance indicators reflect interaction with the community at large.⁷³ The firm provides an overview of its programs designed to manage and assess the influence of its operations on the community. For example, Shell Oil reports on its efforts to reduce the influence of operations on local communities. Shell partners with the Living Earth Foundation to promote dialogue between the firm and communities in Alaska concerned about oil and gas procurement, refinement, and distribution. The reporting company also provides a discussion of its participation in public policy development and lobbying and offers

an account of its contributions to political parties, politicians, and related institutions in all the markets it serves.

The firm also reports on its compliance with laws and regulations and reports judgments associated with corruption or anticompetitive behavior. Shell, for instance, outlines a code of conduct that specifically outlines policies associated with bribery and corruption, conflicts of interest, gifts and hospitality, insider dealing, and political action.⁷⁴ The reporting firm also identifies the number of business units analyzed for risk of corruption, and it describes the extent to which employees have been trained in the firm's anticorruption practices.

Summary

A. Introduction

The goal of this chapter has been to outline the logic, merits, and processes associated with sustainability reporting. Firms that report on this activity are more likely to yield sustainable results relative to their competition. We examine the purposes and benefits of sustainability reporting, and we outline the components of sustainability reports. We also examine the reporting of financial, environmental, and social performance.

B. Purposes of Sustainability Reporting

Sustainability reporting serves three primary purposes for the firm. First, these reports enable firms to demonstrate their commitment to sustainability. Second, sustainability reporting enables companies to compare their performance to laws, codes, norms, and voluntary initiatives. Third, these reports enable companies to illustrate their longitudinal performance relative to the competition.

C. Benefits of Sustainability Reporting

Companies can realize multiple benefits from sustainability reporting. Firms can become more disciplined about environmental performance, and they can convey environmental messages to all stakeholders. They can also track progress relative to targets and reduce their overall risk due to sustainability reporting. Furthermore, this reporting enables companies to identify savings and efficiencies, and it enables them to identify new business opportunities.

D. Overview of Sustainability Reporting

Sustainability reports provide an overview of the firm's sustainability strategy by reviewing corporate

strategy and governance and by profiling the organization's approach to the markets it pursues. The company also provides detailed reviews of its economic, environmental, and social performance. Third-party verification of these reports provides assurance of their level of quality.

E. Reporting Economic Value

Economic performance includes analyses of financial performance, market presence, and indirect market influences. Financial performance addresses the flow of capital between the firm and its stakeholders, and market presence concerns the local market performance of the firm relative to alternative employers. Indirect influences refer to contributions in the forms of services and infrastructure.

F. Reporting Environmental Value

Environmental performance concerns the extent to which the action of the firm is associated with material usage, energy, water, biodiversity, by-products and waste, products and services, and transportation. Material usage directly addresses the overall cost of operations, and the tracking of this factor enables the firm to monitor material efficiency and costs. The monitoring of energy usage addresses direct and indirect energy consumption. Firms also report on the amount of water withdrawn from multiple sources, and they identify water sources significantly influenced by water removal. Biodiversity reporting concerns the influence of the firm on flora and fauna, whereas by-product reporting outlines the firm's procedures for treating waste and other nonproduct outputs of production. Product reporting summarizes material, water, emissions, and other factors associated with

products, and transportation reporting identifies strategies employed to control transportation-related costs.

G. Reporting Social Value

Reporting on social value includes discussions of human rights, labor practices, product responsibility, and society. The firm reports on its basic human

rights policies, and it reports on the use of collective bargaining. Labor reporting discloses the scope and diversity of the workforce as well as the firm's occupational health and safety standards. Product responsibility reporting addresses the effects of products and services on customers, and societal reporting addresses the firm's interaction with the community at large.

Keywords

collective bargaining, 312
direct energy, 309
financial performance, 308
freedom of association, 312

greenhouse gas emissions, 310
health and safety standards, 312
indirect energy, 309
ozone-depleting substances, 310

transparency, 303
value added statement, 308

Questions

1. If sustainability reporting is not required by law, why do firms bother to develop these reports?
2. How is sustainability reporting related to triple bottom line performance?
3. How do firms illustrate transparency, and how does this effort help stakeholders?
4. What stakeholders are relevant to sustainability reporting? Why might the number of stakeholder groups vary for different types of organizations?
5. What is the role of stakeholders in developing sustainability reports?
6. Why is it essential for companies to describe their corporate strategy governance in sustainability reports?
7. How does third-party verification influence evaluations of sustainability reports by stakeholders?
8. To what extent is the economic part of the sustainability report redundant with the firm's annual report? Why do firms include indirect economic consequences in the economic section of sustainability reports?
9. What are the elements of the environmental section of the sustainability report? How does reporting of each facet of the environment contribute to ecological performance?
10. Who benefits from reporting on social performance, and how do they benefit from this practice?

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