



Corporate Environmental Reports— Three Dimensions to Success

Early environmental reports were thinly veiled public relations exercises. Dubbed “greenwash,” they angered many stakeholders. Over the past decade, industry, regulatory agencies, and nongovernmental organizations (NGOs) have issued more than 30 standards for corporate reporting. Clearly, there are more guidance and tools available today, but has actual practice met stakeholder needs?

The EH&S Advisor offers some suggestions for making your reporting credible. It's harder than you think, judging from our evaluation of recent reports. Reporting has grown more sophisticated, but so too have expectations and analysis techniques. What may be viewed by many as excellent reporting may be judged by others as flawed, inconsistent, and even deceitful. How do you avoid the greenwash traps that can prove to be embarrassing, if not damaging to your company's reputation? Start with a three-dimensional evaluation.

UNDER THE MAGNIFYING GLASS

The cardinal rule in reporting, as with most things in life, is that if you are going to do it, do it right, or don't do it in the first place. Most companies employ their communications departments to take the lead in preparing these reports. The environmental department provides input, and the law department acts as a screen to ensure that no potentially damaging information is released. This simple model may not fare well in the future. What is often missing is input and a reality check by individuals with the latest knowledge of reporting practices and issues.

The Web-based International Corporate Environmental Reporting Site in

the Netherlands is widely regarded as the premier clearinghouse for environmental reporting developments.¹ Folkert van der Molen, the site's manager, has seen an exponential growth in the interest in environmental reporting. He states, “There is no excuse today for producing a sub-standard report. The tools and techniques are available, but it is such a rapidly evolving area that considerable effort is necessary to just keep abreast of developments.”

Bristol-Myers Squibb is an excellent example of a company that is doing it right. Issued biannually since 1993, their reports have consistently received praise. The most recent issue, from 1999, is generally regarded as one of the best in the world and is the first report to employ the draft Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.² This is significant in and of itself, since the GRI reporting framework focuses on the broader issue of the triple bottom line: economic, social, and environmental reporting.

The success of their recent report is well known. What is not widely known

is the effort that went on behind the scenes. Bristol-Myers Squibb was not content with past successes and chose to seek external review of the 1999 draft from members of their EH&S External Advisory Group.³ George Nagle, senior director of EH&S, reported that “some might think it's tough opening yourself up to informal and candid feedback from multiple external stakeholder groups. We have found that this dialogue is essential to our design process.”

Environmental reports are coming under rigorous analysis by more competent readers with ever-higher expectations. A transition is occurring, which will eventually subject these reports to the same professional scrutiny that financial reports receive today. Financial reports are much more than booklets written by communications specialists who are fed information and then spin it to make the company look good. They are carefully prepared documents that are critically examined at many levels and perspectives within the company. The CEO may be pleased with the pictures and words and even the performance

EH&S ADVISOR CHECKLIST



PREPARING CREDIBLE ENVIRONMENTAL REPORTS

1. Properly publishing an environmental report forces a company to get its environmental act together. This is an overlooked benefit (and selling point) of preparing a report. Reporting requires
 - a systematic examination of internal metrics and reporting systems, as well as environmental information and management systems;
 - an examination of the company's performance from a number of internal and external stakeholder perspectives; and
 - a look at the big picture; how things hang together and how credible is the effort.
2. If your company has never issued an environmental report, don't get boxed into preparing one on a crash schedule.
 - Business executives rarely understand the expanse of data needed to do a credible job. Educate them in advance that this is not a public relations task, but a significant undertaking.
 - Lay down the foundation long before you issue the first report. Update policies, systems, and especially metrics.
 - Most reports contain specific targets and objectives. A rushed job to establish these commitments can be a major problem later on if not met or an embarrassment if the goals are so weak as to be laughable.
3. Obtain background information on current reporting trends. There is a wealth of information, and there is no excuse for substandard reporting today. Start with the International Corporate Environmental Reporting site (www.enviroreporting.com).
4. Pick one of the established frameworks for reporting.
 - The United Nations Environmental Programme 50-element scoring system contains a good listing of reporting elements. The emerging GRI Sustainability Reporting Guidelines is a good source for a reporting structure.
 - There are a lot of data in today's reporting. Using a recognized structure is an advantage and adds credibility.
 - No matter what model is selected, aim for comparability, credibility, and relevancy of the information provided.
5. Write the first draft and seek critical, independent analysis. Better yet, seek this input in advance. This review should be conducted at several levels, including benchmarking against current reporting, reviewing for performance trends and commitments, and analyzing for strategic consistency and gaps.
6. Approach external attestation of your report with caution. Is it worth the cost? Maybe not. This is an emerging area and a subject of a future *EH&S Advisor* article.
7. Once you start, keep the effort going. With the emergence of the Internet, the cost can be minimal, recognizing that these data should already be part of a well-developed EH&S program.

data, but the ultimate objective that he or she realizes is for the financial report to withstand intensive examination by external financial analysts.

The vast majority of companies have not even begun to think in similar terms when it comes to socially responsible reporting. The internal management process to generate reports is largely ad hoc and not integrated with the overall communications strategy for most companies. Many of the reporting difficulties I see today are due to this flawed management approach. An in-depth look at this issue will appear in the August 2000 newsletter *Corporate Environmental Strategy*.⁴

DECONSTRUCTING AND RECONSTRUCTING DRAFT REPORTS

Reporting today is sophisticated. It is necessary to "peel away" the layers to get at the reality of (1) how well a company is reporting relative to standards and industry peers; (2) how well the company is performing and meeting its reported targets; and (3) how internally consistent and credible is the presentation.

The technique used by the author and a colleague, Riva Krut of Benchmark Environmental Consulting, is to rigorously examine draft reports based on a three-dimensional Strategic Performance and Consistency Evaluation (SPACE), which is then benchmarked against other global reports (see Figure 1).⁵

The first dimension, to *benchmark*, is a comparison among other reporting companies in general and in the particular industry sector within which the company falls. What are they reporting and how clearly is this organized? How well does the report stack up against other reports? Measured against a template of best practice and benchmarked against their industry peers, this

benchmarking activity shows where some reports excel in specific areas, and where others continue to miss the mark. They should not, however, miss the mark; there is an abundance of information now available on how to structure a report and disclose consistently across key indicator areas.

The second dimension, *performance*, is an evaluation of actual company performance. The analogous situation is that a company may have the best-looking financial report in the world, but if it is going bankrupt, it will not impress many people. Business management should understand the implications of the data that are being reported and their potential impact on stakeholders. The public relations benefits of having a good reporting format must be weighed against the public relations disadvantages of having lagging environmental management practices. Stakeholders may be patient with lagging performance for a while, but this could become a liability if performance does not improve or targets are consistently missed.

The third dimension, *strategic*, is a rigorous assessment of the internal consistency and credibility of the reporting effort. This is an area that is most often overlooked in evaluating environmental reports, first because internal staff are often too close to the data to see the potential problems—the “forest for the trees” syndrome. Second, such an assessment requires highly specialized skills that few corporations have

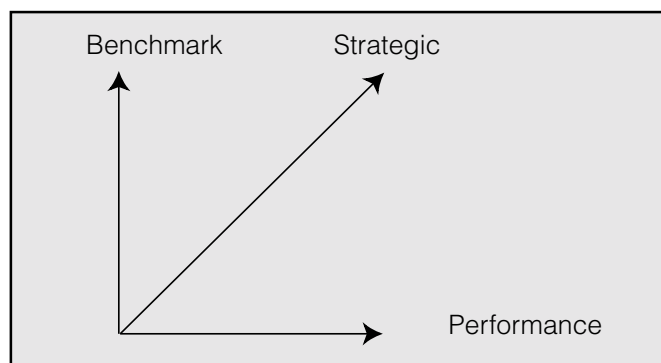


Figure 1. Three-dimensional SPACE.

internally: an up-to-date knowledge of reporting practices and trends. Third, it involves an understanding of business dynamics, strategy, and public relations issues. And finally, it requires meticulous attention to detail. The last point, the details, can be easily overlooked when internal staff is struggling just to keep ahead of relentless demands.

In our evaluations of reports, the more subtle but significant problems occur in the third category, the strategic assessment. For example, in a recent review, a major multinational produced one of the top-tier environmental reports in its industry group. Indeed, it was a leader among all industry groups in some specific areas of reporting. It scored very well using

the United Nations Environmental Programme 50-element scoring system.⁵ But on both a performance and a strategic level, the report was a potential liability.

Illustrations of a few of the most commonly encountered inconsistencies follow:

- emission trends not normalized and with little or no mention of production trends, mergers, divestments, or acquisition;
- statements of management's commitment to environmental excellence, but programs that at best reflect standard industry norms;
- claims of commitment to specific industry standards such as Responsible Care or ISO 14000, yet information reported reflects deficiencies in program implementation;
- attestation letters very narrow, but the text elsewhere in the report implies that the "report" has been "verified";
- little or no financial liability data, even though the company is known to have or would be expected to have (e.g., because of the ages and nature of the processes) substantial remediation liabilities; and
- inconsistent detail—some aspects are reported in excruciating detail while other are barely mentioned.

THE CHALLENGE TO BE GREEN

Kermit the Frog says, "It's not easy being green." Today we can add, "It's even harder to claim that you are green." Companies may feel secure using the step-by-step newly available reporting guidelines, only to be blindsided by hidden flaws. A very careful examination of strategic issues and internal consistency may reveal gaps in logic, deficiencies in program implementation, and misrepresentations of information (or the absence of key information). A strategic assessment can also uncover basic flaws in the basic systems used to manage environmental programs. This dimension can be of particular use to EH&S management.

Environmental reporting today has a long way to go before it reaches the same level of comparability, consistency, credibility, and relevance that financial reporting currently achieves. Companies that want to provide credible disclosures have to move beyond sophisticated greenwash; they need to go beyond "filling out the forms" of standardized reporting models, and they need to take a multidimensional look at what they are truly reporting to stakeholders. It's more challenging, but worth the extra effort. ☺

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3. See *EH&S Advisor*, The Best Advice May Come with Attitude, *EM*, October 1999, p 15.
4. MacLean, R.; Gottfrid, R. Corporate Environmental Reports—Stuck Management Processes Hold Back Real Progress; *Corporate Environmental Strategy*, Elsevier Science: New York, August 2000.
5. SPACE is a trademark of Competitive Environment, Inc., and the benchmark tool, the Global Environmental Reporting survey, is a proprietary report by Benchmark Environmental Consulting, <http://www.mindspring.com/~benchmark>.
6. *Engaging Stakeholders*, Vol. 1: The Survey, and Vol. 2: The Case Studies; United Nations Environmental Programme, 1996.

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Is there an EH&S topic you would like to address in the *EH&S Advisor*? Do you have information to share with your colleagues, and are you interested in possibly co-authoring a column on the subject? *EM* is very interested in your ideas. Please contact Richard MacLean at phone: (480) 922-1620, or e-mail: maclean@competitive-e.com.

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