

The 10 things you need to know to read a Sustainability Report

© Future Perfect Limited 2011

Future Perfect Limited
Arden House, Hampton Court, Marsh Lane,
Hampton in Arden, Solihull, West Midlands B92 0AJ
Main Office: +44 (0)1675 446321
Email: futureperfecttraininguk@gpworldwide.com

The 10 things you need to know to read a Sustainability Report

It is now common for large companies and enterprises to publish a regular sustainability report. It might be called something similar or something else entirely, but its intent is the same. It is to communicate to the public, who have an interest, how the enterprise has performed with regards to the sustainability criteria they have selected as appropriate. The reasons for wishing to communicate this information may vary considerably and this may not be obvious to the lay reader.

This briefing note is intended to provide a basic framework to read and analyse sustainability reports. It is designed to be useful if you are new to the area of sustainability reporting. The concepts explained here can be applied for most forms of reporting, as they highlight areas which crop up time and again. The concepts and examples have been drawn from extensive real life experience and real issues that occur.

The 10 things you need to question are:



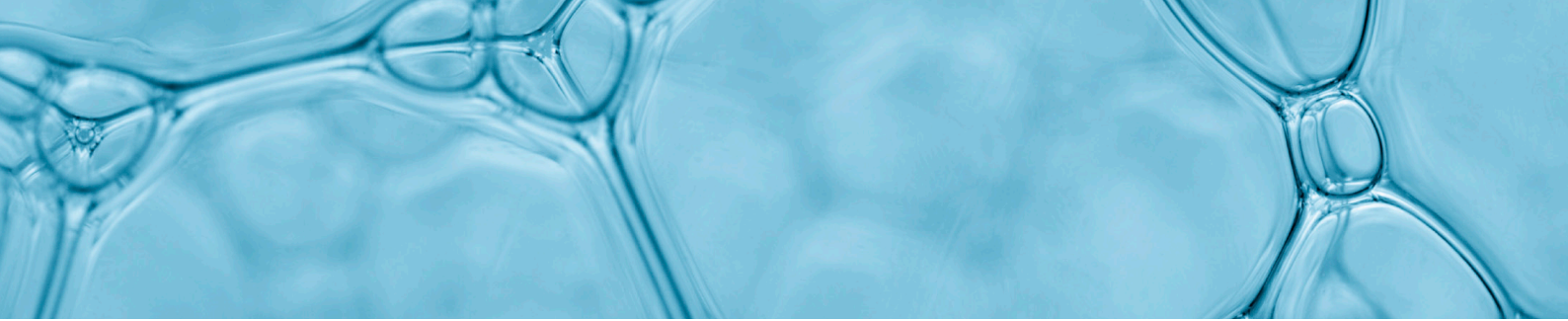


1. The Boundary of the Report

- The boundary indicates the entity or range of entities that the report covers. In general terms the companies and divisions that it covers and sometimes more tellingly those it does not. The Global Reporting Initiative standard indicates that companies should make a real and concerted effort to report on the entities it has:
 - Direct Control over – i.e. the companies that directly make up the organisation, including subsidiaries
 - Direct Influence over – i.e. can get Management Disclosure from
- This area can be critical in ensuring that all the stakeholders are correctly mapped, that stakeholder criteria are selected adequately, and that real issues upstream and downstream in the supply chain are correctly analysed and presented, from an environmental, economic and social perspective
- The risks if the boundary is inadequately set could be immensely damaging to a companies reputation and could include:
 - The risk of omission – leaving out a stakeholder group altogether
 - The risk of upstream or downstream effects being ignored – particularly environmental effects in terms of land use, and waste management
 - The risk of labour problems in the supply chain being ignored – human rights abuses etc
 - The boundary is selected for ease of data collection rather than to provide an appropriate indication of actual impact – for example an contract manufacturer that only reports the emissions from the head office rather than attempting to include the supply chain or end use of products and services
- Within the report the boundaries might be thorough and comprehensive, but the risks of omission of important issues in the supply chain is a very real one. For the reader, care is required

2. The Scope of the Report

- This is the range of topics that the company selects to report on. Some examples are listed below:
 - Environmental topics including – Land Use, Recycling record, Energy Efficiency, Carbon Footprinting, Product Lifecycle from Design to Disposal (or to consumers), Raw Materials in Product Manufacturing, Sustainability of Raw Materials, Production Process and Supply Chain Sustainability, Emissions of Greenhouse Gases, Tree planting, Environmental Protection, Environmental Standards – E.g. LEAF, Carbon Trust, Carbon Disclosure etc
 - Social Topics including – Human Rights, Labour Rights, Impacts on Communities, Investment in Communities, Diversity, Gender Diversity, Equality, Diversity in Leadership, International Record, Supply Chain Impacts, Charitable Works etc

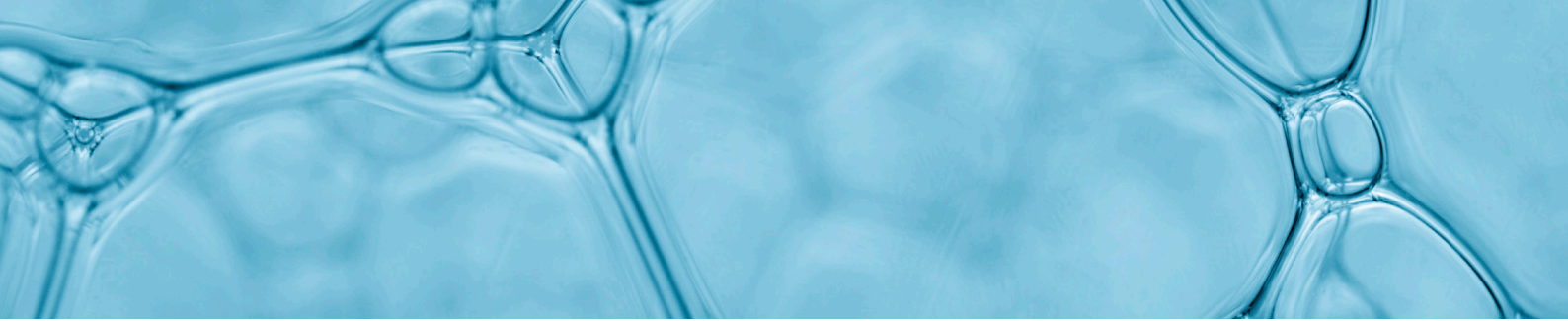
- 
- As you can see from even a cursory glance the number of topics that could be reported on is substantial. The Global Reporting Initiative indicates a couple of ways of analysing whether these are appropriately selected or not. Some of the things to look for are:
 - A robust, comprehensive and clearly explained Stakeholder mapping and engagement process
 - The results of the Stakeholder mapping and engagement process in terms of topics selected, and the rationale for criteria selection
 - Competitive forces in the market place, and what competitor and peer organisations are reporting on
 - Broader societal issues that have been analysed by reputable and competent professionals like the issue of Greenhouse Gas Emissions (Intergovernmental Panel on Climate Change (<http://www.ipcc.ch/>))
 - What the organisations own goals and objectives are. These are also critical
 - How many reported areas are mandatory and how many voluntary?

3. The Reporting Period

- For meaningful comparison, particularly in terms of trends over time, or trends within sectors, the reporting period should be carefully noted
 - For example if one organisation reports on sustainability issues in a two year cycle and another organisation reports on a one year cycle, comparing statistics is not comparing like with like. It becomes almost meaningless
 - Similarly if a company changes methodology or time periods there may be a gap between years reported, or a change of boundary, scope, or data collection method making it difficult to compare current performance with previous performance
 - Key events should be noted like mergers, acquisitions, divestitures, changing suppliers, re-structuring supply chains etc

4. The Criteria Selected to Report on:

- As with the generic topics outlined above the specific criteria that sit below these topics need to be carefully selected in an inclusive way considering all the issues previously outlined
 - An example of a problem is on product lifecycle
 - A product is developed and the sustainability criteria selected draws a boundary where the product goes into the hands of the consumer. (Cradle to Gate)
 - All the sustainability criteria for raw materials, land use, manufacturing, and transportation are included, but what the consumer ultimately does with the product is not
 - The product has a short lifecycle and consumers need to replace it every couple of years with the result that it generates enormous quantities of waste

- 
- The risk is clear here – The criteria selected might be appropriate for the company, and the stakeholders, and the reporting could be fair and accurate, but a broader societal view rightly or wrongly will probably bring negative publicity
 - The Environmental topic is chosen to report on, but because of the limited criteria set, the risk to the company’s reputation is still present
 - The sustainability criteria is one where data is easy to collect rather than the most relevant to the companies impacts

5. The Executive Summary v The Complete Report

- Due to the nature of executive summaries, which by definition are short, and concise, there is inevitably data omitted. The selection of which data gets included in an executive summary and also the sequence of presentation is inevitably an interpretive decision, often summarising a wide variety of findings in a short time. Be conscious when you are reading an executive summary that a decision has been made on what to include, and what not to include. Please note there is nothing sinister being suggested here, merely that there is going to be a difference between the executive summary of a report and the actual report. The decision of what to include and exclude, and how to present a reports findings in a summarised way are shaped by a lot of different factors:
 - The lobbying of stakeholder groups
 - The companies strategic direction
 - The companies operational and financial performance
 - The competitive and social environment
 - Human factors like:
 - Lack of time at executive level to thoroughly analyse the data collection methods
 - Lack of competence in conducting data collection or analysis
 - Turnover of people, the research is commissioned by one executive who moves on, leaving the incumbent with a mass of data to interpret in a short time period
 - The presentation of material in good faith without thinking through the consequences of how the material is presented
 - The natural tendency to focus on the issue of the day for the sector or region, at the expense of other information, equally valid and equally important to stakeholders
 - At least the reader should look at the contents page of the main report and see which areas receive the most attention

6. The details about Data Collection Methods

- One of the critical things about reporting or research of any kind is the robustness and accuracy of the data collection methods or measurement tools used. Below are some considerations that you need to think about when reading a report:
 - Hard Numbers versus Soft Numbers
 - Hard numbers are based on quantitative methods, and are facts that can be established which are not subject to interpretation. An example being – We own and operate 10 planes
 - A soft number is based on interpretation and is drawn from qualitative methods, and example being – 40% of our staff rated their prospects of moving into a managerial job as being good, or very good
 - A good report will use a mixture of hard numbers and soft numbers. i.e. We have 500 full time employees, and 200 part time employees. Our survey was sent to all 700 employees and 40% of the full time staff rated their prospects of moving into a managerial job as being good or very good. Of the 200 part time employees, 20% rated their prospects of moving into a managerial job as being good or very good
 - Hard numbers help to identify the size and representativeness of the sample, and set the context in which the soft numbers should be represented
 - Quantitative Methods that produce hard numbers
 - Methods that produce results on a numeric scale based largely on facts – statistics, percentages, volumes etc
 - Methods that count things, people, events – Production of units, databases of employee numbers, reported health and safety incidents, numbers of pollution incidents, fuel measurements through meters
 - Qualitative Methods that produce soft numbers
 - Methods that produce interpretations or opinions, and these can be quantified i.e. 8 out of 10 cats prefer Whiskas – (a classic mis-representation of opinion as fact)
- Examples are: Interviews, Focus Groups, Meetings, Briefing Sessions etc
 - Can provide more information about hard numbers. i.e. - How do female employees feel about the fact that females make up only 20% of the managerial team. How people feel and why is not a fact
- The hard numbers can be used to develop the sample plan – i.e. – Who we will talk to – employees, junior managers, senior managers, directors. How many of each we will talk to, and what questions we will ask them
- Where possible both the hard numbers and soft numbers, how they were collected and why should be visible in the report

7. Common statistical tricks

- It should be noted that these are intended as illustrative examples and do not represent any company. It should be further noted that there is a variety of reasons that statistics are used inappropriately which vary widely from a conscious attempt to deceive, to incompetence, to just a problem in communicating between the conductors of a survey and the people using the survey results to compile the report
- Using a percentage gathered from a small number of people to draw conclusions and apply them to a larger number of people:
 - E.g. – 10 people do a survey. 8 people like the product, becomes 80% of the consumers surveyed like the product and would recommend it to a friend. (The language 'of the consumers' surveyed is the caveat here). For a statistic to be meaningful you need to know the sample on which it is based. How many people, and how representative of people it is, which people it represents, and how it was conducted?
 - I.e. – If the survey is conducted outside the front door of a high street perfume shop, and it surveys people coming out of the perfume shop, it will provide very different information than if the survey was conducted outside the local agricultural mart
 - The reader is unlikely to have this detail available every time and having it may not help unless survey techniques are understood. Nonetheless without the sample size at least all such results need to be considered with caution
- Not including people in the statistic
 - E.g. – The directly employed population of a company is 500 people, but in addition it employs 100 contractors, 200 part time people. The statistics are based on the 500 permanent people rather than the 800 people directly affected by the company's operation. This could apply to a country, region, factory, supplier in the supply chain or a stakeholder population
- Using inappropriate questionnaire, or a misleading questionnaire:
 - E.g. – The legal classic
 - When did you stop beating your partner?:
 - A – Yesterday – B Last Week
 - In other words any answer given is skewed because the question and choice of answers are skewed
 - Therefore any statistics based on a skewed questionnaire will be misleading
- Using soft data where hard data or both hard and soft data should be used:
 - E.g. – 90% of the employees feel safe at work versus there were 200 reported health and safety incidents last year a 10% decrease on last year's numbers. Soft data can be used to supplement this

8. The timing of a Report being Issued

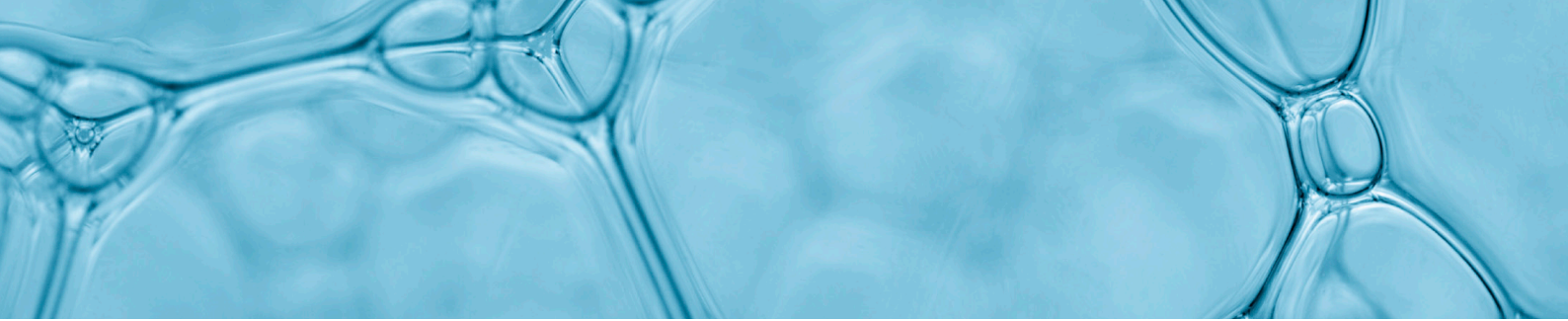
- The publication of a report does not happen in a vacuum. Watch for any report that is published outside of the stated reporting period, that impacts on sustainability. There are a wide variety of reasons for this, usually a reaction to an event, or a sequence of events. These events should be incorporated in so far as possible in the main reports

9. The Level of Assurance of the Data

- It should be noted these are not necessarily value judgements in terms of ethics or morality of the criteria selected or reported on. The level provides an indicator that the reporting process is robust and the comparisons of performance against criteria selected are reasonable. There are two levels of assurance:
 - Reasonable Assurance – a comprehensive audit/verification - of a comprehensive and relatively complete set of reporting data and structures has been conducted. The audit is probably conducted against a standard or reporting frameworks like AA1000, SA8000, Global Reporting Initiative, Carbon Disclosure Project, Millenium Reporting Principles etc. Based on the audit work undertaken there is enough evidence to say that it is reasonable to conclude that there is no mis-statement and that the reported data is fair and accurate against the criteria selected
 - Limited assurance – a less comprehensive result – There are limitations in terms of boundary, scope, time or data collected, and bearing in mind these limitations and the audit is conducted bearing in mind these limits. The audit is probably conducted against a standard like AA1000, SA8000, Global Reporting Initiative etc. Within the limited scope of work undertaken... Nothing came to our attention to suggest the data ARE NOT accurate. That is... there is a possibility of mis-statement but we didn't find any indication
 - As with the report boundary and scope, so with the assurance provided. How much of the reported data is actually assured? What is omitted and why?

10. The Independence and Competence of Assurance Body

- The report is being assured by an assurance body, who are assuring readers that it has met the standard for Reasonable or Limited Assurance. You should look for evidence that the assurance body is independent, and has protection against conflict of interests, and that their independence is evident in the assurance opinion. There are a diverse set of standards for sustainability, ISO, ISAE, AA, SA, and GRI etc. A search on the assurance body will go a long way in determining if the standard is appropriate, and the body is competent and recognised based on an international standard



How we can help:

Future Perfect has extensive experience in all aspects of Sustainability reporting, from consultancy work in setting up robust reporting systems through to assurance of sustainability reports. Our people are exceptionally well qualified in all aspects of sustainability, and we have distilled our wide experience, tricks of the trade, and detailed technical experiences into a series of modules that can help you and your business engage immediately, succeed rapidly and cover all the bases in your sustainability reporting. You can increase your awareness of sustainability issues, and make your strategic and operational decisions secure in the knowledge that you have anticipated the non financial issues critical to your financial success.

To arrange a consultation please contact us on +44 (0)1675 446321.