

group

100

An Association of Australia's senior Finance Executives
from the nation's business enterprises

**SUSTAINABILITY:
A GUIDE TO TRIPLE
BOTTOM LINE REPORTING**



SUSTAINABILITY: A GUIDE TO TRIPLE BOTTOM LINE REPORTING

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Foreword

The Business Council of Australia welcomes the initiative of the Group of 100 in developing “*Sustainability: A Guide to Triple Bottom Line Reporting*”.

Like the Group of 100, the Business Council is committed to supporting Australia’s pursuit of sustainable development, including the sustainable use of our resources, such as water and energy. Business has an important role to play in this process, particularly through its management of the financial, environmental and social dimensions of corporate activities, products and services.

By reporting our financial, environmental and social performance, we are providing a solid foundation for measuring our progress in these areas. Equally important, public reporting demonstrates to the community our commitment and our performance against the triple bottom line.

Triple bottom line reporting therefore ties in with one of the greatest challenges currently facing the corporate sector – our reputation in the community. The Australian community has a low opinion of big business. Big business is seen as anonymous, detached from the community, self interested and greedy. At the same time, the broader community expects big business to deliver on a lot more than just jobs and profits. We are expected to set a higher ethical standard and help build a better society for all.

In this environment, sustainability of business operations and therefore financial sustainability is critically dependent on maintaining and building the trust and respect of the community

The public is sceptical and untrusting of big business, but they recognise that big business harbours a pool of very talented people who have long-term vision. There is therefore a window of opportunity for big business to provide leadership on important policy issues.

As a starting point, we must communicate better the role and contribution of business towards making Australia the best place to live, work, learn, and do business. This means not only communicating our contribution to a growing economy, but also demonstrating how we are meeting our environmental and social commitments and responsibilities.

The Group of 100's guide provides a clear, straightforward and honest explanation of this rapidly evolving area. Much has been written on triple bottom line reporting and other models for communicating corporate financial, environmental and social performance. A growing number of companies are also developing and testing approaches that suit their individual circumstances. In this environment, senior executives can face a mountain of information, with no clear starting point for their own adoption of the triple bottom line. The Group of 100's "Sustainability: A Guide to Triple Bottom Line Reporting" now provides that starting point.

A handwritten signature in dark ink that reads "John Schubert". The signature is written in a cursive, slightly slanted style.

John Schubert
President
Business Council of Australia

Preface

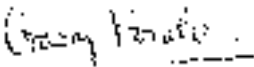
This guide to Triple Bottom Line Reporting has been prepared by a Working Party convened by the Group of 100, with drafting assistance from Ernst & Young. The Group of 100 is an association of senior accounting and finance executives representing the major companies and government-owned enterprises in Australia.

The purpose of the guide is to provide senior executives with a high level understanding of Triple Bottom Line (sometimes referred to as Sustainability or Sustainable Development) Reporting.

In this Guide, the term Triple Bottom Line is used to denote any form of communication of environmental, social and economic information to stakeholders. It does not assume that a formal publicly available Triple Bottom Line Report is the only means of reporting such information, although it does provide guidance to leading practice in this regard.

Triple Bottom Line Reporting must be linked with business strategy, otherwise it has no relevance. It must also be presented in a way that is meaningful to the stakeholders to whom it is addressed.

The concept that businesses should be managed in a way that takes into account the environmental, social and economic impact on their stakeholders is generally accepted by business. This booklet attempts to cut through the jargon and provide an easy-to-read guide on the options for reporting this type of information, as well as outlining the potential benefits and pitfalls.



Garry Fowler
Chairman of the Working Party

Executive Summary

Background

The trend towards greater transparency and accountability in public reporting and communication is reflected in a progression towards more comprehensive disclosure of corporate performance to include the environmental, social and economic dimensions of an entity's activities.

Reporting information on any one or more of these three elements is referred to as TBL reporting throughout this publication.

This trend is being largely driven by stakeholders, who are increasingly demanding information on the approach and performance of companies in managing the environmental and social/community impact of their activities and obtaining a broader perspective of their economic impact.

This booklet does not intend to prescribe how companies should approach the public reporting of economic, environmental and social information. It aims to provide senior executives with a concise guide to TBL reporting, and offer insight into some of the key issues and challenges it presents.

Alignment with business strategy

TBL reporting has little relevance to the reporting company or its stakeholders if it is not aligned to the company's overall business strategy.

A decision to move to full TBL reporting should not be taken lightly. It must have senior management endorsement and commitment, as it may have major resource implications, and a half-hearted approach is likely to be worse than not adopting it at all.

Benefits in TBL reporting

The business case for TBL reporting centres on improved relationships with key stakeholders such as employees, customers, investors and shareholders. Specific commercial advantages include:

- Enhancement of reputation and brand;
- Securing a ‘social licence to operate’;
- Attraction and retention of high calibre employees;
- Improved access to investors;
- Reduced risk profile;
- Identification of potential cost savings;
- Increased scope for innovation;
- Aligning stakeholder needs with management focus; and
- Creation of a sound basis for stakeholder dialogue.

Forms of reporting

A number of options, ranging from the inclusion of minimal TBL-related information within statutory reporting through to the publication of a full TBL report, are available to companies considering TBL reporting.

In choosing an appropriate path forward, companies are likely to take into account a diversity of factors including: the overall strategic objectives; current capacity to report; prioritisation of stakeholder requirements; and the reporting activities within the industry sector.

Relationship with financial reporting

The information contained within a TBL report is of a different nature to that included in a financial report. However, TBL reporting enables environmental and social risks that have the capacity to materially affect financial performance to be identified and, therefore, taken into consideration when preparing financial reports.

Implementation and strategy

Critical issues for consideration in the development and implementation of TBL reporting include: clear definition of the role of TBL reporting in driving strategic business objectives; establishment of the resource and cost requirements; awareness of associated legal implications; and understanding the risks involved in publishing TBL information.

Key challenges associated with implementation include:

- Awareness of relevant issues associated with TBL reporting;
- Understanding stakeholder requirements;
- Aligning TBL reporting with objectives and risks; and
- Determining and measuring performance indicators.

The importance of metrics and performance indicators

The use of appropriate performance indicators, presented in a consistent and recognisable manner, can distil a large amount of complex information into a relevant and readily understood form. It is important that companies develop indicators that reflect their own strategic objectives and the requirements of key stakeholder groups.

The role of the Chief Financial Officer (CFO)

A range of individuals and groups within a company will play a role in the implementation of TBL reporting. The role of the CFO will include: ensuring the accuracy of financial and economic data, overseeing the financial efficiency of the reporting process, and reviewing the report to assess any risks associated with statements or information within the report. In addition, the CFO may be given the role (by the Board) of assuring the accuracy and integrity of the non-financial data contained within the report.

Verification

Independent verification of TBL reports is being sought by an increasing number of companies to provide assurance about the reliability and integrity of the reporting process and to enhance the report's credibility.

1. Introduction

Overview

The Group of 100 established a Triple Bottom Line Working Party to prepare a guide to reporting on environmental, social and economic performance. This form of reporting is referred to as Triple Bottom Line (TBL) reporting throughout this publication, and applies to reporting information in any one or more of these three dimensions. It provides general guidance on the options for the form and content of such reporting, and addresses some of the specific issues associated with the development and implementation of TBL reporting.

The business community has, in a sense, embarked on a journey towards greater transparency and accountability in its reporting – this is reflected in a progression towards more comprehensive disclosure of corporate performance to include environmental, social and economic factors. Indeed, many companies are already communicating these aspects of corporate performance to their stakeholders.

Purpose

This booklet is not intended to prescribe how companies should approach public reporting of economic, environmental and social information; nor does it presume that companies should be communicating with stakeholders on these aspects of corporate performance.

The purpose of this booklet is to provide an explanatory guide for senior executives thinking about TBL reporting, to outline the concepts, and to provide assistance in relation to some of the key issues associated with TBL reporting, including:

- What is TBL reporting?
- What are the potential benefits and pitfalls?
- How could I respond?

This guide seeks to cut through the enormous body of information on this subject and provide clarity for senior executives in relation to some of the key issues associated with TBL reporting.

The Australian business perspective

TBL reporting is assuming increasing prominence on the agendas of a number of major Australian industry bodies including the Business Council of Australia (BCA), the Australian Institute of Company Directors, The Institute of Chartered Accountants in Australia, and a range of other professional and representative groups.

For example, the BCA has released two major documents relating to sustainable development and TBL reporting: a *Statement on Strategies for Sustainable Development (May 2001)*, and *Public Environmental Reporting – An Issues Paper (December 2000)*.

Some TBL information has been reported for a number of years and it is now being recognised by a wider audience as a major tool to support companies in demonstrating their commitment to sustainable development.

This booklet seeks to explain TBL reporting in the broader context of the Australian business community's approach to sustainable development.

Alignment with business strategy

TBL reporting has little relevance to its stakeholders or the reporting company if it is developed independently of the company's overall business strategy.

A critical decision that needs to be made early in the process is what needs to be reported to stakeholders to support a company's strategic agenda if the reporting is not simply to become what is often referred to as "greenwash" – information that is disclosed by a company seeking to improve its image without any substantive intention to use the data to improve its performance.

A range of strategic drivers is likely to underlie any decision to publish TBL information. These drivers are discussed at greater length in the section entitled Why Report – The Business Benefits in Reporting and include securing competitive advantage, and maintaining pace with developments within the industry sector.

For example, in this context, a company may choose to move to the leading edge of TBL reporting in their industry in order to support its strategic objectives. Alternatively, the company may opt for direct communication with specific stakeholders and limit other public reporting to its statutory obligations.

The senior management should take this decision because it should not be taken lightly. It has important resource implications and an inappropriate approach may be worse than not adopting it at all. For success it relies on a company having as one of its values open and on-going communication with its stakeholders.

While TBL reporting is often published separately from statutory financial reporting, the success (or otherwise) that such reporting has in driving achievement of overall strategic objectives has important implications for financial performance.

2. Background and Context

What is triple bottom line reporting?

There is no single, universally accepted definition of TBL reporting. In its broadest sense, and for the purposes of this booklet, TBL reporting is defined as corporate communication with stakeholders that describes the company's approach to managing one or more of the economic, environmental and/or social dimensions of its activities and through providing information on these dimensions.

Consideration of these three dimensions of company management and performance is sometimes referred to as sustainability or sustainable development. However, the term TBL is used throughout this booklet.

In its purest sense, the concept of TBL reporting refers to the publication of economic, environmental and social information in an integrated manner that reflects activities and outcomes across these three dimensions of a company's performance.

Economic information goes beyond the traditional measures contained within statutory financial reporting that is directed primarily towards shareholders and management. In a TBL context, economic information is provided to illustrate the economic relationships and impacts, both direct and indirect, that the company has with its stakeholders and the communities in which it operates.

The concept of TBL does not mean that companies are required to maximise returns across three dimensions of performance – in terms of corporate performance, it is recognized that financial performance is the primary consideration in assessing its business success.

Trend towards triple bottom line reporting

Companies are increasingly including economic, environmental and social information in their public reporting, in addition to the financial information required for statutory reporting. For some companies, this involves publication of a separate report or reports. For others, it involves including such information within their annual reporting to shareholders.

A number of factors are driving this shift in public reporting, including response to mandatory requirements; consistency with emerging public commitments by business through voluntary codes of behaviour or charters and their associated business and signatory requirements; and the increasing and changing demands from stakeholders for greater transparency about operating policies and results. Stakeholders are placing increasing emphasis on understanding the approach and performance of companies in managing the environmental and social/community impact of their activities, and on obtaining a broader perspective of the economic impact of companies.

The importance of stakeholders

Stakeholders typically include the following groups:

- Shareholders and investors;
- Employees;
- Customers;
- Suppliers;
- Community;
- Commonwealth, State and Local governments;
- Other stakeholders, including: business partners, local authorities and regulatory bodies, trade unions, and non-governmental organizations.

It is impossible for a company to accommodate the often-competing interests of all stakeholder groups in its public reporting. Essentially the company will seek to prioritise among these stakeholder groups and target its reporting to those stakeholder groups, and on those issues most critical to the company's success.

As TBL reporting develops, increased attention will be given to its role as part of an integrated communications strategy seeking to meet the requirements of *key* stakeholder groups – the delivery of such ‘stakeholder appropriate’ reporting is seen to provide greater value to the reporting company and better communicate information to the respective stakeholders to whom the reporting is directed.

Why report – the business benefits in reporting

A substantial and varied body of literature dealing with the ‘business case’ for TBL reporting has been developed during the last five to ten years.

Alignment of company reporting with the expectations of key stakeholders serves to improve the quality of a company's relationships with such stakeholders and thus protect and enhance the value of the organisation. Some of the specific organisational benefits identified include:

- *Reputation and brand benefits* – corporate reputation is a function of the way in which a company is perceived by its stakeholders. Effective communication with stakeholders on one or more of the environmental, social, and economic dimensions can play an important role in managing stakeholder perceptions, and, in doing so, protect and enhance corporate reputation.
- *Securing a ‘social licence to operate’* – a ‘licence to operate’ is not a piece of paper, but informal community and stakeholder support for an organisation's operations. Business is increasingly recognising the link between ongoing business success and its ‘licence to operate’, especially in the resources sector where the concept of a social licence to operate has been central for some years. Communication with stakeholders is often critical to securing and maintaining a ‘licence to operate’

Communities and stakeholders generally, are likely to be more supportive of companies that communicate openly and honestly about their management and performance in relation to environmental, social and economic factors.

- *Attraction and retention of high calibre employees* – existing and prospective employees have expectations about corporate environmental, social and economic behaviour, and include such factors in their decisions. The publication of TBL-related information can play a role in positioning an employer as an ‘employer of choice’ which can enhance employee loyalty, reduce staff turnover and increase a company’s ability to attract high quality employees.
- *Improved access to the investor market* – a growing number of investors are including environmental and social factors within their decision-making processes. The growth in socially responsible investment and shareholder activism is evidence of this. Responding to investor requirements through the publication of TBL-related information is a way of ensuring that the company is aligning its communication with this stakeholder group, and therefore enhancing its attractiveness to this segment of the investment market.
- *Establish position as a preferred supplier* – obtaining a differentiated position in the market place is one way to establish the status of preferred supplier. Effectively communicating with stakeholder groups on environmental, social and economic issues is central to obtaining a differentiated position in the market place.
- *Reduced risk profile* – there is an expanding body of evidence to suggest that performance in respect of economic, social and environmental factors has the capacity to affect the views of market participants about a company’s exposure to, and management of, risk. TBL reporting enables a company to demonstrate its commitment to effectively managing such factors and to communicate its performance in these areas. A communication policy that addresses these issues can play an important role in the company’s overall risk management strategy.

- *Cost savings* – TBL reporting often involves the collection, collation and analysis of data on resource and materials usage, and the assessment of business processes. For example, this can enable a company to better identify opportunities for cost savings through more efficient use of resources and materials.
- *Innovation* – The development of innovative products and services can be facilitated through the alignment of R&D activity with the expectations of stakeholders. The process of publishing TBL reporting provides a medium by which companies can engage with stakeholders and understand their priorities and concerns.
- *Aligning stakeholder needs with management focus* – External reporting of information focuses management attention on not only the integrity of the data but also the continuous improvement of the indicator being reported.
- *Creating a sound basis for stakeholder dialogue* – Publication of TBL reporting provides a powerful platform for engaging in dialogue with stakeholders. Understanding stakeholder requirements and alignment of business performance with such requirements is fundamental to business success. TBL reporting demonstrates to stakeholders the company's commitment to managing all of its impacts, and, in doing so, establishes a sound basis for stakeholder dialogue to take place.

In addition to the benefits obtained through superior relationships with key stakeholder groups, the decision to be publicly accountable for environmental and social performance is often recognised as a powerful driver of internal behavioural change. The availability of relevant information on economic, environmental and social performance that previously may not have been collected and evaluated in a readily understood manner may enable executives to identify and focus attention on specific aspects of corporate performance where improvement is required.

3. Detailed Guidance

Relevant literature

A vast body of literature is available for executives seeking detailed guidance on TBL reporting. Internationally, the most prominent, comprehensive and generally accepted guidance is that published by the Global Reporting Initiative (GRI).

Within Australia, Environment Australia has published a framework for public environmental reporting, which forms one element of TBL reporting. In addition, Environment Australia and the Federal Department of Family and Community Services (DFACS) are currently developing environmental and social indicators, respectively, for TBL reporting in Australia, based on the GRI.

Global Reporting Initiative

The GRI began in 1997, with Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Program combining activities with a view to enhancing the quality, rigor, usefulness and consistency of TBL reporting. Support for the GRI has grown significantly since inception, and it now enjoys the backing and involvement of a broad range of parties that have worked to establish a set of internationally acceptable reporting guidelines.

Sector Supplements, Issue Guide Documents, and Technical protocols will supplement the *Guidelines* in time. However, the *Guidelines* is the foundation document, with all additional guidance based upon it. As of December 2002, Sector Supplements were available for Financial Services, Mining and Tour Operators, with Automotive sector supplements under development.

While the *Guidelines* provide a valuable framework for assisting companies with the development of TBL reporting, the GRI acknowledges that companies will choose an approach that best suits their specific circumstances, as well as an incremental approach in applying the *Guidelines*.

The *Guidelines* can be accessed using the internet address:
www.globalreporting.org/GRIGuidelines/2002/gri_2002_guidelines.pdf

A Framework for Public Environmental Reporting – An Australian approach

In response to the growing incidence of public reporting of environmental performance information in Australia, Environment Australia published the *Australian Framework* to provide simple and effective guidance on how and what to report, and to facilitate the disclosure of environmental performance information from both public and private sector entities. It is structured to be compatible with the GRI *Guidelines*.

The *Australian Framework* provides an eight-step process that companies and other organisations could follow in preparing a public environmental report. While *Australian Framework* is focused on environmental reporting, the steps within the framework are equally applicable to other aspects of TBL reporting.

A listing of useful references containing more detailed information and other source materials on TBL is provided in Appendix A.

Examples of leading reporters by industry sector

It is important to realise that TBL reporting is at an early, innovative stage and that there are no detailed rules governing format, or mandated standards for reporting or verification.

Appendix B provides web site links to some examples of leading practice in TBL reporting by industry sector. While it is not exhaustive, it illustrates some practical examples of the approach to TBL reporting adopted by a range of companies.

Qualities and characteristics of information in TBL reports

TBL reports usually contain both qualitative and quantitative information. In order for all reported information to be credible, regardless of whether the information is qualitative or quantitative, it is suggested that it should possess the following characteristics. These include:

Reliability – information should be accurate, and provide a true reflection of the activities and performance of the company.

Usefulness – the information must be relevant to both internal and external stakeholders, and be relevant to their decision-making processes.

Consistency of presentation – throughout the report there should be consistency of presentation of data and information. This includes consistency in aspects such as format, timeframes, graphics, and metrics.

Full disclosure – reported information should provide an open explanation of specific actions undertaken and performance outcomes.

Reproducible – information is likely to be published on an ongoing basis, and companies must ensure that they have the capacity to reproduce data and information in future reporting periods.

Auditability – alignment with the trend towards external verification requires that all statements and data within the report be able to be readily substantiated.

Where the reported information possesses these characteristics, the reporting company is able to present objective, balanced and credible information that delivers benefits to both the reporting company and its stakeholders, while also minimising any potential reputation risk associated with the publication of TBL reporting.

4. Forms of Reporting

There are a number of different options available for any company considering TBL reporting, including:

- Inclusion of environmental and social information within annual reporting to shareholders;
- A separate environment report or community report;
- Separate environment and social reports;
- Combined social and environment report;
- Full TBL report; and
- Any other form of communication with stakeholders.

Appendix C contains web site links to examples of these different types of TBL reporting.

Any of these forms of reporting may be published as a reporting document or may be made publicly available on the company web site. Most reporting companies make hard copy publications available and also provide access to the report through the company web site.

The advantage of web-based reporting is that it can be kept up to date on a regular basis whereas a published report becomes out of date over time. The former also allows easier access to stakeholder feedback and the possibility of real time engagement on issues that have current impact.

The decision to undertake TBL reporting is a journey – a company’s initial approach likely to be considerably different from that adopted in future years. Yet it is a journey that, once commenced, is very difficult to reverse.

Choosing a path forward

A diversity of factors will determine the initial approach and path forward, including:

- Overall company strategy;
- The nature and form of any environmental and social reporting the company has already undertaken;
- Prioritisation of stakeholders' informational needs;
- Sector specific considerations;
- Company objectives in relation to public reporting; and
- Existing capability to report – resource availability, internal systems, access to data, and availability of reliable data on an ongoing basis.

Whilst the information needs and expectations of a diverse range of stakeholders could be taken into account, companies should limit their reporting to information that is required by key stakeholders. The delivery of such 'stakeholder appropriate' reporting is seen to provide greater value to both the reporting company and the stakeholders to whom the reporting is directed.

Similarly, the specific mode of reporting adopted should reflect the nature of the company's business activities. For example, a financial services company would be expected to focus its reporting on community / social aspects, whereas an oil refinery would be expected to focus primarily on environmental aspects. That is not to dismiss the importance of the environmental impacts associated with the financial services industry nor the social impact associated with an oil refinery, but is illustrative of where allocation of resources and effort are likely to be prioritised.

A reporting progression

A possible progression over a number of years for a company choosing to communicate TBL-related information is set out below.

A Progression Towards Triple Bottom Line Reporting

1. Brief marketing publications including newsletters and brochures
2. Inclusion of limited environmental/ social information within statutory reporting
3. Commencement of consistent annual reporting on environmental/ social issues, primarily descriptive in nature with minimal quantitative data
4. Publication of separate environment and/or community reports (emergence of independent report verification)
5. Annual reporting based upon detailed environmental/ social performance data with clear linkage to objectives and outcomes. The report is publicised and provided through a range of distribution channels to stakeholders
6. Integration of economic, environmental and social performance measurement into a single report – Triple Bottom Line reporting

This table is a means of indicating that there is no “one size fits all” approach to communicating TBL-related information to stakeholders.

As discussed above, for companies to derive maximum value from public reporting, alignment with stakeholder requirements, and maintaining the qualitative characteristics of reported information is critical.

For some companies, those forms of reporting identified in the early stages of the progression may be most suitable for the stakeholder groups to whom such reporting is targeted and, accordingly, any progression towards full TBL reporting is likely to be inappropriate, at least initially.

5. Implementation and Strategy

In order to maximise the benefits associated with TBL reporting, development and implementation of TBL reporting should be integrated with overall business strategy and objectives.

Key issues for consideration in the development and implementation of TBL reporting include: a clear definition of the role of TBL reporting in driving strategic business objectives; establishment of the resource and cost requirements; awareness of any associated legal implications; and understanding the risks involved in publishing TBL information.

A decision to move to full TBL reporting should not be taken lightly. It must have senior management endorsement and commitment, as it may have major resource implications, and a half-hearted approach is likely to be worse than not adopting it at all.

The reporting process

The major steps involved in undertaking the reporting process are:

1. Planning for Reporting

- Understand the national, international and industry sector trends in TBL reporting
- Identify key stakeholders
- Establish the ‘business case’ and set high-level objectives for TBL reporting
- Secure support from the Board and senior executives
- Identify resource requirements and determine budget

2. *Setting the Direction for TBL Reporting*

- Engage with stakeholders to understand their requirements
- Prioritise stakeholder requirements and concerns
- Set overall objectives for TBL reporting
- Review current approach and assess capability to deliver on reporting objectives
- Identify gaps and barriers associated with current approach, and prioritise risks associated with overall reporting objective
- Review of associated legal implications
- Develop TBL reporting strategy
- Determine performance indicators for inclusion in report
- Establish appropriate structure and content of the report

3. *Implementation of TBL Reporting Strategy*

- Implementation of TBL reporting strategy (including required data collection and review processes)
- Clarify relationship to statutory financial reporting

4. *Publication of TBL Report*

- Prepare draft report
- Review content and structure of report internally, and modify accordingly
- Obtain independent assurance – external verification
- Publish TBL report
- Seek feedback from stakeholders and incorporate into planning for the next period's reporting.

Key challenges

Specific challenges associated with TBL reporting vary from company to company and between industry sectors. In working to overcome challenges associated with the implementation of TBL reporting, the principal areas requiring specific effort include:

- Gaining an awareness of relevant issues associated with TBL to the reporting organisation;
- Obtaining an understanding of the requirements of key stakeholders in relation to public reporting;
- Achieving clarity in relation to the company's objectives and the risks related to reporting; and
- Determining key indicators of environmental, social and economic performance, and basis of measurement.

Managing key challenges

Matters to be considered in addressing challenges in implementation of TBL reporting are summarized in Table 1 on page 26.

Guidelines, frameworks and toolkits have been developed with the purpose of achieving greater standardisation and consistency in TBL reporting. However, given the unique circumstances and issues in different industry sectors, a uniform "one size fits all" approach across all industry sectors is neither practical nor appropriate.

Table 1. Managing Key Challenges

Key Challenge	Approach to Overcoming Key Challenge
Awareness of the relevance of TBL	<ul style="list-style-type: none"> • Review of international, national and industry sector trends in TBL reporting • Review of competitor activity in TBL reporting <ul style="list-style-type: none"> ■ Assessment of the business implications for the company
Understanding key stakeholder requirements & expectations	<ul style="list-style-type: none"> • Identify stakeholders • Engage in dialogue with key stakeholders <ul style="list-style-type: none"> ■ Insight into stakeholder expectations
Clarity in relation to objectives & risks	<ul style="list-style-type: none"> • Engage senior executives in order to gain their perspective • Assess current capability to meet stakeholder expectations <ul style="list-style-type: none"> ■ Determination of objectives & awareness of risks
Measurement of key aspects of Triple Bottom Line performance	<ul style="list-style-type: none"> • Development of KPIs and metrics <ul style="list-style-type: none"> ■ Ensure alignment with stakeholder expectations and company objectives

The importance of metrics and performance indicators

The use of appropriate measurement indicators, presented in a consistent and recognisable manner, can distil a large amount of complex information into a relevant and readily understood form. The development of TBL metrics is consistent with a broader trend towards enhanced transparency in communication of information about corporate activity and performance.

Questions to consider when assessing measurement indicators for inclusion in Triple Bottom Line reports:

- Does the indicator address the requirements and concerns of key stakeholders?
- Is the indicator aligned to company objectives and policy?
- Will the indicator provide management with information to guide decision-making?
- Does the indicator adequately convey information about performance that is specific to the industry sector?
- Does the indicator facilitate comparison with competitors?
- Can internal systems generate accurate, reproducible data?
- What is the risk in publishing a specific measure of performance?
- Is it a significant management issue for the reporting entity?

In order to develop metrics that provide a meaningful measure of performance, companies must identify the factors that drive business value and understand the sources of such value. They should seek to identify and develop measurement indicators that align with stakeholder needs and expectations, are consistent with company objectives and strategy, and drive tangible business improvement.

The GRI has committed significant effort to the development of sustainability/TBL indicators and, while prescriptive in approach, these have obtained broad acceptance. The GRI has established two groups of indicators – “Core Indicators” and “Additional Indicators”. Companies stating that they comply with the GRI Guidelines are expected to apply the core indicators or explain why such indicators are not applicable.

Additional indicators are those to be used at the discretion of the reporting company. The GRI approach classifies indicators in the three areas of company impact: economic, environmental and social; with each area being further subdivided into Categories and Aspects as illustrated in Table 2. “Core” and “Additional” indicators are then prescribed for each category.

While providing a useful framework for considering performance indicators, the reality for a majority of Australian companies that do not undertake operations in developing countries is that a number of the areas of measurement listed in the *Guidelines* will bear little relevance to their specific business activities.

This reinforces the importance of reporting companies developing indicators in a structured way that reflects their own objectives and the requirements of key stakeholder groups.

Performance indicators are detailed for each of the aspects detailed in Table 2. For example, in the Social Performance Indicators category of Labour practices and decent work, under the aspect of Employment, the *Guidelines* propose the following specific core indicators:

- Breakdown of workforce (where possible) by:
 - Region/country
 - Status (employee/non-employee)
 - Employment type (full time/part time)
 - Employment contract (indefinite, fixed term or temporary)
- Identify workers retained in conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region/country.
- Net employment creation and average turnover segmented by region/country.

The following additional indicators are also proposed under the aspect of Employment:

Employee benefits beyond those legally mandated (e.g. contributions to health care, disability, maternity, education, and retirement).

Table 2. GRI Indicator Matrix

INDICATOR TYPE	CATEGORY	ASPECT
Economic Performance Indicators	Direct Economic Impacts	Customers
		Suppliers
		Employees
		Providers of Capital
		Public Sector
Environmental Performance Indicators	Environmental Impacts	Materials
		Energy
		Water
		Biodiversity
		Emissions, effluents & waste
		Suppliers
		Products and services
		Compliance
		Transport
Overall		
Social Performance Indicators	Labour practices and decent work	Employment
		Labour management/ relations
		Health and safety
		Training and education
		Diversity and opportunity
	Human rights	Strategy and management
		Non-discrimination
		Labour / management relations
		Freedom of association & collective bargaining
		Child labour
		Forced and compulsory labour
		Disciplinary practices
		Security practices
	Indigenous rights	
	Society	Community
		Bribery and corruption
		Political contributions
Product responsibility	Competition and pricing	
	Customer health and safety	
		Products and services

Alignment with business strategy and objectives

The decision to publish a TBL report will be driven primarily by the strategic direction of the company and the need for competitive advantage from being transparent in reporting TBL performance indicators.

Management of these factors is a core element of overall enterprise strategy. In order for TBL reporting to drive maximum value, it is essential that the information reported aligns with business strategy and objectives and accurately reflects the focus of company activity in these particular areas. This serves to reinforce the importance of companies developing indicators in a structured way that reflects their objectives and the requirements of key stakeholder groups.

Relationship with financial reporting

The information contained in a TBL report is of a different nature to that included in a financial report, often examining micro-aspects of performance that underlies some of the information included in financial reports.

Implementing TBL reporting enables a company to identify specific aspects of performance that, if modified, can drive superior financial performance. This may be achieved through the collection and analysis of relevant and tangible information that facilitates:

- Identifying opportunities for cost savings through a better understanding of the usage of energy, raw materials and other inputs to production;
- Enhancing reputation through clear awareness of regulatory breaches;
- Determining additional revenue opportunities through sale of waste streams or used materials; and
- A broader understanding of the company's risk profile and exposures.

With the increasing focus on corporate governance practices and transparent disclosure, information on a company's risk exposures and the management of these exposures is increasingly reflected in financial reporting disclosures and

the directors' review of operations and financial condition. TBL reporting enables environmental and social risks that have the capacity to materially affect financial performance to be identified and, therefore, included in financial reports. For example, in the United States of America disclosure of such risks is reported to comply with the Securities and Exchange Commission's requirements, in Australia directors are required to make disclosures about environmental factors in the directors' report.

Disclosure of TBL-related information is assuming growing importance within the finance sector, particularly in respect of investment products. The publication of such information in a manner that aligns with the presentation of information in financial reports will enhance the credibility of TBL reporting within the finance industry.

Key individuals in the reporting process and the role of the Chief Financial Officer

The key individuals and groups within a company and their primary role in implementing TBL reporting typically include:

Chairman and the Board of Directors – the Board must be aware of all public reporting, including non-financial reporting. A statement or 'message' from the Chairman can provide the report with additional profile and credibility.

Chief Executive Officer – support and commitment from the CEO is critical to achieving the objectives of TBL reporting. A statement within the report from the CEO enhances the credibility of the report. The CEO should review the report to assess any risks associated with statements made, or information within the report.

Chief Financial Officer – a key role of the Chief Financial Officer (CFO) is to ensure accuracy of financial and economic data, oversee the financial efficiency of the reporting process, and review the report to assess any risks associated with statements or information within the report. In addition, the CFO may be given the role (by the Board) of assuring the accuracy and integrity of the non-financial data contained within the report.

Corporate Affairs, Public Relations, Investor Relations – provide guidance in relation to presentation and effect to maximise the impact of the report.

Sustainability Leader – for those companies with a person responsible for implementation of sustainability / TBL, it is likely that such a person will coordinate the reporting project, and play a lead role in the process of identifying and engaging with stakeholders.

Business Unit Heads – ensure that any information in relation to specific business units accurately reflects activity and performance.

Legal – review report to provide assurance that there are no adverse legal implications associated with publication of the report.

Sales and Marketing – utilising the TBL report and the company’s approach to business contained within the report within sales and marketing strategy to drive competitive advantage.

In smaller organisations some of these roles will often be combined and carried out by one individual.

6. Verification

Options for verification

Independent verification of TBL reports is being sought by an increasing number of companies to provide assurance about the reliability and integrity of the reporting process and to enhance the credibility of the report. There are currently no statutory requirements or generally accepted standards in relation to the preparation, publication and attestation of TBL reports.

Accordingly, a customised approach is usually adopted, based upon agreed procedures between the reporting company and the company or individuals providing independent verification. Such agreed upon procedures vary from verification of specific data and underlying processes through to substantiation of material facts and assertions or a combination of both.

There are also options available to companies in relation to who conducts the verification, ranging from the 'Big Four' chartered accounting firms and major engineering consultancies, who have practices specialising in verification of all three elements of TBL reporting through to smaller boutique environmental and social consultancies or individuals with strong social credentials. The choice of the type of verification required will influence the selection of the verifier/s of the report.

There are some emerging voluntary guidelines designed to assist the development of consistency in the verification process. These include:

- The Global Reporting Initiative; and
- The AA1000 Assurance Standard Guiding Principles consultation document published in June 2002 by the Institute of Social and Ethical Accountability.

The trend towards more transparent public reporting of corporate performance is likely to result in increased incidence of independent verification of such reporting, and greater standardisation of the verification and assurance process.

Global Reporting Initiative

The GRI *Guidelines* contain information to assist companies seeking to enhance the credibility of their reports through independent verification and assurance. The *Guidelines* highlight five critical areas for consideration by those companies seeking independent assurance:

Internal information systems and processes – investigation and evaluation of the effectiveness of internal systems and processes to provide accurate and meaningful data.

The assurance process – in order to provide value to the reporting company, the assurance process must provide assurance in relation to subject matter, evidence, control systems, and the usefulness of reported information.

Selection of assurance providers – the assurance provider should be independent, be able to balance stakeholder and company needs, have no conflict of interest, be able to commit sufficient time and appropriate resources.

Director’s responsibilities – recognition by the Board of the role of the assurance provider and ensuring that sufficient resources and access is made available to the assurance provider serves to enhance the process.

Assurance statements/reports – the GRI offers guidelines on the minimum requirements for inclusion in assurance statements and reports.

In addition, the *Guidelines* identify several issues that companies and other organisations should consider in choosing an independent assurance provider.

AA1000 Assurance Standard

The AA1000 Assurance Standard has developed an approach for assurance providers to assess the credibility of publicly reported TBL related information. Verification of TBL reports in accordance with the AA1000 Assurance Standard must apply the AA1000 Assurance Principles.

The AA1000 Assurance Principles are:

Completeness – the inclusion of all appropriate information.

Materiality – information is seen to be material if it would reasonably influence the conclusions and decisions of the report’s users; and misinformation is material if it would have a similar influence.

Responsiveness – refers to a commitment to continuous improvement in relation to its impacts, stakeholder concerns and relevant standards.

Accessibility – effective communication of TBL information in a manner that is readily accessible and affordable for the stakeholder.

Evidence and Assurance Approaches – concerns the evaluation of the supporting data, systems, policies and procedures.

In developing an approach to reporting, companies should be mindful that at some point in the future they are likely to require independent verification of their reporting, underlying systems, and policies. In this context procedures should be developed in such a way as to facilitate verification and assurance processes.

Advantages in verification

The primary advantage in seeking external verification and assurance of TBL reporting is to provide the board, senior executives and external stakeholders with assurance of the credibility of the information reported.

The major benefits in obtaining independent verification and assurance are:

- Enhanced corporate profile and external credibility;
- Management assurance that policies and procedures are being followed;
- Improved trust and confidence of stakeholder groups; and
- Reduction of risk to the reporting company.

The decision to publish a TBL report has the potential to expose a company to additional risk in relation to the reliability of the report's content – stakeholders may hold the company accountable for the information reported. If information reported is lacking credibility and cannot be readily substantiated there is a risk of reputation damage, erosion of brand, negative media publicity and a general loss of stakeholder support and trust.

Independent verification that provides the Board and senior executives with assurance as to the accuracy and reliability of reported statements and information is seen as a most effective means of managing this risk.

Notes

Appendix A: Useful publications and web sites

Australia	Source
Public Environmental Reporting Framework 2000	Environment Australia
Australian Minerals Industry Code for Environmental Management 2000	Australian Minerals Industry
Statement on Strategies for Sustainable Development	Business Council of Australia
Public Environmental Reporting - An Issues Paper	Business Council of Australia
Triple Bottom Line Toolkit	City of Melbourne and International Council for Local Environment Initiatives
Various publications and articles	Australian Corporate Citizenship Alliance
A Directory of Resources Promoting Responsible and Sustainable Business and Society	City of Melbourne and Corporate Citizenship Research Unit, Deakin University

Subject Matter	Website
Process for preparation of public environmental reports	www.ea.gov.au/industry/sustainable/per/publications.html
Guidelines for environmental reporting	www.minerals.org.au
High-level strategies for companies adopting principles of sustainable development	www.bca.com.au
A summary overview of some of the key issues associated with public environmental reporting.	www.bca.com.au
Triple Bottom Line decision making and reporting toolkit for local councils	www.iclei.org/anz/tbl/tbl.htm
Topical information on sustainable development and triple bottom line reporting	www.accalliance.asn.au
Networks and organizations in Australia and overseas	www.accalliance.asn.au

Appendix A: ... Continued

International	Source
Global Reporting Initiative - 2002 Sustainability Reporting Guidelines	Global Reporting Initiative
Various publications	Association of Chartered Certified Accountants
Measuring Eco-Efficiency: A Guide for Companies to Report Performance	World Business Council for Sustainable Development
AA1000	Institute of Social and Ethical Accountability
SA8000	Council on Economic Priorities Accreditation Agency
European Chemical Industry Council - Responsible Care Guidelines	European Chemical Industry Council
Coalition for Environmentally Responsible Economies (CERES) Report Requirements	CERES

Subject Matter	Website
A common framework to guide reporting of economic, social and environmental information	www.globalreporting.org
A guide to economic, social and sustainability reporting through the internet	www.accaglobal.com/publications/environment
Guidance assisting companies report on environmental initiatives and environmental performance	www.wbcsd.org
Guidance on development of effective stakeholder engagement processes, and linkages with KPIs & reporting	www.accountability.org.uk/aa/1000
A standard for social accountability that incorporates verification	www.cepaa.org/publications/sa8000.htm
Guidelines on Health, Safety and Environment reporting for the chemical industry	www.cefic.be/about/
Guidelines to assist organizations shift reporting from alignment with CERES principles to GRI requirements	www.ceres.org

Appendix A: ... Continued

International	Source
Corporate Social Responsibility - A survey of global companies	Ernst & Young
Environmental Reporting 2000: The PIRC Survey of the FTSE All Share Index (2000)	Pensions Investment Research Consultants
KPMG International Survey of Corporate Social Responsibility Reporting 2002	KPMG & University of Amsterdam
Association of British Insurers Guidelines 2001	Association of British Insurers

Subject Matter	Website
A survey of Global 1,000 companies on corporate perceptions, strategies and activities in relation to CSR and CSR reporting.	www.ey.com
Published survey on environmental reporting undertaken by companies in the FTSE All Share Index	www.pirc.co.uk
An international survey of the environmental, social and sustainability reporting of almost 2,000 companies.	www.kpmg.com
Guidelines on the reporting of social, environmental and ethical responsibility, policy and practice within annual financial reporting.	www.abi.org.uk/

Appendix B: Examples of leading practice reports by industry sector

Industry Sector	Reporting Company
Mining	WMC Ltd
	Rio Tinto Ltd
Energy	BP Australia
	Royal Dutch / Shell
Financial Services	Westpac Banking Corporation
	Credit Suisse First Boston

Report Title	Web Site Address
WMC Limited Sustainability Report	http://www.wmc.com.au/sustain/sr2001/
Rio Tinto social and environment review	http://www.riotinto.com/library/socEnvReports_2001.asp
Triple Bottom Line Report	http://www.bp.com.au/environmental_social/envirnomental.asp?menuid=g
People, Planet and Profits - The Shell Report 2001	http://www.shell.com/home/royalen/downloads/shell_report_2001.pdf
Social Accountability Report	http://www.westpac.com.au/internet/publish.nsf/Content/WISPEN+Environmental+Policy
Sustainability 2001	http://www.credit-suisse.com/en/csgn/sustainability_2001.html

Appendix B: ... Continued

Industry Sector	Reporting Company
Government Agencies	State Forests of New South Wales
Telecommunications	Singtel Optus Pty Ltd
Utilities	Anglian Water Services Ltd
Consumer Products	British American Tobacco Plc Kirin Brewery Company Ltd

Report Title	Web Site Address
Seeing - Social, Environmental and Economic Report 2000/01	<i>http://www.forest.nsw.gov.au/publication/e_sv/2000_01/default.asp</i>
Environment and Community Report 2002	<i>http://www3.optus.com.au/codocs/environ_rep_2002.pdf</i>
Transforming our World - Sustainable Development Report 2001	<i>http://www.awg.com/pdf/sd_report/sus_dev_2001.pdf</i>
British American Tobacco Social Report 2001/2002 Kirin Brewery Environmental Sustainability Report	http://www.bat.com <i>http://www.kirin.co.jp/english/company/env/index.html</i>

Appendix B: ... Continued

Industry Sector	Reporting Company
Chemicals and Pharmaceuticals	Dupont
	Novo Nordisk
Hospitality & Leisure	Camelot Group plc
Transport	British Airways Plc

Report Title	Web Site Address
Sustainable Growth 2001 Progress Report	http://www.dupont.com/corp/news/publications/dupprogress/2001USprogrept.pdf
Reporting on the Triple Bottom Line 2001	http://www.novonordisk.com/tbl2001
The Novo Group Environmental and Social Report 2000	http://www.novo.dk/esr00/
Camelot Social Report 2002	http://www.camelotgroup.co.uk/report_downloads/2002_Camelot_SR_Full.pdf
Social and Environmental Report 2002	http://www.britishairways.com/responsibility/

Appendix C: Examples of different types of reports

Form of Report	Reporting Company
Inclusion of TBL information within annual reporting	Foster’s Group ANZ Banking Group
Environment report	Telstra
Social report	Camelot Group plc
Separate environmental and social report	Cable and Wireless plc
Combined environmental and social report	Singtel Optus Pty Ltd
Full TBL report	BP Australia

Web Site Address

<http://www.fostersgroup.com/corporate/investor/reports/docs/annual2002.pdf>

http://www.anz.com.au/australia/support/library/InvestorInfo/Anz_AR_01.pdf

<http://www.telstra.com.au/sustainability/docs/pubenv01.pdf>

http://www.camelotgroup.co.uk/report_downloads/2002_Camelot_SR_Full.pdf

<http://web01.cw.com/environment/2002/pdfs/fullreport.pdf>

<http://web01.cw.com/environment/community.htm>

http://www3.optus.com.au/codocs/environ_rep_2002.pdf

http://www.bp.com.au/environmental_social/envirnomental.asp?menuid=g

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