UNIT-10 Reviewing and Reporting Environmental Performance

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Outline the role of environmental reporting
- ✓ Understand the methods and formats available for preparing and presenting reports.

Unit 10

Reviewing and reporting environmental performance

Why Manage and Report Environmental Performance?

Managing and reporting on environmental performance can lead to significant business benefits as well as benefits for the environment. Cost savings and productivity gains Businesses can save costs and increase efficiency through reducing and managing resource use. Typical areas where cost savings are identified include the use of raw materials and supplies, reductions in waste, water and energy use and transport, travel, and packaging. By reducing environmental impacts, such as waste to landfill, businesses can significantly reduce any associated taxes or levies, or avoid the cost of compliance altogether. Responsible management of risks and liabilities can lead to reduced insurance costs. Improved sales Businesses can benefit from improved reputation amongst their customers (and potential customers) by reporting on relevant environmental issues in a clear and transparent way. Good reporting improves customer confidence. Informing customers of your efforts to improve your organisation's environmental performance can lead to increased confidence in your products and services.

Preferred Supplier Status

Large organisations are increasingly requiring suppliers and contractors to submit environmental performance information to satisfy the expectations of their own shareholders. Reporting on environmental information can make you a more attractive supplier than your competitors.

74 per cent of the British population say more information on a company's social and ethical behaviour would influence their purchasing decisions. MORI CSR Study, 2003.

Increased Attractiveness to the Investment Community

Investors, financial analysts and brokers are now asking questions about the sustainability of business operations. Reporting on environmental matters provides a good indication of what measures an organisation is taking to reduce risks and develop opportunities.

Product and Service Innovation

Measuring and managing environmental impacts drives and supports innovation in product and service development, helping to secure new markets and customers or safeguard existing ones.

In Spring 2005, the Government appointed a business-led Sustainable Procurement Task Force to develop a national action plan for Sustainable Procurement across the public sector by April 2006. Public sector expenditure is over £125bn.

Employee Recruitment

Clear reporting of an organisation's efforts to manage its environmental performance helps to attract high-calibre employees as good environmental reputation and performance can be an important factor in an employee's choice of employer.

Example 1: GE's research-and-development investments in eco-friendlier technologies will rise from $700 million in 2004 to $1.5 billion in 2010. Example 2: The Carbon Trust estimates there has been over £1 billion of investment in UK clean technology companies since 2000.

Three in five people want to work for a company whose values are consistent with their own. Source: A survey of 1,200 undergraduates across the 20 largest economies in the world by Environics' Global Campus Monitor (2003).

Licence to Operate

Managing environmental impacts and minimising the organisation's impact on the environment can reduce the exposure to fines. It can improve relations with regulators and help ensure the company maintains its licence to operate by providing assurances about compliance with environmental legislation and conformity with other relevant laws and regulations.

Why use Environmental KPIs?

Environmental Key Performance Indicators (KPIs) provide businesses with a tool for measurement. They are quantifiable metrics that reflect the environmental performance of a business in the context of achieving its wider goals and objectives. KPIs help businesses to implement strategies by linking various levels of an organisation (business units, departments and individuals) with clearly defined targets and benchmarks.
The impact of environmental matters on business performance is increasing and will continue to do so. For example, poor management of energy, natural resources or waste can affect current performance; failure to plan for a future in which environmental factors are likely to be significant may risk the long-term value and future of a business. Therefore, the Government expects that businesses will need to use environmental KPIs to adequately capture the link between environmental and financial performance.

There are additional reasons why KPIs are important:

- They focus on 'key' measures – i.e. those most important to an understanding of a business and they mitigate the need for lengthy reports on a wide range of measures many of which may be less relevant; and
- New regulations such as the Business Review required by the EU Accounts Modernisation Directive require significant environmental issues to be reported using KPIs.

Many companies are already collecting the data required to report on environmental KPIs, either because they can be calculated from standard business data, such as energy bills, or because the company separately already reports such information to a regulator.

Types of Report

Companies can report on environmental matters in two contexts:

I. Mandatory reports – for example a Business Review and/or,
II. Voluntary reports – for example a Corporate Responsibility (CR) report.

Mandatory Reports

Some 89 per cent of FTSE All Share companies currently report on environmental issues in their Annual Report and Accounts according to the Environment Agency study. Many businesses will now have to produce a Business Review that will include discussion of environmental matters where necessary for an understanding of the business.

Voluntary Reports

Organisations publish environmental information in Corporate Social Responsibility (CSR), Corporate Responsibility (CR), Sustainability, or stand-alone Environmental reports. The Government does not believe that one type of report is necessarily better than another; what is important is that organisations understand and can be transparent about their actions to reduce the harmful environmental and social impacts of their activities, products and services.

These Guidelines are relevant to both mandatory and voluntary reports. In fact, the same information can be used in different reports. For example, a company might disclose its climate change performance as a part of a voluntary report, and take the view that, since this will affect the financial performance and shareholder value of the company, it should also be reported in the Annual Report or Business Review.

Guidelines and Frameworks

The increasing demand for businesses to be transparent about the environmental and other corporate responsibility challenges they face, has meant that a number of reporting guidelines and frameworks have evolved.

Reporting Guidelines and Frameworks

These Guidelines seek to help companies report their environmental impacts in a meaningful and cost-effective way and, where possible, the Government has sought to ensure that the Guidelines are consistent with other standards and reporting guidance. In a recent report, Chatham House recommended that the Government bring clarity to the international CSR agenda by supporting a limited number of 'gold standard' initiatives. One such framework proposed in the Chatham House report is the Global Reporting Initiative

(GRI) which provides a detailed, globally applicable framework for sustainability reporting. There are also a number of other reporting frameworks.

Environmental Management Systems (EMSs)

EMSs can be used by companies of all sizes as a means to improve their overall environmental performance. These systems will also provide useful information from a reporting perspective. The Government's EMS Position Statement sets out policy in this area in more detail; it recommends the following types of certified EMSs

- The global standard ISO 14001
- The European Regulation EMAS (the EU Eco Management and Audit Scheme) and

Stakeholder Engagement UNEP's

Stakeholder Engagement Manual provides comprehensive information on how a company can undertake a rigorous stakeholder engagement process.

Assurance

The use of independent third party assurance statements adds credibility to a business' reporting and provides an important feedback mechanism for the business. A number of organisations provide this service, and an assurance framework – AA1000 – has been developed.

Principles of Reporting

General principles Regardless of which framework a company uses, there are some common principles which, if followed, can provide assurance to a business and its stakeholders that appropriate processes and procedures have been followed. This information can be included in the narrative part of a report, to add context to quantitative KPIs.

Principle 1 – Transparency

Transparency is essential to producing a credible report. Internal processes, systems and procedures are just as important as the quantitative data, i.e. the value of the quantitative data will be greatly enhanced if accompanied by a description of how and why the data are collected. Particular issues which could be relevant to this principle are:

The level of public disclosure

- Responsibility for environment/sustainable development exists
- Clear definition of boundaries of the company to which the report applies, and
- An explanation of internal processes to manage and report risk.

Principle 2 – Accountability

A company can be accountable to a variety of different people for its behaviour. In a financial sense directors are ultimately accountable to the owners of the company. Particular issues which could be relevant to this principle are:

- The definition, level and nature of stakeholder engagement
- The existence and quality of a third party assurance statement
- Integration of environmental reporting within the Annual Report and Accounts, and Business Review
- The existence and success of a communications strategy, and
- The extent to which information is specifically identified and tailored to the needs of institutional investors.

Principle 3 – Credibility

It is essential that any reporting is placed in context, to link the specific impacts and understanding of the company to the wider movement by society to embed the principles of sustainable development. Particular issues which could be relevant to this principle are:

- Understanding of the concept of sustainable development and how it applies to the business;
- A company's procurement policy and efforts to manage the impacts of its supply chains and products; and,
- The existence and description of an externally certified (or other) environmental management
- system (EMS), and other data collection, measurement and management procedures.

KPI principles

In addition to these general reporting principles, there are also some common KPI-specific principles:

Principle 1 – Quantitative

KPIs should be measured, and should therefore be quantitative in nature. This also means that they can be acted upon; for example, targets can be set to reduce a particular emission if it is expressed in a quantitative term. In this way the effectiveness of environmental policies and management systems can be substantiated.
Measurement of environmental impacts often requires some form of conversion methodology or estimation, such as the estimation of carbon dioxide emissions resulting from the consumption of heating oil. There are many standards that can be used to perform this type of calculation, and it is important to report on the protocols used to determine these impacts. More information regarding relevant protocols can be found in the description of each KPI, below.

Units of measurement should be uniform, such as metric tonnes rather than imperial tons. Sources of underlying data should be as readily available as possible. This adds to reporting transparency, and should enable independent analysts to undertake in-depth research.

Principle 2 – Relevance

In addition to the quantitative information, a KPI should be accompanied by a general narrative, explaining its purpose and impacts. As part of this narrative, all relevant information and comparators should be taken into account for that KPI. Each KPI should describe the process undergone, the calculation methods and any relevant assumptions. Progress should also be discussed, including against targets, whether improvements or set-backs have occurred and how these are being tackled. Any information relating environmental performance (i.e. the environmental KPI) to financial performance should be also discussed. This can include environmental fines and expenditures.

Principle 3 – Comparability

The Government is seeking to stimulate the provision of comparable, comprehensive and quantitative data, whilst avoiding the problem of over-prescriptive guidance leading to 'boilerplate' or 'cut and paste' responses. As far as possible, all companies should be able to report data in a comparable format, so users of reports can assess the performance of a single company over time and relative to its competitors. It is important that companies avoid using bespoke KPIs to hide poor environmental performance; the narrative part of a report provides the opportunity for a company to discuss any tensions which exist between providing comparable data and reporting company-specific KPIs.

KPIs should be expressed in absolute terms that cover the entire business for each period of reporting (most commonly annually), and also related to a normalising factor. Two commonly used normalising factors are turnover and production output; but there are others which may be relevant for companies in a particular sector, for example companies with offices may normalise to floor space. This allows stakeholders to know how much environmental impact companies have relative to a given amount of goods and/or services produced. Normalised data can be particularly helpful in demonstrating environmental improvements in a growing business.

Environmental information should be published at the same time as Annual Reports and Accounts, and relate to the same accounting period. Reporting should be consistent with other types of company reporting as far as possible.

Biodiversity

These guidelines do not include a KPI specifically for biodiversity. There is no single, universally accepted method for measuring the impacts of company activity on biodiversity. However, there are developing initiatives and schemes which provide a model for companies to report qualitatively on their biodiversity impacts in a holistic and integrated way such as the Global Reporting Initiative (GRI).

This will be particularly relevant for certain sectors of business who are involved with supply chain issues . This will also be important for those industries with significant impacts on biodiversity, including but not limited to the extractive industries, natural resource use (including forestry) and agriculture (including pesticides/fertilisers).

Many of the KPIs in this guidance will provide a contribution to understanding how business activities will affect biodiversity. Most of the KPIs (indirectly or directly) do take account of some of the activities which will have biodiversity impacts. Performance against the KPIs will allow companies to assess the ecosystem services whose degradation can result in biodiversity loss (i.e. emissions to water), allowing for a more strategic assessment of impacts to be made.

Environmental Fines and Expenditures

Businesses can incur environmental fines and expenditures during the course of their operations. Linking these types of costs to specific KPIs provides a financial context to those stakeholders that are interested, especially institutional investors. Some expenditure may be attributable to a specific KPI, for example waste, in which case it should be described alongside the information disclosed on each KPI. Other fines and expenditures may be harder to attribute to one specific KPI, in which case they should be reported separately.

All businesses must comply with environmental legislation that applies to them. It is important that businesses that have incurred fines report on them. For each financial accounting year, a summary of the number of prosecutions and the size of the fines and associated costs should be reported, regardless of actual size. Incident locations could also be reported if deemed relevant, as regulatory regimes can differ significantly. The Environment Agency has launched a free website (www.netregs.gov.uk) designed to help small and medium businesses understand and comply with their environmental obligations.

Environmental expenditures are classified as types of costs aimed at directly preventing, reducing or ceasing pollution and nuisances created by a company's activities, including accumulated liabilities, provisions, public funding or other grants, and capital expenditures related to environmental issues. Where these expenditures can be separated from mainstream operational costs businesses should consider reporting them.

How to Determine Reporting Boundaries

Determining reporting boundaries can be complicated. The polluter pays principle is a way to clarify reporting boundaries. This principle assigns responsibility to those parties that directly cause the pollution or use a natural resource. Using this model, emissions caused or resources used directly by the company fall under its direct responsibility; all other impacts are indirect.

Direct environmental impacts result from a business's own operations and include greenhouse gas emissions from heating boilers and vehicles, other emissions from any manufacturing operations, and waste produced. The purchase of finished products, such as electricity and outsourced logistics, results in upstream indirect (supply chain) impacts that are embedded in the products and services supplied. Thus, the purchase of electricity, any form of transport where a company does not pay for the fuel, and supplied water, raw materials and finished products are considered indirect impacts. Downstream indirect (products in use) environmental impacts can be caused by the use or disposal of a product after it has been sold. Figure 1 sets out some direct and indirect impacts.

Energy and Water Use

Even though energy and water use are indirect impacts, the Government believes that responsibility for managing these is shared; this is because more than one company can influence this impact. For example, an electricity generator can reduce the carbon content of the electricity which it generates, but equally, a company which uses that electricity can improve its energy efficiency. In this example, both companies can improve their performance so both can usefully measure, manage and report their performance against this impact. For this reason, the Greenhouse Gas and Water Key Performance Indicators, and the Supply Chain section contain information on energy and water use.

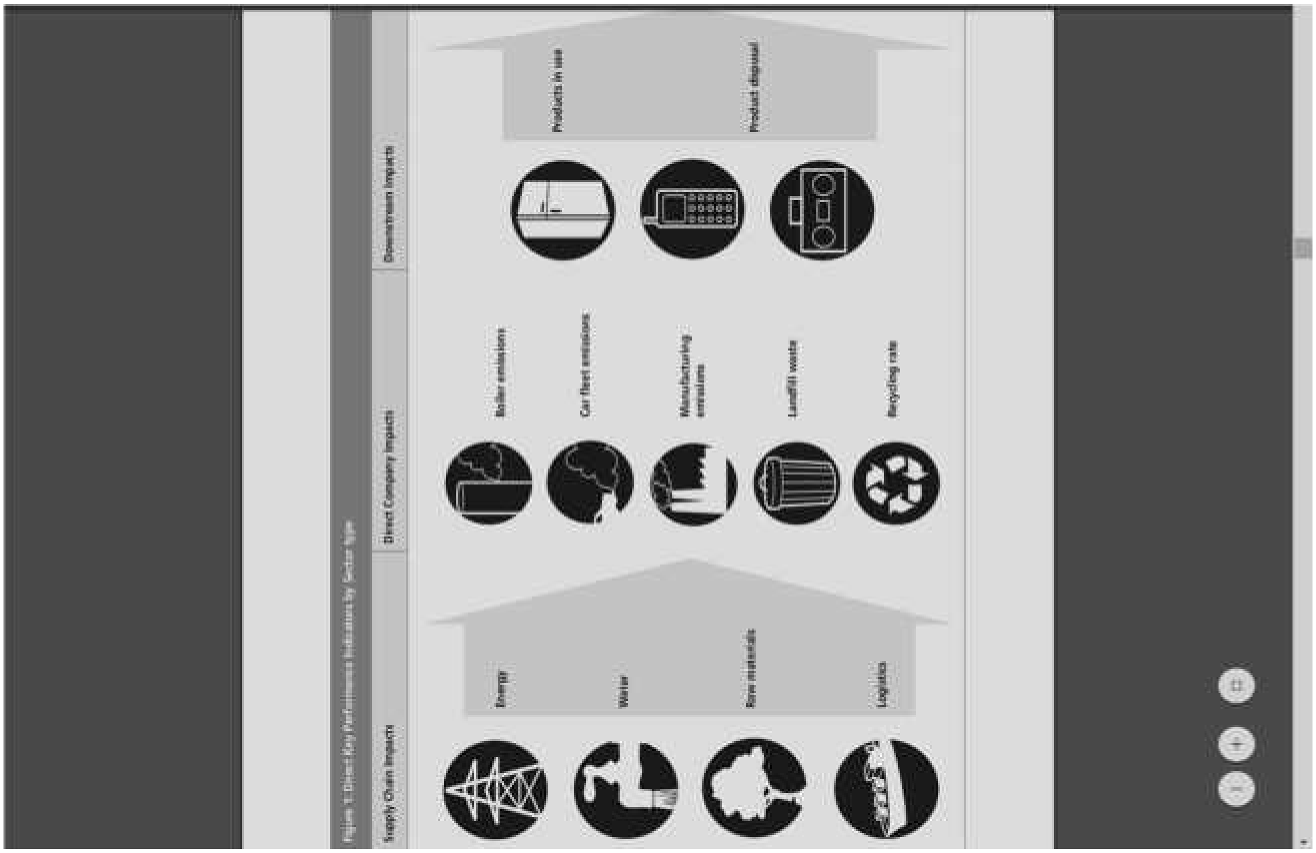
The Government accepts that in this situation two companies will be reporting the same impact. However, these Guidelines do not establish an emissions trading regime where it is necessary to avoid this.

Reporting on Direct and Indirect KPIs

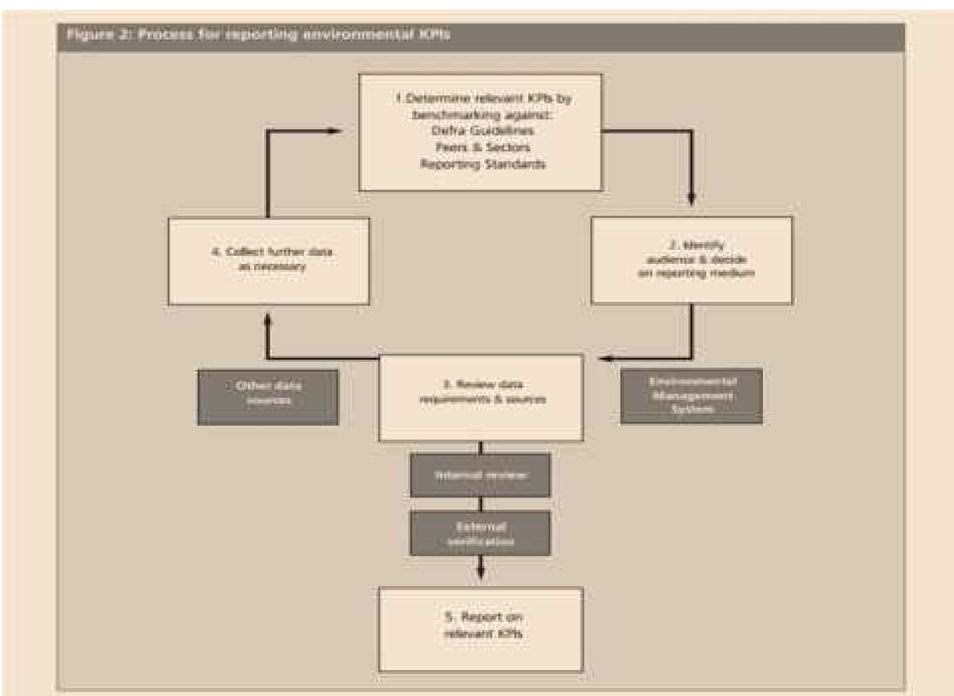
The Government expects businesses to report on their significant environmental impacts whether they are direct or indirect. Businesses are likely to derive benefit from positively influencing their indirect environmental impacts for at least three reasons:

- The issues may be significant in terms of the organisation's overall environmental impact;
- Organisations need to be able to demonstrate that reducing their direct impacts is not at the expense of increased impacts elsewhere; and,
- Some stakeholders may deem them accountable for supply-chain impacts, particularly where they have significant purchasing power in the marketplace.

These issues are best tackled by adopting a strategic approach to environmental purchasing and supply-chain management that is set within the wider context of an organisation's purchasing and environmental management activities. There is a wide range of support and guidance available to organisations from the relevant professional bodies including the "Strategic Supply-Chain Group" and the handbook "Environmental Purchasing in Practice"



The Reporting Process



Step 1: Determine Relevant KPIs

There are a number of different ways to do this and the most appropriate way will depend on the internal resources and expertise available, and whether the organisation is experienced at reporting.

For many businesses these Guidelines will provide a useful guide as to which environmental impacts are relevant for particular sectors. Figure 4 describes the KPIs that are typically significant for over 50 sectors, and this information can be used to help with deciding on the most appropriate KPIs to report. There is more information on using these Guidelines in the next section. Many businesses also review what their peer companies are reporting so that they have a good benchmark of the relative extent of reporting.

Finally, for organisations that expect to report on a diverse and wide range of KPIs it may be useful to refer to other standards that exist for environmental reporting, such as the Global Reporting Initiative, in addition to these Guidelines. This may be especially useful for those organisations that already report and wish to make their environmental reporting more extensive and appeal to a wider set of stakeholders.

Step 2: Identify Audience & Decide on Reporting Medium

It is important to ensure that when reporting environmental performance, the KPIs selected meet the expectations of the key audiences or stakeholders. Audiences can include shareholders, employees, government, suppliers, customers, academics/consultancies, the local community and NGOs.

Step 3: Review Data Requirements & Sources

The next step is to gather the data as appropriate. Companies that are already reporting may have the appropriate systems in place; new reporters will need to consider the most appropriate way of gathering the information.

Environmental Management Systems (EMS)

Environmental Management Systems (such as ISO14001, EMAS and BS8555) are described in Chapter 1. The Government believes that these systems are a robust and effective way of managing the data-gathering process to an appropriate standard. More information about EMS can be found at:

Other data sources

In some cases it will be possible to collect information using standard business systems such as transactional systems. These Guidelines describe how businesses can use information that is already collected, such as fuel and electricity bills, to calculate environmental KPIs.

Step 4: Collect Further Data as Necessary

Once the data requirements and systems have been assessed, it may be necessary to collect more information than is currently available. This may involve implementing or expanding the data collection systems currently in place.

Step 5: Report on Relevant KPIs

Once the appropriate information has been gathered, the relevant KPIs can be reported. This process can be repeated for every reporting period. Most companies that report on environmental KPIs do so annually.

Further Reading:

- ✓ ***Environmental Performance Review,Kyrgyzstan,(2009)***
- ✓ ***Environmental Performance Reviews,By United Nations. Economic Commission for Europe. Committee on Environmental Policy,(2007)***