Transformation through transparency

The role of sustainability reporting in corporate change

There is one overriding reason that a company publishes a sustainability report. It is entirely driven by self-interest. It is not an altruistic gesture. A company publishes a sustainability report because it believes it will benefit the company. And in some cases, the benefits are so important that reporting becomes transformative.

Many companies take on reporting their non-financial performance (such as injury rates, air emissions, and community interactions) because their competition is doing it, or because they think it will improve their reputation with key stakeholders like investors, community members, and employees. Once they commence the reporting journey, what companies quickly realize is that reporting can significantly influence the company's positions, activities, and performance.

The reporting process compels a company to articulate its vision and strategy for operating in a more sustainable manner. This is a crucial first step on the trail towards sustainability. It is a step that requires corporate introspection and frank discussion to genuinely address the relationship between the company, and society and the environment. With a clear vision and strategy, a company then has a reference point to which it can align future policies, activities, and decision making. A clear understanding of direction focuses attention and can influence long-term strategic decisions.

"It was through the reporting process," says Reg Manhas, senior manager of corporate responsibility and government affairs at Talisman, "that we were able to clearly articulate our positions on difficult issues such as climate change, fiscal transparency, and human rights."

In part due to its transparency around tough issues, Talisman has transformed from a pariah in the eyes of many investors during its Sudan years to a member of the Dow Jones Sustainability Index of leading sustainability-driven North American companies.

In the same vein, the Brent Spar and Nigeria controversies forced Shell to become more transparent, but then public reporting became a catalyst for further change. Through its reports, Shell has conducted an internal debate and process of discovery very much in the public eye. The reporting process has engendered deep introspection on how Shell plans to "meet the energy challenge" in a responsible manner.

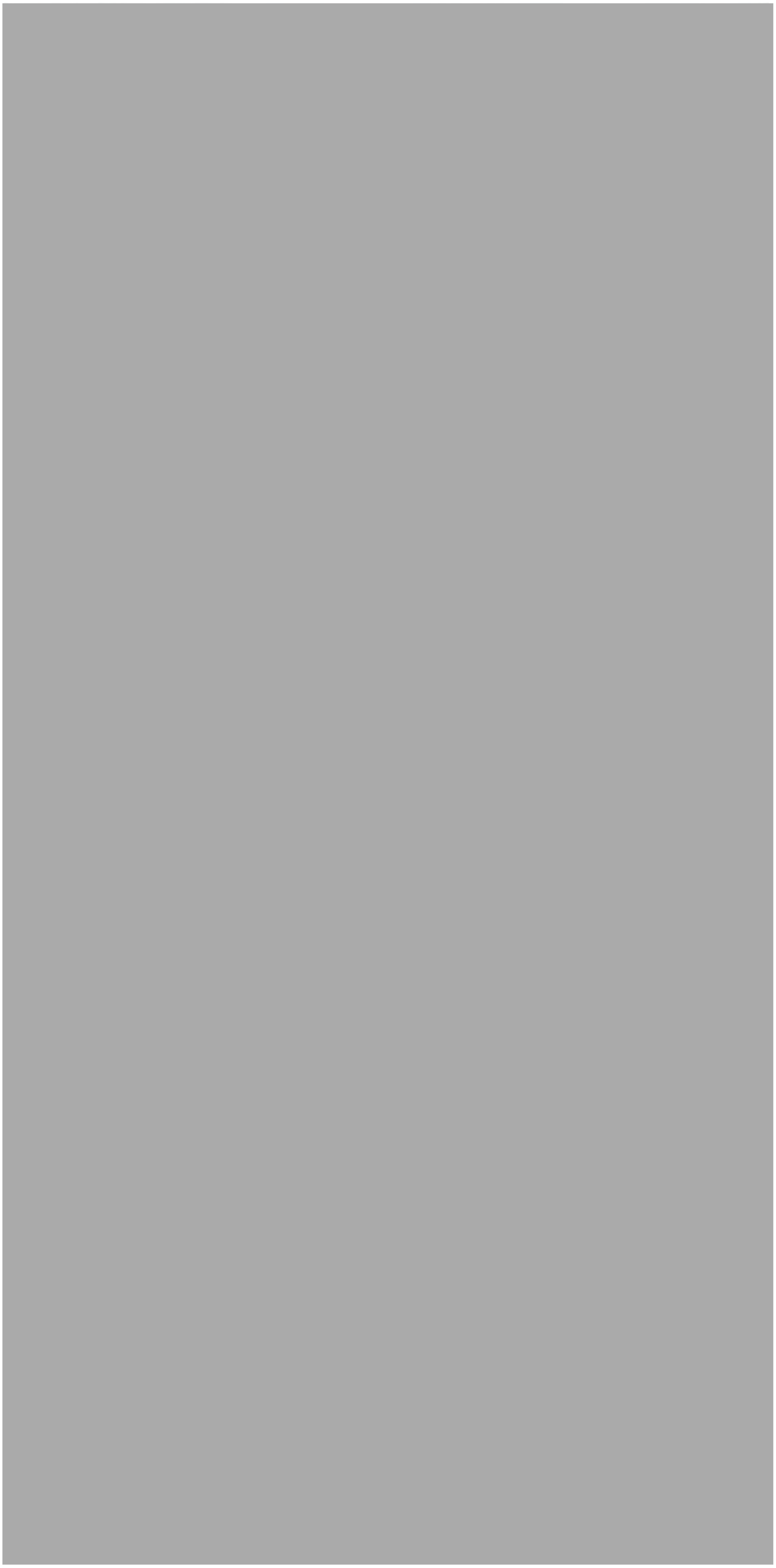
A key purpose of reporting is to track progress and shed light on areas needing improvement, leading a company to manage what it measures. When a company publicly reports its performance, there is a marked impact on the inside. By exposing the company to the outside world, employees and management are inherently motivated to take action to make sure the numbers improve in the next report.

Measuring and reporting triggers the process of exploration, questioning, and ▶

Encouraging change

The reporting process can stimulate a company to:

- Set aggressive performance targets
- Expand or enhance programs
- Share best practices among business units
- Engage stakeholders
- Modify staff responsibilities
- Improve efficiencies
- Rethink product or service design
- Reshape policies and strategies



discovery that is fundamental to organizational success. The reporting process uncovers instances where performance, internal communications, or management activities could be improved.

In its first sustainability report, released last year, Mountain Equipment Co-op's senior executives state, "Most importantly, researching and writing this report has provided an impetus to improve our management systems, and highlighted the importance of tracking and measuring our efforts. Without the numbers, it's tough to manage our impacts and identify opportunities."

It was the reporting process that prompted Ford, HP, and Nortel Networks, among others, to set and announce sustainability targets. In its 2007 report, Suncor Energy calls performance targets the next step in sustainability reporting and notes that it will announce targets in 2008. Executives know that numerical targets focus efforts and drive performance.

Sustainability reporting requires a concerted effort to arrive at broadly accepted strategies, objectives, and action plans. The reporting process links typically discrete and insular corporate functions—community relations, environment, health and safety, finance, marketing, research and development, human resources—and operating units into a more integrated strategic vision, opening new productive conversations. Better internal communications and more support of each other's initiatives often follow.

The reporting process also provides a warning of trouble spots—and unanticipated opportunities—in supply chains, in communities, among regulators, and in reputation and brand management. These discoveries can help management evaluate potentially damaging developments before they emerge as unwelcome surprises, or grab opportunities before the competition.

BP uses sustainability reporting to support its branding claims of "beyond petroleum." Nike has subdued its critics by disclosing considerable information about labour conditions in its contract factories. Nexen engages stakeholders during report preparation to understand what really matters to a variety of readers.

Some might question whether transparency precipitates introspection and change, or change triggers transparency. Regardless, transparency accelerates and influences corporate change far faster and deeper than it would occur without public scrutiny.

— Mark Brownlie

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