

Overview of the project

The reality and the rhetoric: organisational sustainability reporting is the result of a collaborative ARC Linkage project between the University of Sydney and CPA Australia. The project strives to provide an understanding of avenues available for the accounting profession and business organisations to more formally embrace the management of environmental and social aspects of organisational performance.

Initially informed by earlier work commissioned by CPA Australia on the social environmental reporting practices of Australian companies, the project undertook a case study approach to investigate the underlying processes and systems organisations are developing to support both the external reporting and management of social and environmental performance. The focus is therefore on internal sustainability information gathering and reporting processes and the use of that information by internal decision makers. Against this background, the project had the following specific aims:

- To evaluate the existing systems and procedures that are used to generate data on non-financial performance – including physical/environmental, socio-economic and governance concepts – to help overcome obstacles and resistance to sustainability reporting
- To explore ways in which sustainability data can be collected efficiently and better integrated through the accounting system, how accounting systems could be extended to incorporate such information, and the tools required to complete these specifications
- To understand how internal management and decision makers in organisations make use of sustainability information and how the data might be enhanced by expanded accounting systems

- To understand how sustainability reporting can be improved at a substantive level for external users in the areas of disclosure and verification
- To provide a basis for developing reporting regulations and guidelines.

METHODOLOGY

The study consists of five case organisations – Green Insurer, Herbal Life, Local Leader, Clear Water and Infrastructor. Each organisation is diverse, and has been chosen to help provide insight on:

- Industry – underlying operations and activities (finance sector, construction, water, local government, and manufacturing/pharmaceutical)
- Size – while all are ‘large’ organisations, they range from multinational to local government (10,000+ employees to a couple of hundred)
- Regulatory environment – sample includes listed companies, an unlisted subsidiary of a multinational corporation, local government and state government authority.

The organisations involved were initially approached through the office of chief financial officer (CFO). As an accounting study it is important to have the accountants ‘buy’ into the project from the outset. Once access was gained, interviews were undertaken with any staff member deemed to have a significant association with the development, reporting or use of sustainability data. The interviewees included: accountants, HR managers, procurement, systems managers, sustainability managers and senior executives. The cases sought to understand the flow of information from when data is first collected in the organisation to when it is used. For example, for one organisation interviews were held with the foreman on the factory

floor who designed the data collection protocols for packaging and waste. For all five organisations the CFO was interviewed, for two the chief executive officer (CEO) was interviewed. In total across the five case study organisations approximately 100 people were interviewed.

A significant amount of documentation on sustainability was also collected. Initially this included the information that was publicly available and which was used to support the choice of case study. Through the process of undertaking the case studies additional documentation was collected.

THE CASE STUDY ORGANISATIONS

Finance company – Green Insurer

The finance company that took part in the project is listed as a top 40 company on the Australian stock exchange. It is a multinational corporation with significant operations in the UK and New Zealand, as well as operations throughout Asia. The company has a reputation as a leader in sustainability reporting, being one of the more prominent Australian companies to support the use of the global reporting initiative (GRI). It has been a leading reporter of sustainability for a number of years. The company's sustainability report includes considerable performance data. Under the direction of an executive with a high profile in the sustainability community, the company has been developing internal systems with the ultimate aim of embedding sustainability key performance indicators (KPIs) in individual performances. Due to a number of barriers, the sustainability information system is being developed in parallel to existing information systems.

Manufacturing/pharmaceutical – Herbal Life

The manufacturing/pharmaceutical company that took part in the project is a listed Australian company with a market capitalisation of between \$200 million and \$400 million. The company only provides limited external disclosure of sustainability information. Their annual report contained no more than two to four pages of sustainability information, and no significant information is available through other sources. Despite the limited availability of performance information provided, the company enjoys a high reputation as a socially responsible organisation. This may partly be due to the organisation's branding. It is the branding that is influential in strategic decisions of the organisation. For example, recent rapid growth had necessitated a move to larger premises. The relocation was influenced most significantly by the welfare of existing employees rather than minimising the total capital outlay. The information systems within the organisation (outside accounting and manufacturing) are primitive compared to many comparable organisations. However, despite the lack of KPIs on social issues, sustainability factors are considered when decisions are being made within the organisation.

Local government – Local Leader

The local government that took part in the project is perceived as a leader in sustainability management and reporting. It is actively involved in a number of initiatives on sustainability reporting. At the commencement of data collection the organisation provided a template on environmental accounting for local governments. The organisation has produced a sustainability report for a number of years. The councillors and management have adopted a position that sustainability must be backed by action, with council driving the construction of new six-star Green buildings. Within the

organisation there is tension between the commercial realities of a modern local government and an organisation which seeks to meet the needs of the community. Limited resources with underdeveloped and undefined management processes can be compared to extensive external reporting.

Water authority – Clear Water

The water authority involved in the project has the responsibility to maintain water supply for four million people. It is a state-owned authority. The organisation has produced a sustainability report for a number of years for which it has won reporting awards. Clear Water is noted for its innovative sustainability reporting. Internally, the organisation employs a considerable number of technical experts, many of whom have independently developed systems to gather and analyse data for their own purposes. To better enable executives and the board to understand the context of sustainability, the organisation has been undergoing a data warehousing process. What was initially envisaged to take a few months has dragged out over years.

Construction/mining – Infrastructor

The construction/mining entity involved in the project is an unlisted subsidiary of a multinational corporation, ultimately based in Europe. The organisation prides itself on being a leader in sustainability, which is used to differentiate it from other subsidiaries and the parent entity. In construction it is active in pursuing green standards for Infrastructor projects. In the mining operations clients are pushing for improved performance on environmental issues. The business model is based on projects, which affects the continuity of knowledge from one project to the next. The organisation has been developing a knowledge database for best practice management which includes sustainability issues. While the organisation is active in the management of sustainability issues, this is not evident in

the external reporting and is occurring outside the domain of the organisation's accountants.

OUTLINE OF QUESTIONS FOR RESPONDENTS

The interviews were semi-structured and focused mainly on the organisations' sustainability management systems. Participants were interviewed across a broad range of issues and interview questions were adapted to the contextual background, position, and experience of each respondent interviewed. Appendix 1 provides an overview of the research instrument. Most interviews commenced with an initial explanatory overview of the research project as well as an outline of the purpose for the research. Respondents were then invited to discuss their background and specific role performed within the organisation. Several of the interview questions were focused on the following:

- How sustainability information was collected and reported within the organisation
- The types of sustainability data collected across the different divisions
- How data was measured and reported
- The types of information systems used to collect data
- The timing and frequency of sustainability reporting
- The role of sustainability data in internal decision-making
- How well the internal sustainability data is integrated with internal accounting systems
- The auditing and assurance of sustainability data.

Other interview questions related to stakeholder engagement as well as the particular hurdles the organisation faces with respect to the collection, integration and reporting of sustainability data.

A case study analysis of Green Insurer

Background of Green Insurer

At the time interviews were conducted, Green Insurer operated a portfolio of general insurance businesses in Australia, New Zealand, Asia and the UK, including some of Australia's leading general insurance brands. Insurance products are sold under the Green Insurer business model:

- directly to customers through both branch and agency networks throughout Australia as well as via call centres and online facilities
- indirectly to customers through intermediary channels, including insurance brokers, authorised representatives, motor dealerships and financial institutions.

At time of the interviews, Green Insurer was an ASX 100 listed company, having around 950,000 shareholders, 16,000 employees and a market capitalisation of around \$8 billion.

Green Insurer's corporate strategy continues to focus on creating a portfolio of 'high performing, customer-focused, diverse operations providing general insurance in a manner that delivers superior experiences for stakeholders and creates shareholder value.'

Regulatory environment of Green Insurer

General insurers in Australia are subject to a significant amount of regulation. There is the corporate regulatory regime that applies to Australian incorporated businesses, as well as a range of industry-specific regulations at the federal, state and territory levels. These regulations cover prudential supervision, market conduct and consumer protection requirements. However Green Insurer is under no particular statutory requirements to produce sustainability information or reports.

Why Green Insurer was selected for a case study

Green Insurer was selected as a case study because of its established corporate reputation as a leader in the sustainability field. It is also differentiated from other respondents insofar as it is an ASX 100 public company with significant international business operations (particularly in Asia, the UK and New Zealand). Green Insurer is recognised as an industry leader in the financial modelling of the potential climate change impacts of global warming. The company is well known for having adopted a number sustainability policies and initiatives which are supported by senior executives (a 'top down' approach) as well as employees. For instance, Green Insurer is one of the largest users of hybrid vehicles (Toyota Prius) in Australia. The company also claims to be an innovator in some 'green' insurance products and services. At the time of the interviews, Green Insurer had published three sustainability reports on its company website and incorporated some limited sustainability information into its annual report. The company publishes a range of environmental, community and employee-related sustainability indicators in its sustainability report. Green Insurer is also unique for seeking to become carbon neutral by 2012 and has instituted a number of sustainability initiatives within the organisation to achieve this objective.

Respondents selected for the case study

Respondents were drawn from a wide cross-section of Green Insurer staff, and 16 interviews were conducted, averaging approximately one hour each. Interviews were held with a number senior managers, divisional heads and internal consultants, including: consultant for corporate social responsibility; senior management accountant, shared services; manager, analytics and reporting; manager, workforce, reporting and analysis, culture and reputation;

procurement manager; manager, innovation and sustainability; group head of sustainable business practices; acting senior manager, group risk assurance; management information, PI CFO; senior manager, sustainable business practices; manager, group statutory reporting and consolidation; group chief financial officer; consultant, sustainable business practices; chief risk officer and group actuary; head of group treasury and finance; CEO, asset management and reinsurance; and a divisional sustainability manager.

Outline of case study

The remainder of this case analysis is organised as follows:

Section one explores some of the issues surrounding the public image of sustainability projected by Green Insurer and the perceptions of sustainability reporting by respondents working daily with the programs and initiatives within the organisation.

Section two explores Green Insurer's processes, systems and methodologies for the collection, integration and reporting of sustainability information.

Section three explores the extent to which stakeholder engagement influences or impacts on sustainability reporting practices within the organisation.

Section four discusses potential hurdles confronting the collection, integration and reporting of sustainability information with the organisation.

Finally, some conclusions and policy implications are considered.