



TRIPLE BOTTOM-LINE REPORTS - HOW DO THEY WORK?

The backlash against globalisation, regulatory intervention, disproportionate executive remuneration and misreporting of information, together with several corporate scandals and growing concern that the interests of shareholders have trumped those of other stakeholders, have all contributed to a breakdown in confidence and trust in the corporate model.

In an effort to address this breakdown in confidence, stakeholders have been calling for more non-financial information. Traditionally profit has been a primary focus of interest but in recognition of the scarcity of some resources, other issues are now coming to bear. Alarmed at increasing wealth disparities and environmental issues such as climate change, society is increasingly demanding that businesses become more accountable to a broader, more complex list of business principles. These principles, taken together, equate to a definition of economic, environmental and social sustainability - the 'triple bottom line'.

So, how do triple bottom line reports work? Similar to an annual report, a triple bottom line report often starts with a message from the Board or CEO and then goes on to describe the company's strategy, governance structure and management approach. This is followed by information on environmental, economic and social performance, usually presented through a combination of stories, case studies, graphs and tables.

Triple bottom line reports have many names. They are often referred to as sustainable development reports or corporate social responsibility reports. Some companies are now embracing these concepts and integrating triple bottom line reporting into their annual reports. The rational is to report on the value drivers at the front of the annual report and show the financial results of these drivers at the back. No matter what the reports are called, the aim of these reports is the same - to convey information that demonstrates an organisation's commitment to economic, environmental and social sustainability.

The business case for preparing this information is simple: what gets

measured gets managed. The business case for then reporting this information is also simple: transparent and balanced disclosure reduces uncertainty, builds trust and drives performance.

Triple bottom line reporting, if done well, can result in significant benefits. Immediate cost savings can be identified through focusing on resource consumption, waste and energy use. Staffing issues, employee morale and retention are often improved through clearer information regarding employees. Triple bottom line reports often play a part in creating an "employer of choice" brand and reducing recruitment and turnover costs.

Product brands can be enhanced by demonstrating responsibility and leadership to the consumer who cares. A company's image can be enhanced through community partnerships which may result in improved dialogue in times where consultation is needed. Reputation and supply chain risk may be reduced by working with suppliers who are compliant with local laws. What is clear is that reduced costs, reduced risk and enhanced brand value can be achieved by transparently reporting to an increasingly knowledgeable group of stakeholders.

Further, this increased level of transparency and disclosure helps stakeholders, including investors and analysts, to take a longer term view of a company's strategy, thereby reducing uncertainty and increasing confidence in investment.

Sustainable development reporting is currently voluntary in New Zealand. Companies often refer to the "Global Reporting Initiative" for an internationally recognised suite of triple bottom line indicators.

Nikki Wright, Managing Director of Wright Communications says the trend internationally is for more convergence between the leading standards, principles and frameworks. "For companies aspiring to international legitimacy and recognition for their approach to Corporate Social

Responsibility, the UN Global Compact will provide the highest level of guidance about the appropriate principles.

"The GRI G3 guidelines and the AA1000 assurance standard will provide the gold star approach to sustainability reporting. The forthcoming ISO 26000 standard will provide a globally applicable management standard for implementing Corporate Social Responsibility. It will particularly help companies in the Asia-Pacific region where ISO has excellent brand recognition. We will also see the development of more detailed, sector specific standards."

Climate change is driving a range of

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internationally accepted reporting protocols and standards. Companies that are reporting greenhouse gas emission inventories are starting to summarise and insert a high level

overview of their emissions profile into their triple bottom line report. There is a move towards comprehensive greenhouse gas reporting in an effort to prepare for likely future regulatory scenarios and to accurately calculate the cost of becoming carbon neutral.

However it would be a mistake to report on environmental, social and economic issues with a silo mentality. In this information age there is no need to report on absolutely every aspect of performance or disclose every recommended indicator. Instead a truly useful triple bottom line report presents the top five or six relevant issues and discusses the company's performance using a combination of absolute, ratio and intensity indicators. Very good reports show historic information and explain trends over time. Some reports include targets

and benchmarking, while others publish the findings from external reviews. It is clear that very good reports are independently verified to give assurance to stakeholders over the claims made in the report and provide constructive comments to management for improved reporting.

So what is usually included in a triple bottom line report?

A fundamental principle of triple bottom line reporting is balance. A triple bottom line report loses its value if it is perceived as an "add on" rather than being integral to the business. Further a company risks criticism of a "greenwash" if it only reports the good news. A "warts and all" approach that takes account of commercial sensitivities will aid transparency and build trust with stakeholders. A risk-based approach that is guided by senior management buy-in will result in addressing the issues that are of real concern to the company.

Where do you find triple bottom line reports?

Triple bottom line reports are usually available for download from company websites. Often they are not immediately apparent on the homepage, filed instead under "investor information", "company profile" or "publication and reports". Due to the many terms used to describe triple bottom line reports a search of "sustainable" will often result in a match. Many companies are now printing only limited numbers of hard copies which are available on request.

It would be fair to say that enhanced reporting, such as that contained within triple bottom line reports, has been likened to the invention of the desktop computer: at first a curiosity, then a valuable tool, and finally a death sentence to anyone who didn't pick up the pace to stay in the race.

ON THE WEB
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ABOUT THE AUTHOR

Raechel Cummins from PricewaterhouseCoopers specialises in corporate social responsibility issues and leads our focus on providing accounting and assurance services for triple bottom line reports and greenhouse gas inventories.