Submission to the Inquiry into Sustainability Reporting in the New South Wales Public Sector.

"A leader is someone who steps back from the entire system and tries to build a more collaborative, more innovative system that will work over the long term." Robert Reich

Submission from Amanda Steele

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9 Coneill Place

Forest Lodge NSW 2037

Email: majo@ozemail.com.au

Background to Submission

Amanda Steele is currently employed as Consultant, Corporate Social Responsibility at Insurance Australia Group. Prior to this position she was responsible for the production of Sydney Water's Sustainability Reports and coordinating their public reporting. Amanda also worked for the Prime Minister's Community Business Partnership in establishing frameworks and identifying emerging trends in sustainability and corporate social responsibility. She was one of only two Australians that contributed to the development of the international standard in sustainability reporting- the Global Reporting Initiative's (GRI) *Sustainability Reporting Guidelines*. Amanda has maintained international links with sustainability experts and has contributed to national research pieces on both sustainability broadly and sustainability reporting such as, "*Triple Bottom Line Measurement and Reporting in Australia*". She was a founding member of Triple Bottom Line Australia and maintains a position on the committee for the New South Wales' chapter of the Australian Corporate Citizenship Alliance. She submits this paper as an individual and it in no way reflects the opinions or beliefs of any organisation with which she has been associated.

Commentary on Submission Terms of Reference

Although it is recognised that the Commission necessarily must narrow the scope of the inquiry in order to develop targeted outcomes, it should be noted that the limitations of the inquiry will ultimately limit findings. In general, the public sector is lagging other sectors in its understanding and application of sustainability reporting. International leaders in the field are derived from the private sector. As such, by limiting the scope of the inquiry, it is likely that valuable input from the private sector will be lost. If the New South Wales public sector is serious about the broader application of sustainability reporting, then learning lessons from the private sector is crucial.

The Emergence of Sustainability Reporting

> *"Our laws make law impossible; our liberties destroy all freedom; our property is organized robbery; our morality is impudent hypocrisy; our wisdom is administered by inexperienced or mal-experienced dupes, our power wielded by cowards and weaklings, our honour false in all its points. I am an enemy of the existing order for good reasons."* G. B Shaw: Preface to *Major Barbara*.

This quote from George Bernard Shaw was written in 1905. The sentiment of discontent with societal structures is now more prevalent than ever. The growing gap between the rich and poor, exposure of corporate corruption and the apparently shrinking role of government are just some aspects of the current world order that has led to social disillusionment and dissatisfaction. Corporate citizenship potentially offers to address some of these societal inequalities and restore a more acceptable equilibrium.

Much has been written on the reasons for the emergence of corporate citizenship (SustainAbility and UNEP, 2001; Weiser and Zadek, 2000; Birch, 2001, McIntosh et. al., 2003). Within this wealth of information some consistent drivers have been identified. These drivers include:

1. Increase in deregulation,
2. Globalisation of markets,
3. Rapid advances in communication technology,
4. Increase of power of relatively small numbers of large corporations, leading to a lack of trust in corporations
5. Rise in power of the consumer
6. Increased role of non-governmental organisations (NGOs) (Grayson, 2001: 12-91; McIntosh et. Al, 2003: 15).

These drivers coupled with localised pressure due to revelations of poor corporate governance following corporate collapses have led to many Australian organisations and public entities to closely examine their policies and practices in the area of corporate citizenship.

The term "corporate citizenship" is defined in this submission as an holistic approach to corporate governance encompassing social, environmental and economic considerations for the benefits of the business and communities in which it operates. The use of corporate governance in this definition justly applies corporate citizenship to the highest levels of business and government behaviour. As well, the emphases on social, environmental and economic allow corporate citizenship to be clearly linked to the measurement framework- *triple* bottom line or sustainability reporting. The measurement of corporate citizenship is integral to its success. It is only through close monitoring of social, economic and environmental outcomes that benefits of corporate citizenship can be clearly enunciated and amendments adopted to improve performance.

Internationally three sectors currently practice sustainability reporting most comprehensively - mining and extraction, pharmaceuticals and financial services. These three sectors have responded to pressure to provide increased transparency of their operations as a result of crucial declines in societal trust. The mining sector faced its road to Damascus in the 1980's as a result of its poor environmental practices. Pharmaceuticals faced international media and NGO scrutiny in the 1990s as a result of its inability to respond to health crises in developing countries (HIV drug patents in particular receiving media scrutiny. The finance sector has been highly criticised for its increased profitability and lack of social accountability (notably in Australia through closures of regional offices).

As a result of this loss of trust, these three sectors have increasingly worked with stakeholders to better understand and integrate societal concerns into their operations. As well, these three sectors have realised the benefits associated with transparently and holistically reporting on their business. Transparency should be emphasised as companies that have attempted to green-wash their performance have been strongly criticised by NGOs and the media. Comprehensive sustainability reporting necessarily incorporates positive *and* negative performance.

Examining the private sector's application of sustainability reporting practices offers the public sector many lessons. The release of voluntary information of non-financial information which is then verified by a third party signals an honesty and commitment to improvement which is not wasted on external stakeholders. Sustainability reporting can be developed in response to crises but is increasingly being adopted by savvy corporations as a deterrent to loss of trust and possible crises. With over 580 companies now registering their use of the GRI guidelines it is true to say that sustainability reporting is increasingly becoming mainstream. Some potential benefits which reporting offers includes:

- Increased trust with both internal and external stakeholders (it should be noted that employees are traditionally the largest reading group of an organisation's sustainability report)
- Improved management systems to alert management of potential issues and possible improvements in operations
- Potential engagement with external stakeholders based on solid data and verified information- the potential to use a sustainability report for thorough engagement should not be underestimated
- Positive media recognition
- Attraction of socially responsible investment funds (obviously not of importance to public entities).

With these benefits it would be reasonable to question why more organisations have not adopted sustainability reporting frameworks. The reasons vary. Many companies are still unconvinced of the benefits of sustainability reporting and will wait to see a more universal adoption of this style of reporting before they consider producing their own reports- these are the "wait-and-sees". Other companies have examined the possibilities of sustainability reporting and found the plethora of examples daunting and some sustainability reports overwhelming in their scope. These companies may have researched the types of systems necessary for capturing data and the types of auditing standards which can apply to sustainability reporting and simply found the whole prospect too intimidating. These companies can be

referred to as the "it's-too-hards ". The final group of companies that choose not to report do so because they are not required to. Until government or regulators enforce or at the very least demonstrate how to report on sustainable performance these companies see no impetus to do so. These companies we refer to as the "because-I-don't-have-to's".

Government's Role in Sustainability Reporting

The role of government in encouraging sustainability reporting is essential for broader uptake. There are two possible ways for government to encourage reporting, follow the example of the Netherlands and France and insist on annual reports to include sustainability reporting. The other means is to assist companies in better understanding and utilising the benefits of sustainability reporting by developing voluntary frameworks and, *importantly*, leading by example.

At present most of New South Wales government agencies fall into the aforementioned category of "because-I-don't-have-to's". Only agencies with regulatory mandates to produce sustainability information are producing sustainability reports. And some of these companies do so grudgingly.

Sydney Water is currently required to produce 54 public reports on its performance. Many of these duplicate information and it is possible to argue that few warrant the investment required to produce these documents. The Environmental Indicators Compliance Report stands out amongst these. With its 3 volumes of over 4000 pages in mainly excel spreadsheets it is hard to imagine there is not a more effective way to produce this information! Sydney Water's regulators, as many essential service provider regulators, often work in isolation from each other and as such have no impetus to strive towards integrating their requirements for regulatory reporting.

Sustainability reporting offers government the opportunity to better collect comprehensive information on agencies' performance and as such make better-informed decisions. For example, if Treasury chooses to concentrate

solely on financial figures the potential to miss crucial indicators of success is increased (such as employee satisfaction). The impact of low employee morale has significant effects on an agencies' bottom line and through sustainability reporting linkages such as this can be better determined.

Central agencies could potentially pull together the disparate regulatory regimes that many New South Wales' agencies face and should do so to alleviate reporting burnout. Although some agencies are leading the way in sustainability reporting (most notably, State Forests, Waste Services and Sydney Water) internally these agencies face difficulties in maintaining momentum to improve their reporting procedures if central agencies do not reward their performance and encourage similar reports from other agencies.

The role of a committee such as the Senior Officer's Sustainability Learning Group could be improved if their mandate was formally developed and their role in developing sustainability reporting tools more formally acknowledged. At present while this group has been very useful for information sharing, the meetings have been "preaching to the converted".

Sustainability Beyond Reporting

Although this submission has emphasised the benefits of reporting it must be noted that reporting is only one aspect of behaving sustainability. Reporting also needs to be supported by:

- rigorous data collection systems,
- a formalised management system assigning accountabilities,
- public sustainability policies and/or commitments,
- formalised processes for reporting and communicating progress, and
- processes for incorporating measurement into business planning and strategy.

This systematic approach to management is challenging but ultimately offers greater public accountability for government agencies. Of course, a sophisticated and integrated approach to sustainability management as

described briefly above will take anywhere between 12months to 3 years for full adoption. Models such as ISO14001 offer useful direction in the application of such a management system.

For the useful application of sustainability reporting within New South Wales government sustainability *thinking* also needs to be incorporated into decision-making and budget allocations. Like any sensible investment into innovation a return on investment should be expected, however without an investment to begin with no progress in sustainability can be reasonably expected.

Conclusion

At present New South Wales government agencies have an ad hoc approach to sustainability reporting. Whilst some agencies have taken the lead outside of regulatory requirements, too many remain in the "because-I-don't-have-to's" category. Central agencies have a critical role to play *as a group* in encouraging sustainable decision making, management and reporting. The opportunity exists for New South Wales government to emerge as an international leader in sustainable government.

The development of independent protocols or standards will not assist agencies in adopting sustainability reporting. This would add to the confusion that already exists. Tools to assist the broader uptake of sustainability may include the synthesis of international guidelines and standards for sustainability reporting. The formalisation of the Sustainability Senior Officer's Group and key performance indicators tied to board and executive roles.

Government agencies are looking for clear direction from central agencies that sustainability must be core business and integrated into management. Until Central Agencies act in unison on this issue and establish clear and acceptable parameters for *all* New South Wales agencies we will continue to see stagnation in recalcitrant agencies and, worse still, possible retreat from those that have previously been considered leaders in this field.

Tools

To assist New South Wales Government in the broader application of sustainability reporting for their agencies the following documents are suggested as references.

Ethos Indicators have been developed by The Ethos Institute of Business and Social Responsibility. Based in Brazil it is an association of companies "interested in developing their activities in a socially responsible manner, in a permanent process of evaluation and improvement".
www.jussemper.org/Resources/Corporate%20Activity/Resources/indicadores _ingles.pdf

The Global Reporting Initiative sector supplement for public agencies offers clear guidelines for sustainability reporting that may benefit the New South Wales government. Being developed by GRI will mean that the indicators suggested will provide international benchmarks of performance.
www.globalreporting.org/guidelines/sectors/public.asp

The work of the **Australian Collaboration** (a coalition of eight leading Australian NGOs) clearly annunciates the priorities for Australian sustainability and sustainability reporting. Their documents, "*A Just and Sustainable Australia*" and "*Where are We Going: Comprehensive Social, Cultural and Environmental and Economic Reporting*" provide good starting points for Australian government sustainability initiatives.
www.acoss.org.au/media/2001/brochure.pdf

The **International Organization for Standardization** offers key documents and advice on the adoption of sustainability and environmental management systems.
www.iso.ch/iso/en/iso9000-14000/iso14000/iso14000index.html

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