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Integrating sustainability reporting into management practices

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Abstract

This paper examines the process of developing key performance indicators (KPIs) for measuring sustainability performance and the way in which sustainability KPIs are used in decision-making, planning and performance management. Interviews were conducted with personnel from four British and three Australian companies. The findings indicate that the organisations are integrating environmental indicators, and increasingly also social indicators, into strategic planning, performance measurement and decision-making including risk management. However, the sustainability issues on which our sample focus and the management operations on which they impact vary considerably. This has implications for the development of practice, voluntary guidelines and legislation.

Keywords: Corporate social responsibility (CSR); Decision-making; Key performance indicators (KPIs); Performance measurement; Sustainability; Sustainability reporting

1. Introduction

Increasing attention and concern over the social and environmental impact of business and the impact of social and environmental issues on business has led a number of companies to actively account for and manage their sustainability footprint. Recent emphasis has been on the integration of ethical, social, environmental and economic, or sustainability issues within corporate reports. This has been referred to as 'triple bottom line' (Elkington, 1997), or 'sustainability' reporting (Global Reporting Initiative, 2000). The movement towards integrating these issues in reporting is evidenced by the publication of more comprehensive corporate sustainability reports supported by guidelines such as those of the Global Reporting Initiative (2006). However, there remains concern about the limited adoption of integrated reporting, the completeness and credibility of these reports (Adams, 2004) and the motives of managers preparing them (O'Dwyer, 2002, 2003).

Given that many researchers in the field of sustainability reporting are motivated by a desire to see improvement in the sustainability performance of organisations (Adams & Larrinaga González, 2007) there has been surprisingly little research into sustainability reporting processes and the extent to which data collected is used in decision-making within organisations. Instead, assumptions have been made about corporate motives and processes from an examination of corporate disclosures, often without reference to the broader social, political and economic context in which those disclosures are made. Responding to calls for more research which engages with reporting organisations (Adams, 2002; Adams & Larrinaga González, 2007; Parker, 2005), this study sheds light on the extent to which sustainability

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accounting and reporting functions are integrated into the planning, performance management and risk management operations of organisations. Specifically it considers: how organisations are developing and refining key performance indicators (KPIs) and benchmarking various aspects of performance; and, how sustainability KPIs are being utilised to influence management decisions.

Our study involved interviews with personnel from three Australian and four British organisations that are known for best practice reporting or management on aspects of ethical, social, environmental and economic issues. It contributes to the prior literature by revealing the diversity in: internal processes; the mode of integration into decision-making; and, the focus of reporting and data collection.

2. Prior literature

Considerable doubt has been cast on the extent to which many sustainability reports accurately and completely portray corporate social and environmental impacts (Adams, 2004; Adams & Harte, 1998; O'Dwyer, 2002, 2003). Yet there is recent evidence that some organisations are using the data they collect in the course of preparing their sustainability report and internal reports on social and environmental impacts to monitor performance and reward managers and that such data is informing corporate planning and decision-making (see, for example, Adams & McNicholas, 2007; Albelda-Pérez, Correa-Ruíz, & Carrasco-Fenech, 2007). There is an increasing understanding of the dependence of organisations on society's acceptance of their overall contribution and impacts to a broad range of stakeholders. It is increasingly the case that, in order to survive and thrive, organisations must make decisions which serve the interests of the environment and society. A growing number of organisations have been forced to respond to concerns about their social and environmental impacts including, for example, James Hardie, Nestlé, Nike, and Shell. Data collected by organisations on their social and environmental impacts does not ensure that managers will make decisions which appropriately balance social, environmental or economic impacts or appropriately prioritise the various stakeholder claims, but it can provide the basis for more informed decision-making. Business case proponents of an approach where decision-making is informed by social and environmental impact data, would expect to see a convergence between corporate and society interests. There are examples of companies leading the way by influencing society to be more environmentally friendly. For example, energy and water companies provide customers with data on resource use and suggestions as to how to reduce it and manufacturing companies encourage recycling of packaging.

The integration of various systems is seen by prominent researchers as the final stage in the evolution of a system to assist strategic thinking within the firm (Kaplan & Cooper, 1998; Schaltegger & Burritt, 2000). A focus on environmental performance developed initially to meet compliance requirements (Dias-Sadinha & Reijnders, 2001; Johnston & Smith, 2001) and scientific and societal interests (Kolk & Mauser, 2002). Improved performance was demonstrated using physical measures alone, limiting the analysis of benefits and associated financial implications (Koehler, 2001). There have been few examples in the literature of data collected for sustainability reporting being linked to performance evaluation and strategic alignment of organisational management systems (Dias-Sadinha & Reijnders, 2001; Ditz, Ranganathan, & Banks, 1995; Epstein, 1996; Koehler, 2001), perhaps reflective of the limited exploration and understanding of system design and performance alignment within the mainstream management accounting literature (Chenhall, 2005; Chenhall & Langfield-Smith, 2003; Ittner, Larcker, & Randall, 2003), or the limited research on internal drivers for the development of sustainability management (Delmas & Toffel, 2004; Harris, 2007).

Research on social and environmental (including occupational, health and safety) performance has identified the prominence of non-financial performance indicators (Johnston & Smith, 2001) concerned with measuring physical impact. Reducing physical impact has equated to improved performance, but does not necessarily result in improved strategic management. For example, physical non-financial measures are reviewed in isolation, with management attention focused on meeting predetermined minimum requirements. Broader implications, for both the organisation and the environment, are often disregarded. Effective evaluation of alternate approaches to managing sustainability performance must consider not only the physical measures of performance, but also the financial aspects (Bennett & James, 1998a,b; Koehler, 2001; Schaltegger & Burritt, 2000). Despite this, research on environmental management accounting (EMA), has found that adoption of EMA is limited for many companies. For example, Frost and Wilmshurst (2000) observed that Australian companies were developing procedures to collate accounting data only for issues perceived to be of significant environmental importance. Similarly Parker (2000) found that the environmental accounting techniques such as cost recognition were in a far more elementary stage than the application of environmental policies, management, impact statements and audit.