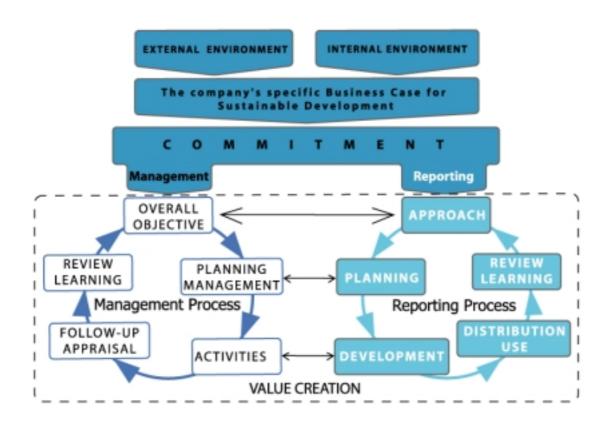# The guidance tool on sustainable development reporting

The overall sustainable development reporting process (layer I)

The overall sustainable development reporting process illustrates the complex environment that forms the background for companies' commitment to sustainable development reporting. The commitment usually originates from the fact that the company identifies reporting as one of many other tools that differentiate the company from its competitors and strengthen the company brand name.

The overall sustainable development reporting process, illustrated and described below, contains of three parts: (a) the infrastructure[ÅB1], (b) the management process and (c) the reporting process. The starting point of the overall sustainable development reporting process is the infrastructure that forms the base for both the management process and the reporting process. The management process and the reporting process are, in turn, interrelated with each other. A successful reporting process is delivering a reliable reports that is in line with the company's business needs, strategies and policies as well as with the needs and expectations from specific stakeholder groups

The overall sustainable development reporting process

A.   THE INFRASTRUCTURE

Driving forces behind the development towards the creation of a sustainable development report are the **external** and **internal environments** of the company. These forces are perceived as catalysts for change as they drive the company to identify its own specific **business case for sustainable development**. Companies with a well defined and clearly understood business case for sustainable development that is communicated within the organisation have the opportunity to create and implement a **commitment** towards sustainable development related issues in line with the specific company's overall objectives and strategies.

When the commitment to sustainable development has been established the more tangible work begins. Usually companies start working with developing either **the management process** so that it incorporates sustainable development issues or **the reporting process** in order communicate to the external and internal stakeholders what they want to achieve and how to achieve it, in relation to their specific sustainable development related issues.

Depending on the type of external and internal pressure, different companies tend to start working with either one of these two processes. Experience from the WBCSD members shows that just as many companies start with integrating sustainable development issues into the management process as the amount of companies that starts with developing the reporting process. After some time the second process is developed and integrated into the first one and that is when the synergies from the overall sustainable development process emerge and the real business case becomes operational. There is also a smaller group of companies that starts developing one integrated process, management and reporting, at the same time.

Some companies need to have total control of their sustainable development aspects, information and data before they start external communication on sustainable development objectives, performance and value creation. Other companies use the external reporting format to drive the internal transformation into a more sustainable driven business. The reason why companies chose different ways to start working is mainly based on the business culture within the company and the external environment (business climate) outside the company.

Technically oriented companies tend to start working on the management processes with sustainable development related management and information systems while communication oriented companies tend to start working on the reporting process and on where they want to go and how they are to achieve their objectives. In some cases the external stakeholder pressure is so strong that companies have to start focusing on reporting before they focus on building up a sustainable management process.

With regard to the external environment and the business climate there are two factors that influence companies willingness to start reporting externally. The first factor is related to from where in the world a company originate or where it performs its operations. In some countries, e.g. northern Europe, companies are more or less expected to report on their development with regard to sustainable development. In other countries very few companies produce sustainable development reports. Also, global companies with major operations in developing countries are, to a greater extent than before, asked to report on how they manage their complex business environment with regard to sustainable development related issues. Companies that are expected to report on their development are then positive with regard to

sustainable development reporting, and might start developing the reporting process before the management process.

The second factor is related to the legislation and the information rules on different stock exchanges. Companies listed on specific stock exchanges might fear damages in relation to reporting on some sustainable development related issues that in turn affect stock-prices. The last group of companies might then fear to develop sustainable development reports and instead focus only on developing the management process.

The two processes, management and reporting create value when they are integrated with each other. The quality of the reporting process increases in companies with well-developed management process. The quality of the management process increases in companies with reporting process that uses the management process in order to communicate the business value creation within the company.

B.   THE MANAGEMENT PROCESS

The management process that supports a quality reporting process includes some very important steps that are based on the company's definition of the business case for sustainable development. In order to become successful, the identified business case for sustainable development has to be in line with specific business needs, objectives, strategies and policies. It also has to include the vision and the values embedded in the culture of the organisation.

The first step of the management process includes the establishment of an overall **objective** for the sustainable development activities to perform within the company. The overall objective is drawn from an identified business case for sustainable development and must be in line with the business idea, overall business objectives and strategies of the company. The overall objective is followed by the development of sustainable development related strategies and policies to guide future activities.

The second step in the process is the operational **planning and management** of those sustainable development issues and activities important for the company. The planning and management is performed within the sphere of the decided sustainable development related strategies and policies. The purpose of the issues and activities planned and managed are to contribute to the fulfilment of the company's overall objective with regard to sustainable development. This step includes development, continuous fine-tuning and use of management and information systems as well as instructions on planning and controls guiding sustainable development related activities performed within the company. Included in the management and information systems are the establishment of important targets and indicators to follow-up in the future. Another important aspect is to ascertain that the company has the resources and organisational structure that are the necessary conditions in order to perform the sustainable development related activities planned.

The third step includes the carryout of the actual **activities** that have to be performed in order to fulfil the operational planning done within the company. The overall purpose with the activities is to contribute to an environment of continuous improvements and the creation of a sustainable development.

The fourth step is associated with the **follow up and appraisal** of the work performed to increase the sustainable development related performance of the organisation. Important

aspects to follow-up are usually overall objectives, targets and important indicators. Follow-ups are usually performed within the same intervals, as the follow-up of the financial performance. In line with stated objectives sustainable development related activities should be integrated as much as possible within normal operations of the company. In addition, as much of the sustainable development related information as possible should also be included in the financial reporting systems of the organisation. The result of the follow up should be appraised in line with the values, objectives and targets of the organisation. Decisions are then to be made to correct and improve the future performance of the organisation.

The fifth major step in the management process is **review and learning,** linking to the improvement of the whole management process. Based on the result of the follow up, the organisation might need to rethink the sustainable development related activities performed within the organisation. What did we do right and what did we do wrong? Where do we have to act immediately and where do we have to perform changes in the management process (i.e. objectives, strategies, planning and follow-up) in order to increase our performance further?

C.   THE REPORTING PROCESS

A reporting process that creates and communicates value, is based on the activities performed in the management process, and includes some very important steps that originates from the company's definition of the business case for sustainable development. In order to become successful, the identified business case for sustainable development has to be in line with specific business needs, objectives, strategies and policies. It also has to include the vision and the values embedded in the culture of the organisation. If the reporting process is, in turn, to become truly successful the company also has to define and understand its own specific business case for sustainable development reporting. In the process the issues mentioned above are to be taken into consideration.

The first step in the reporting process includes defining the **reporting approach** for the specific company. Some necessary questions to broach in this step are: what is the purpose of the report, for whom do we write it and why are we to report on our sustainable development performance? Also included in the reporting approach is the definition and development of basic underlying reporting principles. What type of sustainable development related information are we to report, how is it to be defined and from where do we gather and collect the relevant information? What basic underlying reporting principles and qualitative reporting characteristics (relevance, reliability, clarity…) are we to follow and fulfil when reporting on sustainable development data and information?

The second step in the process includes **planning** the content of the sustainable development report. The thought process rallies along the lines of: what is the overall message of the report and how is it to be related to the definition of the company specific business case for sustainable development? Who are the main target groups for the report and which type of stakeholders are to take part in the development of the content of the report and how shall we involve them? Which type of sustainable development information do we want to report on and what information can we draw from the management process and what has to be developed further internally so that we can report on certain important sustainable development issues, activities and indicators? From what information system can we draw important information and how are we to verify the information reported on in the final report? Also important at this stage is to determine the reporting boundaries, how far goes the

responsibility of the company and what is the business entity definition to use when developing the report?

The third step in the process is the **development** of the report. Important issues to consider are the writing, the layout and the third-party verification of the report. The development of the report is a process in itself. The earlier the work on the report is started up, the more time that is spent on developing a draft-plan pf the report, the better the quality of the final report. The major problem when developing a report (especially if it is to be published together with the annual report, which is recommended, in order to improve the formal value of the report) is the integration and analysis of the relevant sustainable development data that usually arrives late in the development process into the actual report. The earlier relevant data is aggregated and arrives from the information systems, the more time can be spent on analysing the performance of the company, the better quality of the final report. Companies with the possibility to start using the 9th or 11th month result for their follow-up and appraisal of performance tend to end up with more sophisticated reports with regard to analysis and conclusions. This type of analysis is usually perceived as important also in the follow up and appraisal as well as in he review and learning part of the management process. It is when the analysis is used within both processes that the integrated value of the two processes is realised.

The fourth step included in the reporting process is the launch, **distribution and use** of the report. These activities have to be performed in line with the original purpose of the report as well as in line with the identified target groups and stakeholders of the report. It is also in the interest of the reporting company to try to promote the internal (people of the company) and external (important stakeholders, NGO's and financial analysts) use of the final report.

The fifth major step **review and learning** includes feedback, benchmarking and discussions on how to improve the content and readability of report in the coming years (both short-time and long-term perspective). The information received from those types of discussions should be fed into the internal sustainable development reporting strategy that directs the future development of the report.

[ÅB1] Do not know if the term "infrastructure" is the correct one for the dark blue parts of the picture. The thinking behind is that those dark blue boxes are essential in order to start working with reporting. Management for example might not be that important, in reality (therefore white). Other suggestions in what to call the dark blue boxes?