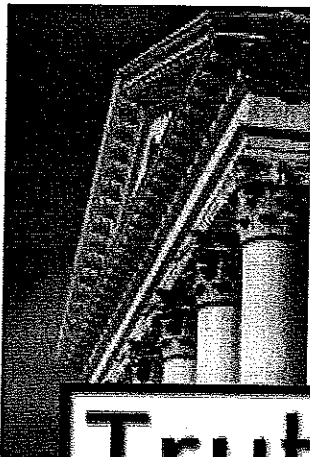


# Truth & Transparency

The *why* and *how* behind world-class corporate environmental reporting.



## Truth

### Making Better Business Decisions

BY GIL FRIEND

**W**hat's the ROI of your corporate environmental reporting procedures? With the cost of a Corporate Social Responsibility (CSR) report potentially running into the hundreds of thousands of dollars for a large company, it's worth asking what its return on investment will be. Producing a good CSR report costs more than the cash investment (in design, printing and perhaps consultants)—it costs staff time, data collection and analysis, etc. (which can increase total costs five-fold). So it makes good business sense to leverage that investment for multiple benefits.

Most companies' investments in CSR reporting produce only a very expensive marketing brochure. Can the same dollars deliver a powerful business tool as well?

CSR reporting is becoming widespread—some 2,500 companies worldwide, including half of the Global 250, produce environmental/social reports—but its potential remains underutilized. Early reporting efforts were driven by compliance requirements, with little tie to core strategy/business objectives. With the growth of the environmental and social responsibility movements, the audience has broadened, but is reporting still externally focused? Most companies' reporting practices have a long way to go; even leading reporters are not leveraging their reporting process to make better business decisions.

What's missing? Oftentimes it's a failure to exploit the full value of the information gathered. Over the past two years, we've asked dozens of CSR reporters a simple question: "How do you use your CSR report to help your people make better business decisions?" The most common (in fact, almost universal)

response is: "Gee, what an interesting idea." Another increasingly common response is the one offered by a Fortune 20 CEO: "That's exactly what we need to do next."

#### REPORTING AS FEEDBACK

What does it take to make that next step? It takes creating a report that's a tool, not just a press release—in other words, shifting reporting from a cost of doing business to a source of competitive advantage. How? With a process that supports both the report's "rearview mirror" as well as the business manager's need for "radar" in order to have a functional impact on the trajectory of the company.

Reporting becomes a cost of doing business when it relies on a tedious, time consuming, expensive, manual process; in addition to their direct costs, by the time analyses are completed, the data is so old that no one even uses it. Reporting can be a source of competitive advantage when it is streamlined with economical, "auto-magic" data collection and analysis, made timely by delivering results available in close to real-time, and when the metrics selected are relevant, powerful and easy-to-use since they provide information in context.

A good CSR report must communicate an intrinsic relationship between your CSR goals and your business goals and operations. An outstanding report will leverage the reporting process to create significant business value—by making timely, relevant, accurate information, in context, available internally to business managers; by raising senior management's awareness of business opportunities; and by delivering quick and documentable results to demonstrate its business value.

This requires decisions on commitment, process and tools.

It also requires a systematic process (see "Transparency: Reports that Add Value" on page 30), but with particular attention to the selection of metrics and information systems), with seven key steps: question; map; identify; find; engineer; implement; and train.

#### KEY STEPS

##### QUESTION

Begin with some basic questions: What do we care about? Why? What do we measure? Why? Which measures guide us toward our goals?

##### MAP

Graphically map the key physical flows through your company, business units and facilities—energy and material flowing in, product and non-product flowing out. Ensure this represents the full picture, from all perspectives. Use this map to:

##### IDENTIFY

Identify the key "aspects" or significant factors that define your Key Environmental Performance Indicators (KEPIs). The challenge here is moving away from the huge universe of potential metrics to the "measures that matter"—and that are worth tracking.

##### SELECT

Select effective metrics that turn data into actionable insights. Present trends, ratios and benchmarks that put data in context, that turn data into information and enable people to use that information to gain insight. For example: don't just measure one year's energy use, measure it for three years so people can see if the trend is improving or deteriorating. And don't stop there: don't just measure the energy use trend; rather, measure a meaningful productivity ratio—like revenue per kiloWatt-hour or profit per ton of carbon emissions. Next, compare key ratios across facilities within a company or across companies within an industry.

Other resource productivity ratios—in effect, measures of Return on Key Resources—could include conversion efficiency (yield), material content (percent recycled content in inputs), renewable energy (percent in the energy portfolio). In general,

#### DOW: FROM THEORY TO PRACTICE

**A**t Dow, integrity has been a core value since Herbert H. Dow started the company over a century ago. Part of integrity involves asking the question: Does the way we work, work? One way Dow gets the answer is through communication with its stakeholders—employees, communities, customers and shareholders. Through their feedback and ongoing communications, Dow learns, grows and ultimately succeeds as a better company and a good neighbor in the communities where it operates.

An important focus of its dialogue is on sustainable development. A valuable tool in that dialogue is Dow's Public Report. First published in 1999, the Public Report is a voluntary initiative that details the company's progress in three areas: economic prosperity, environmental stewardship and corporate social responsibility.

Dow also organized Community Advisory Panels at 36 of the company's sites worldwide to engage stakeholders on local policies. The company also conducts community surveys, which act as "report cards" to ensure Dow is upholding its commitment to the community. Dow's Corporate Environmental Advisory Council, the first of its kind in the chemical industry and in its 11th year, convenes independent experts to help Dow set policy

and procedures on sustainability and environmental issues.

Progress toward sustainability is a journey at Dow. At the heart of its journey are its values and Dow's Sustainable Development Guiding Principles, first published in the 2000 Public Report. Dow translates sustainable development from theory to practice through its 12-Point Sustainable Development Operating Plan, developed in 2001, with significant implementation in 2002. This plan gives businesses and functions the tools to incorporate sustainability into their strategic plans and operations.

The 2001 report, released in early October, contains a wealth of information about the journey toward sustainability at Dow. The report includes data on the progress it is making on its EH&S 2005 goals and overviews of the 12-Point Sustainable Development Operating Plan and the 12 sustainability tasks added to Dow's "to do" list.

Please visit [www.dowpublicreport.com](http://www.dowpublicreport.com) where you can review and download Dow's company-wide report and individual reports for 21 Dow sites around the world. Dow invites you to tell it: Does the way we work, work?



putting the ratio of any intended result (product, revenue, profit) in the numerator, to energy, water, PBTs or other resource inputs or outputs in the denominator, can provide a meaningful metric that aligns sustainability measures and business measures in a traditional "up is better" framework.

The most sobering of these metrics is probably the Throughput Pie<sup>®</sup> generated by our Business Metabolics<sup>™</sup> indicators/reporting software. This measure of the proportion of output identified as "product" (or "intended result") versus "non-product" (or "unintended result") supports the inescapable logic of zero emissions better than anything we've seen. The Throughput Pie makes a "picture is worth a thousand words" business case that it makes no sense to blow raw materials out a smokestack or pour them down a sewer where they add no value to either customer or shareholder.

These metrics are especially sobering because the ratios can be shocking and because the opportunities are significant. Only six percent of the total U.S. material flow is embodied in durable products, according to Robert U. Ayres. "The other 94 percent is converted into waste residuals as fast as it is extracted." One client—with an already strong commitment to recycling—discovered that only 20 percent of its output was product, five percent recycled and 80 percent literally went "down the drain." The "profit discovery" analysis sparked by the Throughput Pie found that the "waste" stream could generate a new—and very profitable—product line. (See Throughput Pie chart below).

One emerging measure is the *carbon footprint*, which may become the "poster child" for measuring environmental performance. Consider a "carbon productivity" ratio with greenhouse gas (GHG) emissions (in carbon equivalents) generated from a company's activities in the denominator. Consider tracking indirect (e.g., from energy use by suppliers or by actual use of products in the world) as well as direct emissions (e.g., plant, equipment, fleet). For many products the impacts generated in use is far greater than in

manufacturing; presenting that information in your report will drive customers to demand—and designers to deliver—more efficient products. This will also tie to Kyoto Treaty targets, thus offering potential economic value as carbon trading matures.

Cross-functional teams are essential to determine what metrics are meaningful for diverse internal and external stakeholders. The CFO, NGO, investment analyst and plant manager each needs different views of common information; provide a core set of six to eight at each level (corporate to facility), with a larger variety down the pyramid. However, keep them consistent to simplify a company-wide "roll-up."

#### ► FIND

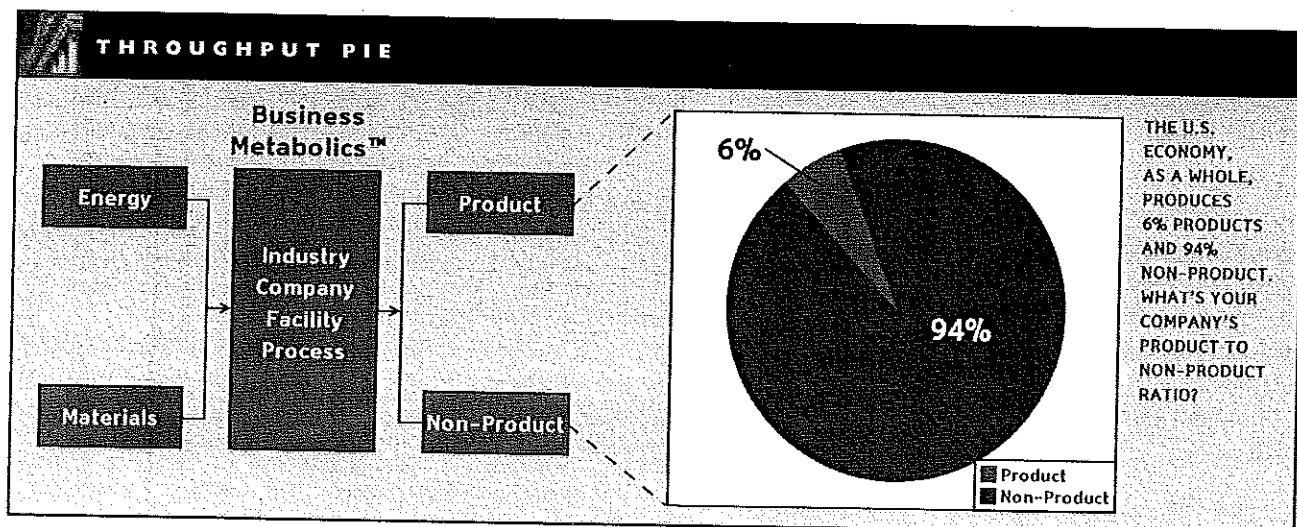
Find the data that supports those KPIs. Where is it? How often is it generated? How accurate is it? Who owns it? What will have to be done—technically and politically—to get it?

Keep in mind that many people are still nervous about reporting "sensitive" matters to the public; they forget that expectations of transparency are rising and that in the age of the Internet nothing sensitive will stay secret for long. It's far better to be frank and forthright than secretive and defensive, but you may have to awaken your data-owners and corporate gatekeepers to that reality.

#### ► ENGINEER

Engineer efficient information systems (compatible with ISO 14000 and Global Reporting Initiative standards) to streamline data collection, validation and analysis. (Some companies buy these, some build their own; all too many try to get by without them.)

Reporting is often limited by poor data quality and access. Broad geographical scope makes data gathering and analysis complex. Individual sites track local usage and consumption metrics using vendor bills and then report to corporate for what is typically a "manual/annual" consolidation exercise that is both slow





and expensive. (We know of one multi-billion dollar company where a senior vice president personally consolidates spreadsheets from worldwide sites.)

As a result, most current reporting processes are slow, error-prone and expensive, and simply don't support proactive resource management and productivity improvement.

#### ► IMPLEMENT

Instead, implement interactive, enterprise-wide, Web-based environmental information management system (EIMS) decision support systems that can streamline data collection, validation and analysis, and provide ready access to up-to-date information.

Ease the pain of data management by replacing ad hoc, manual data collection with automated data collection and re-fresh using Web based performance evaluation software.

Design it to be secure (so people can access what they should and not be able to access what they shouldn't); simple (so they'll use it); and flexible (so they'll get value by tailoring their use to their needs—which no amount of planning will completely anticipate).

Don't, however, try to standardize data collection processes and systems across the company. Let people keep what works for them, and design the EIMS to effectively gather and parse the data from wherever it may be. Make the system adapt to the people, rather than the other way around.

Many companies are publishing their CSR reports on the Web, but few are taking full advantage of the interactive potential of the medium. Downloadable PDFs are fine for saving trees. User-driven, live charting (see for example, Novo Nordisk, at <http://tbl2001.novonordisk.com/view.asp?ID=202>) enables an interactive process that can build both your brand and the intelligence of your stakeholders. None have yet taken CSR reporting to the level of GE's "real-time" management systems, where GE senior managers have a "digital dashboard" that "compares how certain measurements, such as response times or sales or margins, perform against goals, and alerts managers if the deviation becomes large enough for them to have to take action."<sup>2</sup>

#### ► TRAIN

You can put the best systems in place, but they're useless if people don't use them. Train employees, managers and key external stakeholders to understand—and own—the goals, to use the system to find insight and business value in the metrics and to share what they learn with others. The simpler the system, of course, the easier the training task will be. Flexibility enables insight; ease of use inspires active use.

#### CATALYZE CHANGE

The opportunity here is significant. A CSR report designed as a tool, not just a press release—and as a radar system, not just a

rearview mirror—can provide direct business benefits and catalyze further change.

The direct benefits include reduced costs of producing the report, greater immediacy in reporting, and the tools to support a "profit discovery" process to identify and exploit internal best practices and turn apparent "waste" into competitive advantage. This can deliver powerfully by: improving financial performance (leaner cost structure, gains in market share and penetration, improved customer loyalty and employee morale); increasing shareholder value (gaining brand momentum as a CSR leader); improving tools and capabilities (innovation in product and business development); better feedback for better operating efficiency (improved strategic thinking and managerial confidence); while simultaneously improving environmental performance (reduced footprint, regulatory "insulation").

The resulting opportunities for what we call "profit discovery" are huge, since modern industrial society pours energy and materials "down the drain" at a prodigious rate—\$64 billion on fuels and electric energy and \$1.9 trillion on materials for U.S. manufacturing alone. Since even within single companies we find variances of 20 to 50 percent in energy efficiency across different regions and facilities, close tracking of performance and internal best practice initiatives—a "side effect" of this approach to reporting—can yield significant financial returns.

But, "today, businesses are mostly shooting in the dark," says Michael Maoz, a research director at Gartner, an IT consultancy, and one of the pioneers of the 'real-time' concept. Real-time technology, he predicts, "will give firms a window into their business they never had before."<sup>3</sup>

So ask yourself, "Do we have a world-class CSR report?" Then ask, "Do we use our CSR reporting process to help our people make better business decisions?" If you discover that you are not leveraging CSR information management to discover new business opportunities, then the next question should be: "When can we start?"

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<sup>1</sup> Ayres, R.U., Kneese, A.V., 1989. "Externalities, Economics & Thermodynamics," in Archibugi & Nijkamp, eds., *Economy & Ecology: Toward Sustainable Development*, pp. 109-117. Kluweracademie Pubs, The Netherlands

<sup>2</sup> "How about now?", *The Economist*, January 31, 2002, [http://www.economist.com/displayStory.cfm?Story\\_id=949071](http://www.economist.com/displayStory.cfm?Story_id=949071)

<sup>3</sup> *ibid.*