Integrated Approaches to Environmental Sustainability

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by

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Executive summary

PURPOSE OF THE CASE STUDIES

These case studies were developed to assist practitioners and academics in understanding the relationships between environmental management systems, external environmental reporting, stakeholder engagement and drivers of organisational change leading to improved environmental performance. Together they provide guidance for organisational participants in making choices about the development and integration of systems and processes designed to assist decision-making, leading to improved environmental performance. They provide organisations with an opportunity to learn from others' approaches, successes and failures.

Through an examination of internal and publicly available documents and interviews with key organisational staff conducted between 2005 and 2007, a number of questions were addressed.

- How are companies approaching the development and formalisation of their environmental management systems (EMS)?
- How does the commitment to stakeholder engagement influence the development of an EMS and external reporting?
- Does the existence of an EMS and a commitment to stakeholder engagement lead to decision-making aimed at improving environmental performance?
- Who is delegated responsibility for development of environmental management/reporting?
- What reference points are utilised to develop an understanding of what should be included in the environmental report?
- What is the involvement of the board of directors and key stakeholders in the development of environmental management/reporting?

We studied six Australian companies: two manufacturing companies (Civil Constructions and Plastic Solutions), two mining companies (National Miner and Local Miner) and two water companies (Capital Water and Driland Water). All of these organisations have both significant and diverse environmental impacts and associated stakeholder engagement and, as such, we might reasonably expect them to be choosing from the current best practices.

Company names and job titles of interviewees have been changed in the report in order to maintain anonymity. Anonymity is a condition imposed by the ethical requirements of the authors' institutions in relation to publication of data gathered from interviews for these case studies. Where necessary, to maintain anonymity, emphasis or slight changes have been added to quotations from interviewees using brackets, for example [X Company].

KEY FINDINGS

Environmental regulation has been a catalyst for all initial developments of an EMS in the case study organisations. For some organisations regulation appears to have been a trigger for a proactive approach to managing sustainability performance. The cases of Driland Water and Capital Water, however, demonstrate that the nature of the regulatory focus can also hamper sustainability performance improvements. This is not simply the result of controls limiting expenditure, but a piecemeal approach to setting environmental targets by government bodies which fails to take account of overall environmental impacts. The differences in regulatory requirements between various jurisdictions can also shape the development of the EMS within larger organisations. As a result, both National Miner and Civil Constructions initially developed site-based EMSs and stakeholder engagement processes to meet different local regulatory requirements. As a result, the focus and processes of each major site differ. In recent years, while Civil Constructions has sought to provide greater central guidance, National Miner has retained its site-oriented compliance approach to environmental management.

Compliance for many organisations provides a minimum benchmark for management and performance. A critical factor in determining the status and development of environmental management beyond compliance is organisational leadership. For example, the chief executive officer at Civil Constructions was determined to set targets at the level of best industry practice and to work towards achieving them. Civil Constructions is divisionalised, but has central leadership supported by resources such as those needed to implement its sustainability tools, including designated environmental personnel at head office. National Miner, on the other hand, does not have this central leadership and, therefore, each operating site has had the ownership of environmental management and stakeholder engagement processes delegated to it. This may present difficulties when a corporate-level response is sought or required. The focus of Plastic Solutions has been primarily on financial performance rather than sustainability performance. The efforts it has made have been reactive, in response to pressure from major customers and environmental incidents. The case highlights the importance of leadership at board level, a proactive approach to the environment and a proactive response to data provided.

Civil Constructions, Capital Water, Driland Water and Local Miner all incorporate environmental measures into their centralised strategic planning and have developed policies, targets and action plans. There exist strong links between senior and operational management except in the case of Civil Constructions. There are varying degrees of integration of sustainability issues into decision-making, with Civil Constructions, Plastic Solutions and Capital Water putting short-term financial performance first.

Stakeholders can also play a significant role in defining how far beyond compliance with regulations an organisation

may position its EMS. Stakeholders can be enablers of improved performance, or alternatively can constrain behaviour. The increasing relevance of stakeholder engagement is being recognised through regulatory requirements with, for example, Local Miner's approval process including a formal stakeholder review committee.

The nature of the organisation's structure may significantly influence how the company formally recognises and engages with stakeholders. Shareholders were not identified as primary drivers for improved environmental performance. They can, in fact, inhibit improved management processes with, for example, Civil Constructions identifying the needs to respond to individual shareholder concerns as to the extent senior management have committed to improved environmental performance. National Miner currently does not identify corporate-level stakeholders (or regulatory requirements) as significant drivers for improved performance and, as such, has not sought to develop a corporate-level response on environmental issues. The local community was, however, identified as a primary stakeholder with a significant concern about environmental performance. Local and National Miner both recognised the importance of local stakeholders and this has resulted in these companies voluntarily instituting formalised engagement processes and developing site-based EMSs that incorporate localised input. Both mining companies, therefore, have similar engagement processes at the operational level.

The supply chain (or life cycle of the product) is an area where there appeared to be little current concern or activity. All case study organisations perceive little pressure coming from customers in connection with their sustainability performance. Customers were seen to need education about the need to purchase benign environmental products. Civil Constructions has made efforts to educate customers about the environmental benefits of their products, Plastic Products promotes the environmental benefits of its water tanks to customers, and the water companies make efforts to educate consumers about water conservation. Only implicitly is it recognised that customers can be enablers of better environmental performance. For example, National Miner has identified that, in future, customers may become more focused on environmental performance. There is scope for more active engagement with suppliers on their sustainability performance in all of the case study organisations. Most organisations, however, have not begun to develop supply chain management processes; indeed, an interviewee from Civil Constructions questioned their right to do so.

Most of the case study organisations have grappled with the issues of whether to get external assurance and whether to use a Big Four firm or environmental assurance provider. Driland Water, a leader in many other ways, had decided against assurance. Local Miner has chosen to adopt a single assurance provider, both for management systems and reporting processes. Civil Constructions had not been happy with the nature of Big Four assurance and moved to an environmental assurance provider using AA1000. Capital Water has moved from verifying data to an AA1000 assurance, which has a greater emphasis on stakeholder engagement processes.

The external reporting process is seen as important for Local Miner, Civil Constructions, Driland Water and Capital Water, but is not seen as a significant driver of EMS design. For these organisations, the process of reporting was seen as an important tool to enhance the external credibility of processes and this was reinforced by their alignment with reporting guidelines (including the Global Reporting Initiative (GRI) and industry-specific) and award nominations. Voluntary reporting reflected internal operations, with, for example, Civil Constructions using the same metrics, both for internal purposes and external reporting, and Local Miner using targeted localised reporting and engagement dealing with specific issues or activities. Where reporting was regulated, for example for Capital Water, there was at times a lack of connection between reporting requirements and the information needs of management. National Miner and Civil Constructions highlighted the difficulty in formulating a localised response for environmental management purposes and subsequent difficulties, and providing systematic/cohesive corporate-level reporting. Local Miner and the two water companies, because of their size and exposure to a single regulatory environment, had problems in translating internal process and performance information into external reporting. Environmental management systems (EMSs) are not seen as particularly helpful in improving sustainability performance in civil constructions, plastic solutions and, in general, there is limited integration with sustainability reporting and performance management processes.

RECOMMENDATIONS

Our case studies highlighted a number of issues which require careful consideration in order to enhance sustainability performance. As a result of this work, the following recommendations are made.

For regulators and standard setters

To be most effective, regulation needs to take a long-term holistic approach to sustainability issues.

Reporting requirements of regulators and management need to be aligned.

Environmental management systems and sustainability reporting processes should be integrated.

For accountants and their professional bodies

Greater understanding is needed of how sustainability issues impact on organisational performance.

The financial implications of non-financial quantified and qualitative performance measures should be highlighted.

A team approach to sustainability data collection, measurement and reporting systems is required.

Introduction of robust sustainability assurance processes is critical to the improvement of sustainability performance and stakeholder confidence.

For organisations

Board membership should include people with knowledge of the link between sustainability performance and organisational success.

Organisational structure affects the development of environmental management strategies.

Organisational structure affects performance management and measurement.

Sustainability issues should be included in strategic planning, decision-making, risk assessment and performance management.

Systems should be developed for recognising, engaging and managing sustainability issues in the supply chain.

Stakeholder engagement can help to build trust and improve organisational performance.

Effective sustainability reporting needs to include stakeholder involvement, identification of key issues, target-setting, data collection, and variance analysis.

Management and employee buy-in to sustainability measures and processes is necessary to improve organisational performance.

Effective communication of sustainability performance requires focus on completeness and credibility of reported data.

Reporting to stakeholders and advocacy of sustainability management should be targeted and appropriate media should be used for each target group.

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Case study 1

Civil Constructions

OVERVIEW OF THE ORGANISATION, REGULATORY ENVIRONMENT AND STRUCTURE

Civil Constructions is a large supplier of construction and building materials. The materials produced for construction activities are typical for the industry and include quarry products, cement, pre-mix concrete and asphalt. The products for building include clay bricks and pavers, clay and concrete roof tiles, concrete masonry products, plasterboard, windows and timber. The company is classified as large in terms of the Australian Bureau of Statistics classification, with several thousand employees, a complex set of operating sites and business units, and high sales turnover from operations in several continents. Revenues and assets have been increasing and profits have been steady in the 2000s.

The company is publicly listed on the Australian Stock Exchange and reports annually under the Australian *Corporations Act 2001*. Civil Constructions has had a history of aggressive expansion through acquisition, reverse takeover and asset sell-off, and an emphasis on commercial and financial gains. A number of functional divisions form the basis for its decentralised structure, with divisional managers being members of a management committee which also includes the chief executive officer, chief financial officer, secretary, development executive and other managers of support functions. Financial management is centrally controlled. The chief executive officer provides a link from the Management Committee to the board of directors, which has an independent non-executive chair. Two board committees – Compensation and Audit – are chaired by independent directors and provide important governance mechanisms for the company. One of the main responsibilities of the board is to review sustainability performance and have oversight of occupational health and safety and environmental management performance.

The company is committed to complying with environmental legal requirements relating to each of the jurisdictions in which it operates in Australia and internationally. Close monitoring of the company's sites has been related to the need for remediation at a large number of contaminated sites, a process which took five years under the scrutiny of auditors from the various state Environmental Protection Authorities (EPAs). These EPAs also monitor development approvals for new projects related to plant renewals and quarry approvals and extensions:

'I asked my fellow managers, because there's an equivalent to me in New South Wales and in Queensland and our National GM so there's four of us, and...we all basically said the real regulatory impost issue for us is not day to day compliance, it's development approval, it's how you get that in the present environment especially going into loops of stakeholder engagement and community consultation and trying to engage people and to discuss very technical issues.' (General manager, environment 2)

A company *Code of Conduct* provides a guide to expected behaviour of employees as they move the company towards its mission to achieve sustainable performance and growth. Shareholders, customers and employees are three stakeholder groups that the company specifically seeks to satisfy.

In short, Civil Constructions is a complex, decentralised company, with a history of placing emphasis on the financials, but it also considers the environmental and social impacts of its business.

A legalistic approach formed the initial basis for company interest in environmental and social matters, through concerns over environmental management, emergency management at construction sites and securing planning permission.

'...so it started off life in a legalistic function and reported to the company secretary and politically it stayed there but it works for us, it works for our company.' (General manager, environment 2)

'...if you don't have a good compliance history then it's that much harder to get approval for the next thing you want to do.' (General manager, environment 2)

SIGNIFICANT ENVIRONMENTAL ISSUES AND TARGETS

Civil Constructions perceives a need to address environmental issues in order to maintain, in the eyes of shareholders, employees and the general community, its social licence to operate. The three main environmental matters of concern to Civil Constructions are: energy and greenhouse gas emission reduction, waste management and water conservation. Part of the concern over maintaining a licence to operate relates to one incident involving liquefied petroleum gas and another involving the acquisition of contaminated land which in the late 1990s was eventually translated into a liability in the accounts.

A specific sustainability performance tool has been developed by the company to address environmental and other issues.

'[The CEO] actually sparked off the need to develop the [name of company] sustainability development tool [name of tool], in that he wanted more data on performance, so the CEO really was a key driver.' (General manager, environment 2)

The sustainability tool was specifically developed in the early 2000s, in conjunction with a consultant to monitor performance. After some initial resistance the tool has been used biennially across all the company's businesses. It was initially used only as an internal self-assessment exercise but audit of the self-assessment has since been passed to an external consultancy. Diagnosis includes some key indicators related to environmental performance: efficient use of energy; water conservation; minimisation and recycling of wastes; prevention of

pollution; reduction of greenhouse gas emissions from processes and facilities; and effective use of virgin building and construction resources.

The sustainability tool brought together information and structure from a number of sources including the Global Reporting Initiative (GRI), Global Environmental Management Initiative (GEMI), the Social Venture Network and the Business Council of Australia. Performance is assessed at four levels: reactive regulatory compliance; proactive; industry best practice; and, world best practice, classified as 1, 2, 3 and 4. The company's aim is industry best practice across all dimensions of the sustainability performance tool. These levels are also colour coded to signify the level of achievement to managers. Initial results indicated that the company's average performance, assessed through a score along 20 dimensions of sustainability set by the sustainability tool, was 67% of world best practice. Initial results provided the foundation for planning for improvement, with a target of 75% being set for each dimension and worked towards by the company.

However, the process of development towards holistic corporate environmental management and improved environmental performance has been slow and dependent upon perceptions within each business, division or region. For example, in the construction materials division the manager observed:

'...we don't have a set EMS and it's certainly not an accredited one to the Australian or the international standard. We will be moving towards that though, we recognise the need for that.' (Division C manager)

The sustainability performance tool has also been built into the company environmental system. A set of indicators were developed and refined over time, and time is taken by each management team to assess its actual performance against the indicators. Finally, senior management review and adjust each team's performance in the light of discussions and some changes are made to the tool.

'We've just, with this review, added upstream. We actually forgot about customers in the [sustainability tool] when it was first done. Or it wasn't strong enough, so we've added a lot more.' (General manager, corporate affairs)

In short, a classic control tool for environmental performance has been introduced over time, piece by piece to help the proactive stance of the company towards social and environmental issues. Yet the value of the sustainability performance tool has been questioned.

Interviewer: 'How do you find the tool?'

Manager: 'Probably just average, I don't think it's a fantastic tool but it's a tool.... I guess I'd like to see it customised a little bit more for the businesses, it's a tool that's used across a very diverse company, from running trucks, transport, scaffolding business, right through quarrying, manufacturing, so it's very general.' (Regional manager, A S).

One regional manager was not convinced about the significance of environmental impacts. Plasterboard, as a building product, contributes significant waste to landfill (DEFRA 2008) over its life cycle, but the regional manager did not feel that the environmental issues were important.

'We have on our system a lot of documentation relating to environmental issues but...there aren't in the plasterboard business, there are not a lot of environmental issues as there would be in, say, the chemical industry.' (Regional manager, A S)

The regional manager was aware of potential ways of improving the environmental impacts of plasterboard, but the need for something more than gradual change, such as a large investment in new plant, seemed too challenging.

'I know one of the major projects is to produce a product with less weight and, if you imagine plasterboard, if you can make it more like a honeycomb material you use less plaster, you therefore use less water and less energy and that's what they're working on, processes to try to use less plaster in the plasterboard. But that's sort of a step change so...they're trialling things...it's something they're working on at the moment. We've done some tinkering around the edges by putting in rain water collection for operating some of our toilet facilities and that sort of thing.' (Regional manager, A S)

Potential links between the audit of performance based on results from applying the sustainability tool and the planning process also seemed to be played down:

Interviewer: 'How do you go about setting those targets? Is there any link with the use of the sustainable diagnostic tool?'

Manager: 'No, I can't see any direct link.'

Yet the company specifies in its *Sustainability Report* that the tool is used to measure and monitor the sustainable development of each business to enable the establishment of plans and improvement targets. Expectations about the targets and their link with continual improvement are provided. Division C manager highlighted that a score of 75% represents industry best practice and this was the current aim on average across the business. The general manager, environment 2, made it clear that how to achieve the target scores is up to the different businesses but that they could not afford to leave even one score at the minimum performance level.

Finally, Civil Constructions supports a range of conservation projects in Australia, with an emphasis on rebuilding natural habitats and biodiversity protection.

OVERVIEW OF ENVIRONMENTAL MANAGEMENT SYSTEMS

The company's strategic direction in relation to sustainability is set from the centre of the organisation. Clear policies and operating frameworks have been established to guide divisions and line managers towards managing operations in a sustainable way.

In Civil Constructions the environmental management system is seen by the general manager, environment 1, as being:

'...around compliance and reporting and all the things that you need to attempt to manage your environmental performance. But there are things there that I see as the broader area of the environment that aren't picked up under the EMS.' (General manager, environment 1)

The company has over the last 10 years introduced a company environmental management system, environmental training, contaminated site management, development of a sustainability performance tool, and a structured approach to stakeholder engagement.

Environmental policy is seen as an important part of the company's environmental management system:

'...in terms of the environmental management it's the whole gamut of things that you'd expect with respect to policy, reporting, auditing, monitoring, training, all the usual other things that make up a management system I guess.' (General manager, environment 2)

Civil Constructions has had an environmental policy in place for five years, one that commits to best practice environmental performance. The policy is couched in terms of embracing the need for sustainable development, something seen as necessary for success and growth. Policy is to implement and maintain environmental management systems across its businesses based on the ISO 14001 international standard, or its equivalent. As part of this gradual implementation process, the company looks to use communication and training for employees and contractors in order to improve environmental awareness and performance.

The environment policy is based on a need for continual improvement and quantified target-setting in relation to key environmental impact areas, such as efficient use of energy, water conservation, minimisation and recycling of wastes, prevention of pollution, reduction of greenhouse gas emissions, and effective use of virgin resources in the company's construction and building activities. Continual improvement is encouraged, with a requirement for divisions to generate sustainability projects which will lead to improved performance.

'...one of the fundamental spin-offs of this is every year they have to generate two sustainability products per... business, and within the businesses there are generally projects within sites which means that this year there are about a hundred and forty seven sustainability projects, most of which are focused on particular elements which they saw as weaknesses.' (General manager, environment 2)

Company environmental policy also specifies the need for building constructive dialogue with communities surrounding company sites, remediation of contaminated sites to internationally acceptable standards, and compliance with relevant environmental legislation, regulations, standards and codes of practice as an absolute minimum in each of the communities in which the company operates. The environmental policy requires business to be conducted with suppliers and contractors committed to the company's values.

Environmental management systems are seen as being separate from accreditation of the systems, with accreditation being viewed as driven by pressure from customers.

'...if you sit back and think about our environmental management system, it's actually a separate isolated system from the accreditation system....' (Division A manager, DP)

'We've got to have accreditation to meet customers' needs.' (Division A manager, DP)

Some business units with accredited environmental management systems which are not internally regarded as being satisfactory raised questions about the efficacy of the process.

'[X business unit is] a business that's actually got ISO 14001 certification so they know what they don't know about their management system and realise that they'd taken their eye off the ball there for a few years and so they'll get back into getting their management system back up to scratch.' (General manager, environment 2)

STAKEHOLDER INVOLVEMENT IN ENVIRONMENTAL MANAGEMENT

Company environmental policy is to engage in open, meaningful dialogue with stakeholders. According to the general manager, environment 2, community engagement is, for example, assessed by the sustainability performance tool in a way which goes beyond a mere checklist of requirements.

'Community relations and engagement are assessed using a range of requirements plus examples to determine where along the scale of zero to four a particular business considers itself to be. The assessment is done basically internally by the business, they do a self-assessment and the expectation and the general process is that the general manager will get all his reports together and they'll spend half a day to a day doing a self-assessment working their way through all of these and of course it's never a case of tick, tick, tick, all of column one, all of column two, all of column three, it's yeah, we've got all of that, some of that, a bit of that, sort of thing.' (General manager, environment 2)

Supply chain pressure is not seen as one of the pressures for involving stakeholders in environmental management.

'...I don't think the people for whom we supply concrete or quarry products to are pushing us for our sustainability credentials.' (General manager, environment 1)

FACTORS INFLUENCING THE DEVELOPMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

An environmental management system based on ISO 14001 has been in place since the mid-1990s. ISO 14001 was used because of the prior engagement of the general manager, environment, in the development of the standard, as well as familiarity with the standard, which makes it easier to convey to other people in the organisation. However, only a very small number of sites are actually accredited to ISO 14001 standard as the company does not see a net benefit from accrediting smaller sites.

Environmental strategic plans are prepared annually by each of the company's operating divisions and reviewed and approved by the managing director and Civil Constructions' general manager, environment 2. Focusing on priority areas covered in the company's environmental policy as well as those areas of importance specific to individual businesses, these plans have a one-and-five year outlook (short and long terms), and include targets and action plans. Improved collection and management of environmental data, particularly energy/GHG emissions, water and waste, has been a focus across businesses in recent years.

The role of the CEO is important in the move towards development of systems to support sustainability and environmental management.

'...if you don't have the CEO behind you, you won't get anywhere fast. And conversely if you have a change of CEO and the new CEO's not all that committed, it takes a little bit of time but you definitely see the pace slacken and the momentum drop away...' (General manager, environment 2)

Indeed, the CEO sees external pressure as secondary to internal commitment.

'[The CEO] actually at times gets very frustrated at what he sees as the pressure of all sorts of external groups to point him in particular directions and he says we're gonna do it our way. Now fortunately, he's strongly committed to sustainable development, he likes to be able to put these things up and likes to do OK in indices...but he sees this approach as an internally driven approach.' (General manager, environment 2)

As with many organisations, if a financial gain can be envisaged from engaging with sustainability issues enthusiasm wells to the surface. At Civil Constructions financial considerations dominate decision-making, with environmental issues in second place.

'[Civil Constructions] is not a world class sustainability global leader company and doesn't under our current managing director desire to be so where they will do things seemingly for pure sustainability objectives. Ours have to be closely linked with financial gain as well...'. (General manager, environment 1)

Pressure to develop environmental management systems has two focal points, the need for compliance and the desire to go beyond compliance to consider the needs and wishes of customers, employees, the general community and regulators. Compliance issues are dictated by the central environment group, whereas the general manager of the environment group feels that the profit-making aspects of sustainability are in the hands of division managers.

'...we see ourselves as an internal consultancy first and corporate policeman second, so we're here from head office therefore we're here to help you...'. (General manager, environment 1)

'I've got very limited resources so we in [the provision of services] area put our efforts where they're needed and wanted, as distinct from the compliance area where we have absolute right to go onto sites, go into businesses to determine from a corporate governance point of view their level of compliance.' (General manager, environment 1)

Internal performance is improving over time and is reflected in a tightening of the planning and control process through both an improvement in actual performance and a tightening of benchmarks as industry and world practice improve.

'...the CEO liked this concept and once he started to see the numbers and get a feel for what he could do said OK, let's set a target of each time. He expects a 25% improvement in number, so we would expect to be at 2 in 2003, 2.5 in 2005 and 3 next year, and we're on track for that.' (General manager, environment 2)

'Within a particular element there'll be more requirements, we actually shift things back, so in other words the goal posts are going that way so what was a 3 is now a 2, and they accept that....' (General manager, environment 2)

An element of acceptable performance is determined for the company by limiting the targets for continual improvement.

In summary, an initial focus on compliance, driven by central oversight, is complemented by decentralised decision-making in relation to sustainability matters that will lead to improving income and environmental performance up to industry best practice.

OVERVIEW OF EXTERNAL REPORTING AND FACTORS INFLUENCING ENVIRONMENTAL REPORTING

For several years Civil Constructions has produced a separate *Sustainability Report*, with social and environmental information being included in the *Annual Report* for at least 10 years. Information about social and environmental performance is also disclosed on the company's website and disseminated through a magazine published four times a year. A clear environmental policy embracing sustainable development and responsible environmental practices was publicly available 10 years ago.

Sustainability reporting is the responsibility of corporate affairs under guidance from the chief executive officer. The importance of sustainability reporting has been highlighted through specific appointment of an expert from a large accounting practice specifically to build trust with stakeholders.

'In our *Sustainability Report* last year you'll see that we had [a Big Four accounting firm] do an audit of our whole *Sustainability Report*. And I suppose this is the credibility aspect, we're serious about it and we want to be seen as a credible report, OK it's not all glossy so it's all part of that credibility build, you've got to have our stakeholders trust us and you can't get there without giving credible information.' (Division A manager, DP)

Assurance about the contents of the report has been moved from an accounting firm to a sustainability reporting assurance provider, a consultancy firm. Part of the rationale for changing assurance providers was to ensure that AA1000 provided the foundation for audit work. In addition, with the new assurance provider the question is raised of whether conventional auditors or environmental/sustainability assurance companies are better placed to advise, assure and encourage better corporate environmental performance. One rationale provided is that:

'...the processes behind the report have changed and there's an increased emphasis on the data collection, and so the data collection has improved, the accuracy of the data has improved, the frequency of reporting data internally has improved and a lot of it's now reported quarterly and it may even be done more often in the future.' (General manager, environment 2)

Another issue which arose was raised by the general manager, corporate affairs, who pointed to very detailed and unwelcome scrutiny by the accounting firm.

'Pulling this report together and doing the auditing for the first time and I had one of the [executive general manager's] giving me a call saying "what are you doing?" and I'm not involved directly, but I'm looking at my people all running around, pulling their hair out. I had a few people who were really stressed, it was a hard process and I said to [name of manager] "please tell me this has been the right decision, at this point in time, to get [name of large public accounting practice] involved". Because they were really scrutinising everything, from lost-time injuries and, you know, we have a system but then we have a manual adjustment system. But they wanted everything that had been manually adjusted reconciled. And it was driving me absolutely insane. You know, we'll give them a few examples, but no, they want all 18 of them.' (General manager, corporate affairs)

Information for the *Sustainability Report* has been gathered division by division, rather than through a corporate requirement because, initially, some divisions gathered, for example, energy and greenhouse gas emission data while others did not. The divisional approach was seen also as a way to encourage ownership of and commitment to environmental issues when the history of the company is one of antagonism towards the centre because of acquisitions leading to reductions in resources. Divisional data were seen as credible data and a good basis for measuring performance in a company where 'what gets measured gets managed' (general manager, corporate affairs). The ability to consolidate useful environmental information at the company level was questioned as well.

'...a lot of the numbers we can't consolidate anyway, because they're meaningless. We can't add up all our waste because waste in parts and board is different to waste in timber.' (General manager, corporate affairs)

Apart from the sustainability report the company issues newsletters, a newspaper, and website information to stakeholders.

Every year Civil Constructions is voluntarily involved in a self-assessment rating process subject to verification by an independent auditor. The company was included in an external ranking agency's corporate responsibility standards series of indices designed to demonstrate transparency and facilitate investment in socially responsible companies.

Environmental audit is seen as a costly and time-consuming business for the company. In one recent year the Environment Department of the company undertook 40 external compliance and/or systems audits, and 20 acquisition and divestment audits. In one division 629 internal environmental short-form audits were undertaken. An action plan for each site is compiled from all applicable sources (audits, checklists, environmental improvement plans, regulatory notifications) and progress is formally captured for each business and reported monthly on an exception basis (to Civil Construction's Management Committee). Data are aggregated quarterly for inclusion in the board of directors' report, together with key environmental issues.

STAKEHOLDER INVOLVEMENT IN EXTERNAL REPORTING

Major stakeholders with which the company communicates include customers, suppliers, employees, shareholders and the communities near to operations. A stakeholder engagement handbook has been developed, which assists with the long-running environmental review and stakeholder engagement committees. Stakeholder engagement, an indicator derived from the sustainability performance tool, is assessed by businesses on a scale of one to four. The target is industry best practice, as it is for all environmental performance indicators.

The emphasis is now firmly on the company educating customers to be aware of the environmental aspects of the products they purchase.

'Another issue we discussed was the extent to which they are leading the market in sustainability products and having to educate the market, and he said that really was quite a big issue, there is a lack of market awareness about the extent to which they are producing environmentally sound products and building materials and they've now produced some brochures on this to distribute to potential customers. And he said while the market has improved in their readiness for their products there was still some way to go and he said that [name of company] did feel that they had an important role to play in the market on the value of sustainable products.' (General manager, environment 2)

Nevertheless, perspectives on the merits of this course of action vary from stakeholder to stakeholder. For example, some shareholders take a different view.

'[The CEO] referred to a question that was raised at their last AGM by a shareholder who asked a question about why they were going down the route of environmentally friendly products when it was eating into profits. So that was interesting in that they're still getting asked those questions by shareholders and that therefore is an issue for them.' (General manager, environment 2)

Recent changes have been made to the sustainability tool implicitly recognising the need for increased attention to the company's suppliers.

'They've just readjusted the weighting on that supply chain so it's actually got a higher weighting now. And in that process, in that review process we were on the team with [the general manager, environment 1]' (Division A manager, DP).

In spite of this awareness the company does not perceive that it is exposed to environmental and human rights issues from its suppliers and has no desire to impose environmental requirements on its suppliers:

'While I can encourage [Civil Constructions] to prefer to deal with suppliers that have similar approaches and views to our own, I don't...it's absolutely not at the stage where we're going to try and impose our rule on other businesses It's not something I've discussed directly with the managing director so I'm not sure what his view would be but...I'd be surprised if he thought we had what I see as the right to impose our particular predilections on other businesses.' (Managing director, environment 1)

Employees are one group targeted by sustainability reporting, yet at this stage they seem to have little awareness of changes in environmental performance improvements brought about through application of the sustainability performance tool.

'The sustainability tool I really don't think impacts health and safety really at all probably. But environmentally there are some improvements but I don't think the employees would be aware of it.' (Regional manager, AS).

Lack of stakeholder feedback on the sustainability report was noted at the corporate level.

Interviewer: 'Do you get much feedback after the report goes out?'

Interviewee: 'No. Very little and in fact, you go "well I guess no news is good news".' (General manager, corporate affairs)

However, pressure was acknowledged from ACCA through its annual sustainability reporting awards. The general manager, corporate affairs, had expressed a view that there has to be a quid pro quo in terms of value to the company from engaging in the awards process.

INTERACTION BETWEEN INTERNAL MANAGEMENT SYSTEMS AND EXTERNAL REPORTING

Some confusion existed over responsibility for internal management systems. Division C manager states that budgeting is driven by the business units, with each manager anticipating where expenditure will be needed in the forthcoming period, while the general manager, environment 2, felt that through centralisation the divisions, rather than business units, determined what would be spent on environmental management.

'...accounting systems have become more and more centralised, the businesses have become more and more compliant, so the fact is everybody does it the same way because they're locked into it. So it's becoming less and less relevant to talk to a business GM about a system.' (General manager, environment 2).

Such ambiguity means that links with external reporting are also likely to be tenuous. At the corporate level Civil Constructions deliberately seeks to play down external drivers of internal management systems.

'...we're trying to drive the management systems internally and then reporting is an outcome of that.' (General manager, corporate affairs)

For example, information about electricity consumption at the site level has been gathered, thereby allowing calculation of kilowatt hours per tonne in addition to the normal financial operating information on dollars per tonne of production as a basis for benchmarking.

Internal reporting on environmental issues at the site level occurs each week, for example at quarries. In addition, a monthly report on environmental issues at the divisional level is forwarded to Head Office, an environmental audit takes place every six months, and, every other year, the sustainability performance audit is completed as part of the eco-control system. A quarterly report on environmental performance is submitted to the board by the general manager, environment, through the general manager and direct discussion between the general manager, environment and the board occurs once a year. This information is available on the intranet at a business-unit level and on a monthly basis is fed into data for the sustainability report at the divisional level.

General manager, environment 2, did make it clear that the environmental management system and stakeholder engagement were not of critical importance in driving improvements in corporate environmental performance. Instead, improved performance was driven by leadership from the chief executive officer over strategic planning on environmental issues and a strong commitment to the regular collection of relevant data, monitoring and reporting on performance within the company to assist with this process. Minimal feedback was received on sustainability reports and there seemed to be minimal external pressure for changing internal environmental management systems or environmental reporting.

SUMMARY OF KEY POINTS FOR CIVIL CONSTRUCTIONS

Civil Constructions is a proactive company in relation to its environmental policy, *Code of Practice*, sustainability reporting, implementation and use of a sustainability performance measurement tool across 20 indicators, and responsibility of management for environmental impacts. An earlier focus on financial considerations has given way to an embedded concern with non-financial social and environmental performance, especially when accompanied by monetary gains. In this large, decentralised company top management has developed its own approach to environmental management systems, rather than adopting an external system with certification. The central administration assumes responsibility for compliance issues, whereas profit-making through sustainability opportunities is devolved to divisional managers. Decentralisation facilitates the use of self-assessment of sustainability by managers of sites as they strive towards the company target of best industry practice. The targets are accompanied by a planning and control responsibility process designed to implement short-term and long-term actions for preventing environmental impacts.

Review of the quality of information in the *Sustainability Report* was initially in the hands of practising accountants. As soon as assurance was required, responsibility was passed to an environmental consulting firm to gain the benefits from using AA 1000 (ISEA 1999). These were seen to result in better communication and acceptance within the organisation of the items needing improvement. The shift did not change reporting formats but the process of AA 1000 increased emphasis on data collection, and as a result, data collection improved, the accuracy of the data improved, the frequency of reporting data internally improved and information was reported with greater frequency, once a quarter. Although one advantage of AA 1000 is that it can encourage the adoption of improved stakeholder engagement processes, this did not seem to be the driving factor. The move from assurance being provided by an accountant to a specific environmental assurance provider was preceded by some disquiet about the depth of probing of the system by the accounting firm, with a focus on testing data as opposed to building the system capacity, but was also made in order to gain an opinion from a party independent of the financial auditor.

Stakeholder pressure for environmental management system changes and environmental reporting was not strong. The impression given was that employees and customers were not exerting pressure. Indeed the company omitted to consider customers in its initial sustainability performance tool and had to try and make efforts to raise customer awareness of the environmental benefits of the products it offers for sale in order to encourage their take-up. In 2004, formal feedback was sought from customers for the first time by all divisions, through surveys and focus groups, which indicated the developing proactive stance of the company towards stakeholder engagement. Some conflict was evident between shareholders and customers through questions at annual general meetings in relation to links between the development of eco-friendly products and the possible reduction implied for income and dividends.

Suppliers have recently received greater attention in the company's assessment of sustainability performance but remain of little concern to senior managers. The preferred position is for suppliers to be committed to the values and objectives in the company's environmental policy, but this is not monitored. For example, low-carbon energy sourcing is actively supported, and safe design of trucks actively canvassed.

Internal performance is being improved over time through incremental improvement in actual performance and a tightening of benchmarks as industry and world practice improve, using the specific sustainability performance tool developed and rolled out through the organisation.

Although external reporting of environmental performance is not a requirement of Civil Constructions' environmental policy, the company does provide performance information to stakeholders. In particular, Civil Constructions provides a concise, readable overview of its operations and clearly shows the link between the company's sustainability practices and its organisational

strategy. The proactive approach to sustainability implemented from the top down is evident through details given of its public policy and board responsibilities.

SOURCES

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Case study 2

Plastic Solutions

OVERVIEW OF THE ORGANISATION, REGULATORY ENVIRONMENT AND STRUCTURE

Plastic Solutions is a diversified plastics manufacturing company with two divisions – Lifestyle and Solutions. Solutions focuses on the production of water tanks for commercial and domestic use, the provision of technologies associated with water pumping and installation systems, and the generation of solutions to water problems facing customers, and a range of storage and handling solutions for the agriculture, chemical, fishing, mining, and aquaculture markets. The division also produces mobile garbage bins, plastic storage containers, recycling crates and other plastic containers. It is part of a company that has recently been in a precarious financial position and which looks towards it for future growth. Growth in the Solutions division is viewed as an important part of the company's strategy to turn the financials around.

The board of directors of the company has a strong focus on the need for growth. In recent years, because growth was deemed to be insufficient, the company has been moving away from its previous dominant role in the provision of supplies to the automotive industry. However, the company has retained an interest in the provision of plastic-based fuel tanks, which is regarded to be a strong future area of growth. Plastic Solutions has presented poor financial results in recent years, with dramatic reductions in its asset base. The company has been relying on growth in the water tank products area as a way to overcome its financial difficulties.

Plastic Solutions is publicly listed on the Australian Stock Exchange and reports annually under the Australian Corporations Act 2001. Although the board does not fully comply with the ASX's Corporate Governance Council's best-practice recommendations, information about reasons for non-compliance is provided. The auditor states that the chairman is not an independent director, and the chairman and director roles are not exercised by separate individuals.

The Corporation has a separate *Code of Business Conduct*, that is designed to ensure ethical behavior and compliance with company policies. The company's *Code of Business Conduct* sets out the practices and policies to be applied by directors, managers and employees in respect of a variety of issues, including environment, health and safety, property, travel and employment. The Code sets out how the company relates to its customers, employees, shareholders, business partners, suppliers and the community, and also outlines the company's responsibilities to the community in terms of its environmental policy and support for community activities.

The board of the company is charged with creating and building sustainable value for shareholders but, in the public arena, does not highlight its role in promoting sustainable development or environmental management. This is at odds with its product range, which includes a number of solutions to environmental issues (eg water tanks). The annual report notes that regular reporting to the board takes place on environmental areas, but no separate environmental, corporate responsibility, or sustainability report is published. The company considered the importance of sustainability when looking at its future direction and recently undertook a sustainability review.

'...we actually looked at what does sustainability mean for [name of company], and of course I got given the task to define some key areas and I sat down with our CEO and I really challenged him on well what do you see as being our vision for being a sustainable business. And he mentioned three things, three key areas...people, process and product...and he said, let's go away and actually define those three areas as a start to how we can then try to build our business to focus on those key areas to start with.' (Manager)

There was no long-term planning planning growth in water solutions, and the emphasis was on the short-term.

'...we got into an area of water and given that the nation's going through drought, there was a big focus on water solutions...we did some advertising around solutions for the home and how every person could actually save water.... We did that in this sporadic fashion and I think that the planning around trying to establish a fully commercialised sustainable business with 3, 5, 10 year plans was probably not done and I think we were left with a business that had a very short focus when really it could've had a longer term focus.' (Manager)

The primary influence on the development of an environmental management system was a chemical spill, which led to the need to assess risk because of the financial implications at a time when the financial position and performance of the company were already in difficulty. Plastic Solutions was fined $50,000 by the EPA to help revegetate an area that had been affected by a large spill of chemicals used in the production of plastic products

SIGNIFICANT ENVIRONMENTAL ISSUES AND TARGETS

Plastic Solutions has been a leader in sales of water conservation solutions for many years. Australia has been facing severe water shortages because of recent drought and so the demand for plastic water containers in industry, residential and public areas has been rapidly increasing. The company is focused on producing products to support government and community efforts to reduce water consumption.

Recent changes in water management legislation in Australia have led to increasing demand for solutions associated with water-poor areas where restrictions have been introduced and the price of water supplies has been increased. The impact is especially strong on industry through recognition of the need for water recycling, and in residential areas, where restrictions on water use are common in Australian states. An additional important stimulus to the growth of business is the availability from state governments of rebates on purchases. Such rebates

vary from state to state and the company keeps up-to-date information about available rebates for customers on its website. Rebates mainly vary according to the capacity of the tank being purchased and the number of facilities being connected, for example toilets or washing machines. Growth in demand led to the company pooling its water conservation expertise into a single group in 2004 and acquiring water tank supplies at strategic locations in Australia. The company's mission is not to increase sales of product as such, instead it sees itself as providing high-quality, well engineered, reliable integrated solutions to the water problems faced by its customers. In this context environmental aspects of products receive growing attention.

The company's manager recognises the links between providing water solutions and the significance of other environmental issues such as greenhouse gas emissions.

'Plastic Solutions is, as you know, very much a water friendly type of company in that it produces water tanks for a very useful application in conservation of water, but do people know what it takes to make a water tank and how much energy we use to make a water tank, and we might be world's best at making a water tank as far as our greenhouse footprint, but do people know that, and does our market know that, and is that a leverage that we can apply to the marketplace to say that, you know, this tank is made with x amount of energy as opposed to our nearest competitor which is triple that.' (Manager)

The company also recognises the problems caused by the packaging of its products, for example hoses and hose fittings. It has been a signatory of the National Packaging Covenant for five years, which has an action plan in relation to management, research, development, design, labelling and disposal The Covenant has made a commitment to engage with supply-chain companies and the recycling industry to reduce the environmental impacts of packaging, and key performance-indicator information is reported.

At this stage the company is only beginning to think through these issues and, apart from the National Packaging Covenant, has no targets and no champion on the board for environmental issues. Indeed the manager indicates that data continues to be generated with no use or actions being anticipated. He is critical of the board's limited focus on environmental issues and their lack of incorporation in strategic planning.

OVERVIEW OF ENVIRONMENTAL MANAGEMENT SYSTEMS

Plastic Solutions has had an environmental policy in place for several years. The policy looks for continuous improvement in protecting the environment and espouses compliance with relevant environmental laws, industry codes of practice and other initiatives to which a commitment has been made.

The Solutions division is one element in the corporation that has its own company risk management programme. The programme is reviewed by the Audit and Risk Committee of the board of directors through the administration of annual due-diligence questionnaires used at the end of each financial year to review the environmental performance of the corporation's sites. The questionnaires are completed by the manager responsible for the site. The corporation states in its annual report that all sites surveyed complied with the letter of the law in respect of environmental licences, permits and approvals for ongoing operations, with no compromising incidents being recorded.

Plastic Solutions introduced a certified environmental management system in the 2005/06 financial year, with the quality manager taking the critical role. The manager was rather disparaging of the tick-the-box mentality associated with ISO 14001 certification but planned to gain board approval for a sustainability model to guide environmental management at all sites.

'Companies with lots and lots and lots of money would've just said install the ISO 14001 system, don't care how you do it, just do it and let's tick the box so that we can say that this was the reaction to a major incident. I don't agree with that, I think it's a much more beneficial way to install a system and get a system owned and then you're getting it for the right reasons.' (Manager)

The manager was more concerned to identify big environmental risks than to install a system that looks good on paper, passes the audit every time, but is not understood or implemented by operators. In part concern was brought about by prior experience in the company.

'Plastic Solutions...has had risk audits done by external third parties, very reputable third parties for fifteen years... we had a spill and it just demonstrated that the elements that were identified out of the audit process or at least the accreditation process were being dealt with seriously. The problem that I had with all the surveillance audits that were happening in the many years after it was accredited that hadn't been picked up as a major non-compliance.... I would've suggested that if that process was put in place that the auditor would come to site and say hang on, I see there's three potentially high risk environmental aspects in your site and you've said you're gonna do this and it's now a year and a half and you haven't actually done them. To me that's a major non-compliance, it's actually saying you've identified three high risks and you're not dealing with them, the system's driving you to say I reckon you've got a problem, I'm going to note it, it needs to have focus at the senior levels.' (Manager)

The manager was worried that the board had not in the past been receiving all the information about high environmental risks that it needed for control, with the emphasis being placed on establishing a good paper system rather than good physical performance.

'I was very disappointed on a number of fronts and this is why we had problems with the audit groups, because I believe that going back, the board weren't getting all of the information that they should have.' (Manager)

'I've actually told and re-educated our risk consultants, our risk auditors because I believe that a lot of them were not focused on where our real risks were, and I say that a bit guardedly because we've now gone through this re-education programme of what adds value for [name of company] and they're looking at physical compliance rather than system compliance, whereas they used to come and say your procedure for handling drums fails to ensure that those drums are not left in places where they could potentially be vulnerable to an environmental pollution event.' (Manager)

The quality manager at Plastic Solutions also highlighted the tick-the-box mentality which existed in the company:

'[The approach] was mainly centred around this, you know, we're gonna tick the box and make sure that we put the green ticks on the products and what not, and I saw it being, um, the tail was wagging the dog exercise in that we were always slave to the system rather than the system actually providing value that we wanted to keep nurturing.' (Quality manager)

Furthermore the quality manager viewed accreditation as a failure in the past because it was not resourced properly.

STAKEHOLDER INVOLVEMENT IN ENVIRONMENTAL MANAGEMENT

The company environmental policy was introduced following a chemical spill which later led to a prosecution by the EPA. Shortfalls in environmental management were recognised by the company and EPA:

'...the EPA was a big contributor to setting up the environmental improvement programme at the [name of site] and some of the other sites have EIPs as well but they're not as structured or they're done purely because of a reactionary type of process that the EPA wanted to make you know, go back to...those bodies are very much the policemen type of approach...' (Manager)

However, the EPA was seen as helping beyond the call of duty on some occasions:

'But just recently having dealt with them during the process of getting a QTEP submission which is part of the remediation process that the EPA require in order to get an audit, a statement of environmental audit issued for the site, and they were extremely helpful from a perspective of being able to turn that process around in near record time based on our commercial requirements. So when you look at how the EPA have helped us, a process that usually takes eight weeks...they've managed to understand that our priorities were very commercial and managed to shave weeks off that which was a terrific outcome...' (Manager)

The environmental policy commits, among other things, to open communication and cooperation with regulatory authorities and local communities on environmental issues; it accepts that environmental targets will be established and revised from time to time; and to community consultation.

Engagement at the community level appears reactive in response to incidents being reported to the EPA rather than proactive in anticipation of environmental problems occurring. The quality manager cites an example:

'One of our plants at the end of this driveway was actually producing...some level of noise. We received a complaint from the community and that was taken through the EPA and we actually made a plan, we rectified that problem and after that it was all right.'

The view was expressed that Plastic Solutions is a very transparent company, with annual meetings being held with the public:

'...one [issue] that comes to my mind was Plastic Solutions in [name of town] and that was very well recorded and also reporting was recorded on the extranet and was a part of the public document.' (Quality manager)

Local community consultative groups were active long before a serious chemical spill, which reached the beachfront several kilometres away from the site, occurred. The consultative groups provided a communication channel for disseminating information about the spill and this was a useful mechanism to some extent. Local community engagement was recognised as important at the [name of town] spill:

'I think it was every eight to ten weeks we organised a community meeting where they were invited, we'd give them some sandwiches, we'd talk about it, we invited the EPA, we invited local council, we invited all relevant stakeholders that were responsive to us being part of the community, and would also deal with the outfalls of us having a complaint.' (Manager)

However, the community addressed by the consultative groups tended to be people living close to the factory, rather than those people using beach facilities for recreation. Hence, Plastic Solutions found that it was subject to criticism because it had not determined all potential community stakeholders with an interest in the activities of the company.

With environmental incidents arising from time to time, securing the trust of the community was not considered to be a feasible objective. Instead, the aim became to improve the company's listening skills with commensurate actions when issues arose.

'To say that they trusted us and the rest of it, there was just too much history, I mean trust is something that is earned, it's not something that you can instil, so it was

more along the lines of making sure that we as an organisation had a mechanism to listen to our neighbours and actually act rather than to try to win their trust, and we were never gonna do that, it was not the right process to ever be able to achieve that.' (Manager)

Employee performance in relation to environmental areas is assessed in part through the performance appraisal system in place. However, the major emphasis lies elsewhere, with the quality manager admitting that environmental performance was but one of about 35 objectives that needed to be met. Nevertheless a responsibility accounting system exists, with the quality manager reporting directly to the executive general manager of the Solutions division.

FACTORS INFLUENCING THE DEVELOPMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

A chemical spill which affected public beaches, adverse community reaction and a fine were the main catalysts for introduction of a formal environmental management system and a focus on risk management. Appointment of a senior manager was made to introduce leadership in environmental risk management. In addition, an environmental policy was introduced, to set the foundation for improving performance in protecting the environment and embed the first steps towards a new culture.

A second factor affecting environmental management was that supply chain pressure to establish an environmentally accredited ISO 14001 system had been brought to bear on Plastic Solutions as a supplier to the automobile industry. The pressure came from customers, and the adoption of an environmental management system was as a reaction to the demands placed on the company. Introduction of the manager was a key influence on moving away from a 'tick-the-box' mindset on environmental management towards the need to get value from the environmental management system.

'We faced the challenge—being part of the automotive industry we faced the challenge of meeting the customer's requirement being the [customer's corporate] policy, the T1 and T2 suppliers shall be ISO 14001 accredited. So I found when I joined [name of company] that a number of our automotive businesses were accredited to ISO, the ISO standard, and I thought that's interesting because their risks associated with actually damaging the environment were fairly low in comparison to other sites which had the potential for higher risk. And I look at this from a risk perspective and how to mitigate risk, so I looked at a number of the sites that we were operating that weren't accredited to ISO and said well how do these stack up and we found that there was a lot of discrepancy in that what I would consider to be a higher risk site, not necessarily high but a higher risk site was not getting control as opposed to the site that was getting control, so there was a little bit of a tick the box type of mentality happening.' (Manager)

'...if [customer] hadn't put that policy in place then none of the [name of company] sites would, sorry maybe one of the sites would, be ISO 14001 accredited, so you can just see that it just happened that it wasn't a focus for the business going back to have all of their sites accredited.' (Manager)

The company initally had a very relaxed way of implementing environmental management systems, through implied methods rather than a formal directive to comply with the minimum standard. Accreditation was regarded as a failure at an accredited site when a significant environmental incident occurred and a large fine imposed. The feeling was that lip service was being paid to environmental management rather than physical performance and so the full implementation of an accredited ISO 14001 system did not appear to be effective.

'We did it a different way, we actually turned around and said OK, we've had a major incident, we need to look at those vulnerabilities within our businesses, we went through a revision of all of the audits, the environmental audits that were done by our third party, we looked at all of the things that were in process of being fixed or looked at from those action lists that were generated and what not, and we said OK, out of those what are the higher risk ones...lets attack them now.' (Manager)

The way forward was to establish what value was wanted from the system by management, not what the accreditation was to provide to outsiders. People with sound implementation experience in instilling the core requirements of an ISO 14001 system were brought on board.

'The people who really understood when you put an [environmental] aspects register together what it shall do rather than just putting that folder on the bench and it should look good if you get audited next time. And that was the real difference in that the aspects registers that were being generated were actually actioned and started to really represent what the true risk controls needed to be. The way in which the system actually works for us is that we actually drive training programmes through the accreditation or the standard compliance. We also look at putting in place mechanisms to control the risks – because they're really two areas, there's a system failure or there's a human failure in any type of incident, and the system failures were dealt with by putting in systems that we identified as being risks.' (Manager)

OVERVIEW OF EXTERNAL REPORTING AND FACTORS INFLUENCING ENVIRONMENTAL REPORTING

External reporting through the *Annual Report* was compliance driven in relation to what was required by the *Corporations Act 2001*, including an environmental statement driven by the *Act*. Conventional accounting does not encourage elaborate reporting on the environment.

'...traditional accounting people who are charged with putting the annual report together will do what they have to in terms of reporting but won't be at the cutting edge.'

Reports to communities were not tailor made in the *Annual Report* or a specialist environmental report, but detailed and timely information was forthcoming when there was a complaint.

'We gave them data that was at the production level. Every time there was an odour complaint that was registered for example, we would actually list down all of our production rates and what our equipment was doing, process upsets that were logged to try to marry up the odour with a process upset or something that was happening or different grade that was running.' (Manager)

The main focus is on a narrow view of what contributes to shareholder wealth.

'...the traditional way that [name of company] has done things is more about the financial state of the business, big focus on shareholder wealth.' (Manager)

As noted above the link between sales, profitability and an environmental sustainability focus has not been made, despite the fact that the sales of the company's product depend on customers' having concerns about the environment. Control of the *Annual Report* remains with those committed to the focus on financial information.

'I think the focus has really been about who is the custodian of producing the annual report and what that person really wants to drive and what messages they want to drive and sometimes at the board level they ultimately are responsible for what data goes in there and the rest of it, and maybe they haven't been as focused in that area as far as what they want to report, they don't see the value in that possibility.' (Manager)

Other types of reporting also have a place in Plastic Solution's communication of performance. Industry associations such as the Plastics and Chemicals Industries Association (PACIA) and the Vinyl Council are anonymously sent information, which is pooled and provides a benchmark for assessment against average industry performance. The company does not provide information to the public on safety health and environmental performance on any of its websites, but has its Internet focus on the product and market information.

External reporting on the action plan for the *National Packaging Covenant* involves provision of feedback to the Covenant Council in relation to: the estimated amount of waste disposed at landfill from retail stores as a result of point of sale promotional materials; the review of the current packaging configurations for garden hoses; the assessment of the feasibility of including Plastics Identification Code to denote the polymer type used in blister packs and fastener tubs; and the review of the certification programmes that provide labels for being environmentally friendly products and packaging. The manager for consumer products assumes responsibility for the action plan.

STAKEHOLDER INVOLVEMENT IN EXTERNAL REPORTING

Communication through senior management dominates in the relationships with local communities when emergencies arise.

'...we have a procedure put in place that is any emergencies in individual companies are actually communicated to the public or the media by our corporate office, only senior management.' (Quality manager)

Responsibility for disclosure of incidents and other environmental information lies in the hands of senior management.

'We display our environmental policies, we do articles in the local media when appropriate, responding promptly to queries, criticisms or complaints about the company's environmental performance or planned expansion or modified activities. Responsibility and authority for release of communication to the public or media is with the senior management team.' (Quality manager)

The 'corrective action' system in place reports environmental incidents in-house and externally. The quality manager makes recommendations to senior management about incidents – and these must be reported to the public.

Interviewer: 'What's the process for deciding which data will be reported externally?'

Quality manager: 'I don't really have the process. I guess it's really up to me. I'll tell you an example. We have to report all incidents, that is no question, it's not negotiable...'

The decision to close the factory led to its demolition by the landlord and site remediation because of the presence of asbestos. Regulatory requirements were complied with but the community was nervous, so proactive stakeholder engagement became critical to success – a lesson learnt from the earlier chemical spill.

'But during all of those processes at the demolition works where you had asbestos release potential and you had dust issues and you had all of those because it's been a fairly dry winter and winds pick up dirt and blow it into the neighbours back yards. Every one of those processes engaged the stakeholders, external stakeholders, and that was driven by reactive stuff from the past. We've learnt from the past in that if we engage with the stakeholders early, tell them what we're doing, tell them please feel free to talk to our contractors if they do start working at six o'clock in the morning, it's unacceptable, these are our hours. We basically set up the letter drops and what not, this is how we're gonna operate, this is what we're doing, this is the reporting that we're gonna be doing so we told

them about our asbestos, we're taking a whole heap of asbestos down, we've had airborne monitoring during that whole process which is part of the WorkCover, or a WorkSafe requirement anyway.' (Manager)

INTERACTION BETWEEN INTERNAL MANAGEMENT SYSTEMS AND EXTERNAL REPORTING

Although the company is committed to internal reporting this does not yet flow through into external reporting of environmental performance and management. The environment policy, established in 2003, determined only that regular monitoring and reporting on the organisation's environmental performance be established for senior management and the board, through the Risk Management Committee. No formal extension to external disclosure has been made.

Internal reporting of environmental issues is part of the reporting system for occupational, health, safety and the environment.

'We have a process in the system that we call corrective action which is a system designed to report all our quality issues in-house or are customer driven or all our occupational health and safety and all our environmental, which means we do...it's very hard to say, oh well if I spill five litres of oil and go into the storm water, doesn't really matter, it's just five litres, you know, but if you do two thousand we have to report it. No, we report everything here.' (Quality manager)

Environmental data through key performance indicators are gathered each month from a questionnaire which is given to the manager, who summarises the main issues from the different sites, and in conjunction with the legal team, produces a monthly environmental statement for the businesses. Network meetings are held every quarter, with benchmarking criteria established internally on a scale of one to five, where five is classified as excellent performance. General external reporting appears only to relate to incidents or environmental crises. In a similar vein, reporting in line with the requirements of the *National Packaging Covenant* appears restricted to the Covenant council rather than to the general community.

Internal key performance indicators are developed by a committee comprised of members from the shop floor, technical areas and management. The committee meets bi-monthly and, once a year, an audit on the environmental system takes place, corrective plans are made when there is non-compliance with the system, and responsibility is pinpointed.

'We report to corporate level. There we have a procedure what we call internal/external communication for communication with regulatory authorities, communication with the public, working with the suppliers and communicating with the customers. We decided that the environment is my responsibility. The present company does not wish to communicate the environmental aspects to the public.' (Quality manager)

There is no external reporting mechanism, the information is viewed as competitively sensitive, and general reporting is not supported. Reporting on specific environmental issues to local enquirers is accepted, based on an environmental management system register of incidents and problems. The data are available but the will to report is missing.

'Yep, you look at water, energy, gas emissions, all those things, as I said we had some sites that were looking at those things and still are looking at those things. The progress to get that over to the rest of the sites is something that is not in the vision of the board right at this stage.' (Manager)

Employees are important internal stakeholders.

'I think this is all about cultural changes and understanding what we're trying to do and for us was very important and for myself personally it's the communication, because I can do these things very much by myself and I guess in our involvement with other people is very important in how we communicate that with the stakeholders in-house. We are informing the people of our performances regarding our KPIs on the quality side, all of these during this process of implementation where, as I said, we got certified sometime ago, it was in November/December last year, all this was communicated, all this was displayed to them, our policies, our internal policies, our environmental statement, all that was always there and I talked to every operator on the shop floor, you know, what we're trying to achieve, what sort of process we're going through.' (Quality manager)

SUMMARY OF KEY POINTS FOR PLASTIC SOLUTIONS

Plastic Solutions has had financial difficulties which led it to promote new areas of business in order to reinvent itself, including a strong emphasis on plastic water solutions for commercial and household customers. The company has been led reactively into developing a concern for environmental matters. This was initially because of supply chain pressure from the automotive industry, followed by financial repercussions resulting from poor environmental management.

Plastic Solutions acknowledged that environmental risk was an important issue and made a senior appointment of a manager in order to lead the company out of its reactive, ad hoc approach to environmental management. However, there is not a champion on the board for environmental matters, which means that there is no emphasis from the very top. External reporting is not encouraged because of perceived confidentiality of information that would be disclosed to potential competitors, so there is no environmental or sustainability reporting. Custodianship of the *Annual Report* rests with accountants, with a focus on financial information, which was seen as an additional barrier to reporting. The web is not being used to effect communication with stakeholders about environmental management or performance. There is reluctance to communicate because of the perceived risk of reporting on

the company's impacts on the environment. The company has not engaged with environmental issues other than as a provider of plastic tank products and associated services related to their installation, a consumer-oriented focus rather than adopting an information-based communication focus founded on environmental management and improving environmental performance. Basic data about carbon dioxide emissions, water usage, and electricity consumption are not gathered and systematic tracking of these data is not envisaged by the board. The board retains a financial focus, with limited success in turning around financial performance.

Relationships with stakeholder groups are specific to occasional significant incidents, which are managed from the top of the organisation. As the financials and conventional accountants dominate process and board attention, the task of the manager and quality manager is seen to be frustrating and truncated.

Case study 3

National Miner

OVERVIEW OF THE ORGANISATION, REGULATORY ENVIRONMENT AND STRUCTURE

National Miner is a large diversified resources company listed on the Australian Stock Exchange. It is an integrated miner and ore processor, with primary operations throughout Australia. It must comply with considerable government regulation and is subject to specific regulations and licensing conditions on various mining and processing operations, which are monitored and enforced by the relevant state EPAs. The company maintains external certification to the Australian and international environmental management systems, Standard AS/ISO 14001, at all major mining and processing sites.

National Miner is subject to National Pollution Inventory reporting requirements for a number of its sites. However, it has chosen not sign up to voluntary schemes, such as the Minerals Council's *Enduring Value* or the Federal Government programme *Greenhouse Challenge Plus*. Instead, National Miner has sought to develop its own management systems and reporting regime. Miner's mission statement commits to superior returns which are sustainable.

In its environment policy National Miner commits to communicating with government and the community on environmental issues and contributing to the development of policies, legislation and regulations that may affect the company.

The environmental policy is signed off by the managing director. Governance of environmental issues is overseen by the company's Occupational Health, Safety and Environment Committee, which currently has five non-executive directors. The Committee's duties are, among others, to:

- review all significant policies and changes and, where appropriate, recommend them to the board
- monitor and report to the board as appropriate on adequacy of management systems
- monitor and report to the board as appropriate on the adequacy of performance and compliance
- ensure adequate internal and external audit coverage for all major risks and report to the board on any issues arising from this coverage
- report to the board as appropriate on any other significant issues.

Given the size and diversity of the organisation, the case study focuses on the corporate response and the operational response from a single site (site A) which is significant for the company in terms of operational activity, environmental considerations, regulatory oversight and community engagement.

SIGNIFICANT ENVIRONMENTAL ISSUES AND TARGETS

In 2006/7, National Miner had greenhouse emissions in excess of three million tonnes of CO_2 equivalents, or over 0.5% of Australia's total annual greenhouse emissions. One of Miner's operating sites is required to submit an Energy's Savings Plan to the New South Wales Government, as it is one of the state's top 200 energy user sites. In 2005/6, one of the operational sites was included in the list of top 200 water users in a metropolitan area and is required to submit a water conservation action programme. The company does not report organisation-wide targets and there is no current evidence of company targets on environmental performance.

At the operation site studied (site A), dust management is a critical issue encountered in the transportation of ore to export areas. Considerable capital expenditure is being committed to mitigate this issue, which involves significant community engagement and interaction with relevant regulatory bodies. The site is subject to regulation and has embedded performance targets aligned to the licensing conditions. It is the responsibility of the site management to achieve the regulated targets.

Environmental management and performance has, until recently, been the primary domain of operational managers and has not been centralised. The changing regulatory environment, that is moving toward organisation-wide performance reporting and management and the growing interest of external stakeholders, is resulting in the consideration of centralising certain facets of environmental and sustainable management. Consequences of the decentralised approach currently favoured are that no organisation-wide performance targets are recognised and that there is a lack of formal external reporting of specific performance.

OVERVIEW OF ENVIRONMENTAL MANAGEMENT SYSTEMS

National Miner has all major sites accredited to ISO 14001, and compliance is assured through an annual process of external review. The review process also provides feedback to the organisation as to where there are possibilities of improvement or other opportunities. Smaller sites, while not externally accredited, have management systems in place that would be in 'compliance' with ISO 14001. The motivation for accreditation of the EMS varied, based on location and the general attitude of the local regulatory authority, with ISO 14000 having varying degrees of credibility with state EPAs.

'...we have more than 120 sites...the vast majority of our sites and certainly all the main manufacturing sites have ISO 14001 accreditation. So from a manufacturing perspective it is 100%. We have some smaller distribution sites which are virtually shared and one or two people and their part of the distribution is 14001 accredited' (General manager, environment and technology).

The company is also applying sustainability measures set out by the International Iron and Steel Institute (IISI). A number of the interviewees argued that industry-specific standards and guidelines provide more meaningful insights into performance and better inform the management process than general guidelines or standards. The company uses only those standards deemed appropriate for their circumstances, which may be defined by the regulatory environment in which they operate and/or legacy issues inherited by the company.

'...there are a group of about four or five measures that are more related to things such as CO_2 efficiency, waste, wastage and other things that we may use...the measures have got to suit the culture of the company and we'll certainly have the financial ones and we'll certainly have some customer and safety ones and we'll have some of what's called the environmentally based sustainability ones as well.' (General manager, environment and technology)

'We are driven more to the international iron steel community's list of sustainability indicators for example than ISO 14000, they're all related in the end at ... but the IISI has recommended a list of sustainability indicators for the iron and steel industry and so we're more likely to be driven towards that than to a generic ISO based list of performance indicators.' (General manager, environment and technology)

The diversity of operations and/or geographic locations results in significant differences in approaches to environmental management adopted at the various sites. To foster a level of coordination and consistency within the company an environment network has been created. This network includes the environmental managers of the various sites and is headed by the general manager, environment and technology, who is positioned in the corporate head office. On the major sites environmental information is reported through two channels, the general manager, environment and technology and the site executive general manager. It is through these channels that information is then reported to the board.

The board receives a monthly report, and the company produces an annual *Environment Report* for the board.

'...on an annual basis we do a state of the environment report. This is an internal report where we analyse all our waste use, emissions, overall compliance for the year, all the incidents and complaints for the year, all that sort of data is pulled into that report and put in a package for the board.' (Environmental manager, mining site)

The *Environment Network* is seen as a key component in development of strategy and embedding environmental management at the various operational sites. The nature of the company's operations has resulted in considerable decentralisation of the environmental management activities, and, therefore, the *Environment Network* also facilitates communication between the various managers.

'...I really only have one full time corporate employee. And then we have a network, so in other words I draw on the environmental professionals within the business, within the businesses formally driven by what we call our environment network to engage them in the broader issues. In other words they spend 90% of their time on business base, that's called the tactical issues. But I draw on them to formulate policy, strategy and to drive broader based improvement of issues through the business.' (General manager, environment and technology)

Each of the major sites has its own environmental committee, which includes the entire management team plus the environment professionals. The primary role of the site-based environmental committees is to disseminate information and formulate actions for the implementation of the company's strategy. As a result, it is a conduit for internal reporting as well as being responsible for localising implementation of the company's environmental strategy and ensuring compliance with the regulatory requirements.

'...there's information that comes down about the strategy and the position of the business and there's information that comes up through the committee about emerging issues or tactical issues or implementation and integration issues.' (General manager, environment and technology)

The general manager, environment and technology, is a member of the company 'lead team', with an oversight function on the environmental management systems within the company. As a member of the 'lead team' he is charged with reporting to the executive on environmental initiatives and practices.

'...this role also has responsibility for the environmental management system as a process, in other words who has and what state they're in and where do we desire to be. Implementation again comes down to the business but the board requires a position on these, is there an active environmental management system in all our major businesses.' (General manager, environment and technology)

This recognises the primacy of the site managers in the development of management systems, and acknowledges that the board and executive limited themselves to ensuring that such systems exist. To extend the corporate response beyond requiring an environmental management system the general manager, corporate development had recently instituted a sustainability panel at the executive level. This panel consisted of three members including the marketing manager, corporate relations manager, responsible for the investment community and shareholders, and the general manager for environment and technology. The intent was to provide a more focused, strategic approach to environmental and sustainable management within the company.

'What we're really looking at is strategies for the future. What are the things that the company should be engaged in and how can we make sure that the stakeholders are

engaged. We have a whole raft of things that are, could be very well managed locally but the company actually wants to present that as a face to the external world and that's what the sustainability group is doing. Let's look at what we're doing and make sure that it's cohesive, strategically focused against the company's objectives and then what are the gaps.' (General manager, environment and technology)

The general manager, environment and technology, recognised two omissions from the sustainability panel, which are the CFO and the executive responsible for OHS. However at the time of our visit the panel had only recently convened and was still seeking to formulate its exact role.

The establishment of the sustainability panel provided recognition that while localised or decentralised management of environmental issues was important and necessary, sustainability was a corporate issue and impacted upon all aspects of the business. As such, site-based management was unable to take a holistic/strategic approach. The multi-faceted sustainability issues faced by the company and the need for a holistic approach are reflected in the panel composition.

STAKEHOLDER INVOLVEMENT IN ENVIRONMENTAL MANAGEMENT

To date, stakeholder engagement and environmental management have been the domain of site management. Over recent years site A has faced considerable stakeholder scrutiny and conflict (it has been subject to a number of legal actions instigated by stakeholders). The issues of concern and conflict come both from operations and the transport of materials through a city, which disperses large volumes of dust. The local communities around operational sites are perceived as the primary stakeholders concerned with environmental issues, with the identification of, and engagement with, significant stakeholders an ongoing priority. Site A employs a communications manager who is responsible for stakeholder engagement and has also organised a community-based environmental consultation group (ECG).

'In terms of environment we rank them [stakeholders] by our impact on them. ...we have an impact upon our community and it's a relatively small impact compared to the size of the town so we would say that a very small percentage of the population is impacted directly by our activities, so we treat those people specially so we seek them out and look to communicate with them and to share information of improvement projects with them... The ECG we engage on a monthly basis and we work with them to them making improvements at the buffer zone and also they are the conduit into the community, so they're representative of more of the east end of [name of town] which is the more impacted areas. We've got representatives from elected council members from the council, from education, from local traders, from local environment groups and residents.' (Site environmental manager)

The ECG is seen as a significant conduit between the site and the local community, both in terms of feedback to the company on performance and also as a means of communication with the community itself. The process of instituting a community consultation group is replicated at all of the company's major operations sites and is funded by the company. The ECG is seen as a means of direct exposure of issues to important constituents within the community, providing feedback (for example, on targets), opinions and information on issues of concern to the community. It is not seen as a source of new ideas or solutions.

'They very rarely come with solutions for us to take on board. The way the ECG worked was we have got projects in place which will reduce most of the dust but we'll never get rid of all of the dust. [It's] a dusty place with the steel works or not. So part of the work we have been doing with the ECG is to get people to understand that no matter what we do we're never going to get rid of total impact that we have.' (Site environmental manager).

The use of consultation groups can be a double-edged sword. As a result of community lobbying from a specific stakeholder action group, the state EPA determined to revisit the licensing conditions of site A. The site faced sudden and dramatic changes, which affected the nature of significant capital works aimed at mitigating the impact of dust on the community. There was direct intervention from the corporate office with the state government, effectively sidelining site management and the consultation process with the ECG. The circumvention of the usual engagement process had adverse consequences on the relationship between site management and the community.

'They [the ECG] were extremely upset because we had a meeting with them on the Wednesday and it was a week on Friday it was announced by [the State Premier] in London and so they were a little bit upset to say the least. Absolutely something completely above my level of activity and so nothing I had any control over so that was a bit hard to try and deal with that with them.' (Site environmental manager)

'...so when they reached a point of influence where they started to compromise the business unfortunately the Government were forced to actually legislate to secure the future of the business and the town and the health and safety of the broader residents base. The necessity to do that is a very bad result, it shouldn't have been necessary and it naturally has created some issues in the broader community.' (Manager, technology and environment)

The executives at the corporate office who intervened did not see the adverse consequences of this process, only the need to 'fix' a situation that would have had a material impact on the financial performance of the site and, consequently, the firm. It was left to those who engaged with the local community, who were also excluded from the decision process, to repair the company's relationship with the community.

As a result of this event, site managers and consultants have spent considerable time in engaging with local stakeholder groups, with the site executive general manager now directly involved in the engagement process. The level of response by the company was seen as empowering to the stakeholder groups and this, coupled with positive outcomes from change processes, has significantly improved local stakeholder relations.

The final significant stakeholders are the regulators that oversee the licensing conditions of the site. In many respects regulators were the primary stakeholders in determining the nature of the management systems and they dictated the nature of the dialogue.

'Well first of all we try and maintain a relationship with them because it's really important to be able to have a dialogue. We always engage them, we always cooperate, and if you get in any sort of confrontation with them life becomes extremely difficult and that's the worst result.' (Manager technology and environment).

Whether through community or investor concerns, or regulator intervention it is the relationship with stakeholders that is seen as the primary motivation for improvement of environmental performance. As indicated by the site environmental manager.

'...management system's driving very little, the biggest driver is the external position of the company through our shareholders and stockholders and the investment community who expect you to be able to explain your position in a rational and logical way and also what the risks or impacts are on your business and what you are doing about them. To me at the [corporate] level that is the biggest driver. At a local level it's the community stakeholders ... the environmental management system is driving compliance and that's it, it's not really driving the longer term improvement, it drives short term improvement because you are required to continually improve against the system but it's not what's creating the step changes.' (Site environmental manager)

FACTORS INFLUENCING DEVELOPMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

Historically the significant environmental impact of the company and the resultant regulatory intervention and oversight have been primary drivers of the development of environmental management systems at the site level. The changing nature of concern relating to sustainability, and the increasing interest by a broader range of stakeholders, have resulted in a change in the way in which the corporate office is considering environmental and sustainability issues. The need to consider environmental performance is now influencing the way decisions are made within the organisation.

'...capital projects are justified basically for two reasons – simplistically for either compliance, in other words licence to operate, or for economic return... I'm simplifying a very complicated process, but really there are capital projects which provide the licence to operate, they have no economic return other than keeping you in business.' (Executive general manager, marketing)

The company has chosen to adopt ISO 14001 as the basis for the development of environmental management systems. This has the advantage of providing a sound, consistent framework for the development of the management system, but it does not articulate the performance criteria required at various sites. The importance of accreditation to ISO 14001 also differs from location to location. Within the Australian context, each state has its own regulatory framework and, for those companies that operate across state boundaries, this has implications on how management systems may be developed and localised.

'It's a state-based jurisdiction so you can't have a process that works in Victoria, New South Wales and South Australia unfortunately... The applications are different. And the drivers for the EPA in those three states are different so in other words their strategy or their policy or what the government or the board has told them is important, is different from state to state so you need a state-based system.' (Manager, technology and environment)

'The ISO 14000 series and the associated credibility with the series are still important for the company... there needs to be a process and system around the management of anything and 14001 is a recognised internationally based system that's considered to be sufficient for environmental management purposes...with ISO 14001 there are a number of people who can help you and getting audited against it is a routine activity that you can engage any number of consultants to assist you in that process but to develop your own system and audit against it is a huge activity.' (Manager, technology and environment).

The motivation for ISO 14001 accreditation can therefore be credited to the standardisation of management framework and the credibility of the accreditation scheme. It is not intended to substitute the need to have a robust management of actual performance at the individual site level.

An issue of increasing importance for environmental management was the growing concern of customers. Currently, customers' concerns are not seen as critical to the business, but that is changing, with increasing discussion of building codes and the use of recycled, or recyclable, materials.

'They're starting to ask the questions and we need to be in a position to understand that that is going to be a trend that is going to continue to grow and how are we going to be in a position now so in five years' time we're selling our products and services that meets those needs. And that's really what we're starting to build a capability around.' (Executive general manager, marketing)

OVERVIEW OF EXTERNAL REPORTING AND FACTORS INFLUENCING ENVIRONMENTAL REPORTING

As with the internal management processes, external reporting occurs at two levels within the organisation – site level and at the corporate level. Site A, for example, has its own dedicated communications manager and has also developed a number of local communications strategies and tools beyond communication through the Environmental Consultation Group. Targeted reporting to the general community is not always a straightforward process, particularly where performance data are generated to meet the reporting specifications of the licensing conditions rather than in a form that is understood by a general audience.

'...a very technical industry and taking a very technical approach to management of our business, we've actually made a lot of mistakes Based on scientific fact and evidence, we are doing the right thing but made mistakes with the community because we didn't understand that they don't believe any of your technical jargon.' (Site environmental manager).

The need to provide data to the EPA, as part of the licensing conditions, means that a technical approach to reporting is used at site level. As a result performance information is generated in a form more commonly used by technical experts measuring performance. Establishing reporting processes at the site level has enabled a more flexible and timely response to community concerns. The challenge for site-based communication is to make the information accessible to a general audience. For example, the site can immediately formulate a response to incidents that adversely impact the community, through local media and community groups.

'We can't do it on the day 'cause we don't get access to the data live, it's EPA data, we get it a week later and so what we did was put a half page ad in the local newspaper to let people know what had happened, what we did about it and what we are going to do different in the future.' (Site environmental manager)

At the corporate level, the company has a newsletter that is targeted to employees, which is also available on the website.

'Because any information that the company produces that goes to staff is going to go outside the organisation whether you like it or not so you do it in such a way that anyone can have access to it.' (General manager, corporate development)

The company discloses information in the *Annual Report* and online, but does not produce a discrete environmental or sustainability report. The decision was justified by the general manager, corporate development.

'It's a complete waste of time. I mean who reads them? The number of people that read the normal annual report is limited, you'd have a sub-set of that again that wouldn't read sustainability reports.'

The general manager, corporate development, believes that the *Annual Report*, supported by the corporate website, should contain sufficient information to meet the needs of external parties.

'Our argument was – well, if you go through the standard annual report in Australia there's a section on environment, there's a section on occupational health and safety, there's a section normally around sustainability in a lot of reports, so the fact that we don't print separate sustainability reports is irrelevant.'

The argument from the company is that sustainability is about managing processes, not reporting on processes through a separate report.

'The steel industry has its own sustainability process, we've adopted that as the framework, we do a lot of work incorporating sustainable development into business practice, so that's the approach we take, not reporting a whole pile of stuff that we do. This is about building – how you go about building sustainability into the way you manage the business and what that looks like.' (General manager, corporate development)

'...we do not intend to issue a separate sustainability report, we see it as more part of the whole business rather than something independent therefore it will be appearing in our annual report. I know a lot of companies produce a separate report.' (Site manager)

This stance on corporate reporting is perhaps of the decentralised approach to environmental management and a historical view by the corporate office that it is a local/site issue rather than a corporate issue. It is reflective of an organisation that has promoted proactive site-level management and consequently not considered the opportunities for centralised accountability on firm-wide performance.

STAKEHOLDER INVOLVEMENT IN EXTERNAL REPORTING

External reporting of National Miner has been limited at the corporate level. At the time of the interviews, corporate sustainability reporting was the responsibility of the general manager, corporate development. As noted previously, the general manager, corporate development did not support the trend towards producing discrete reports, but preferring instead to allow site-level managers to invest resources into performance improvement. The attitude of the manager, corporate development, is that there is very little value in the reporting of environmental performance and, consequently, corporate reporting is limited.

'We believe that the tick-the-box mentality that's taken over on sustainability is not the correct way of doing it.' (Manager, corporate development)

'...reporting a whole pile of crap that has been defined under the Global Reporting Initiative [GRI], which looks at

how much pollution you put in the air, how much water you put in the air, how much stuff you dig out of the ground, etc To me that's complete and utter bumpkin. What they ought to be asking is questions like how do you utilise water through your operations. For example we use 180 gigolitres of water down in our (site A) facility, four of which we take out in fresh water, we recycle that 10 times through the plant and we take 140 gigolitres of salt water and put through the plant. So the way that we utilise water to make steel is actually in terms of environmental impact on water is very, very limited...none of these surveys, none of these reporting initiatives and none of these sustainability initiatives actually go to the heart of those sort of questions.' (General manager, corporate development)

'Good sustainable management is about the process and management control systems and the ethics systems that you have built into the company in terms of the way you manage the company. It's not about providing a report that takes pictures of beautiful environmental things that we do. I mean, you know, we're one of the first steel companies to have a series of reed beds planted to recycle water. Now I could produce a lovely glossy pretty report with lovely pictures and these lovely green reed beds... but I mean really!' (General manager, corporate development)

'...which is when we started doing some research into this area two years ago we looked at the GRI...I actually hired some of the [GRI experts]. Look I've put the GRI stuff aside for a bit, I have my own view about that, go and find me best practice, and what they came back with was, what companies did is actually went through a thought process of defining well what does sustainability mean for this company, in other words what structures and processes do we have to put in place to ensure that this business is still around in ten or twenty years time but also hopefully growing.' (General manager, corporate development)

The emphasis is clearly on site-level response and management, with no intent of corporate-level intervention on decentralised responsibilities. The changing regulatory environment, with a greater emphasis on organisation-wide performance, is creating awareness that the corporate office needs an increased understanding of environmental performance and to consider a greater a scope of reporting. This was reflected in the recent establishment of the sustainability panel by the general manager, corporate development, with the purpose.

'...to drive more fulsome and more regular and more comprehensive reporting. That's one of his outcomes from the sustainability panel.' (Manager, technology and environment)

This is a recent initiative and one that has not yet resulted in changes to the reporting process (a review of the most recent report by the company suggests that little has changed in external reporting). The reporting that is done by the company is focused on internal stakeholders and parallels the general manager, corporate development's opinion that very few stakeholders outside the organisation read sustainability or environmental reports. Distribution of the corporate newsletter to employees and other external parties, such as analysts, was seen as an alternate means of reporting.

The sustainability reporting that does occur in the *Annual Report* is an account of significant issues confronting the company, as well as solutions to such problems. The report includes, for example, acknowledgement of legal action against the company, as well as adverse impacts from operations and associated improvement programmes.

'...we're in an industry that can and does have significant impact on issues that are sensitive and of interest to the community. So you can't pretend that you don't. We have had a long running dust issue in [site A]...it would be naïve...anybody with a moments research would find out that it was a big issue and the other thing is our shareholders need to understand if there's any community interest...the dust issue in [site A], which generate local community angst let me call it... That are taking legal action against us...if someone is prepared to take you to court on these issues I think it's reasonable for us to disclose.' (Manager, technology and environment)

The view of the technology and environment manager stands in contrast to the general manager, corporate development. It acknowledges the company's impact and the adverse consequences of activities, showing the company as it is and that the shareholders (and other stakeholders) have a right to be informed. In contrast, the general manager, corporate development, is focused on the scope of potential readers of the report rather than engaging with stakeholders.

The company does seek feedback on the general content of the *Annual Report*, but the survey of stakeholders is not extended to cover issues surrounding sustainability. The one exception to feedback on sustainability reporting is website content. The company identifies through the website what information users are downloading. The technical spread of company operations is the most popular site, with environment being the third most popular section for downloads.

INTERACTION BETWEEN INTERNAL MANAGEMENT SYSTEMS AND EXTERNAL REPORTING

The interviews show that the company has projected an image of focusing on the fundamentals of environmental and sustainable management which has been expressed as a concern for processes. The limited attention to corporate reporting, in many respects, has reflected this focus.

'Real sustainability is in fact around the lifecycle of the goods that you put out and we're actually in the process of doing an extremely detailed lifecycle analysis of our business product line. Now we have 40,000 product lines so it's not a simple exercise, and we'll be hopefully

completed that in the next 12 months. That's what sustainability is about, about developing technologies that mean your products don't have to be turned over so much which means that the overall energy load that you put in the system over steel's 60-year timeframe...' (General manager corporate development)

The focus on internal processes should enable the company to report externally on performance. Internally there are significant levels of reporting on actual performance. The company is reflecting, however, on a position where it wishes to take an open approach to external reporting but realises that the complexity of issues and operations creates barriers as to the extent to which it can report.

'The problem with releasing documents like that is that they're contextual, they're a warts and all document and if you choose to excise a paragraph, you can. Unfortunately if you're going to release public documents you must expect everything to be repeated and that's a process that most businesses can't do. If you want a genuine document that's valuable to the business it's not going to be the same one that's for external release, because you must expect every sentence to be quoted in a context that's not the one it was written in.' (Manager, technology and environment)

What are not identified are the barriers to cohesive and comprehensive reporting that the company has created through the decentralisation of the environmental management process. Each site is the 'owner' of the environmental management systems and associated performance targets, with only the requirement to comply with ISO 14001 common across all operations. Consequently, there has been no attempt internally to standardise measures of performance or targets, other than the identification of significant incidents. Only recently has there been a concerted (but limited) attempted to foster communication across the organisation on environmental management – but this does not necessarily translate to standardised management and performance. The decentralised approach has served the company well in the past as it has grappled with varying state-based regulations. However, it may prove restricting in a changed regulatory environment, where organisations are expect to report and manage environmental performance consistently across all activities.

SUMMARY OF KEY POINTS FOR NATIONAL MINER

The National Miner company, through its operations, has a considerable number of significant impacts on the environment, both at site level in the communities it operates in and in terms of overall impact. Historically, the company has operated in a highly regulated environment, with the major sites facing direct and significantly diverse intervention from various regulatory authorities. This has resulted in significant autonomy for the site managers to engage actively on environmental issues, both with local communities and the relevant regulatory authorities. At the site level significant expertise has been developed, both in environmental management and stakeholder engagement.

Over recent years, the scale of environmental concern has resulted in greater costs to the organisation and a significant change in the level of interest by various stakeholders in the overall environmental performance of the company. This resulted in a shift in the organisation towards greater coordination of the management processes within the firm and between the major sites. The capital costs associated with environmental programmes have resulted in the corporate office seeking to take a more strategic consideration of environmental impact. Increased interests of external stakeholders, such as customers and governments, are key catalysts for the company to consider a more strategic approach. These stakeholders are also catalysts in the movement of the company to a position where it is considering extending the external reporting function. The company is now beginning to recognise that environmental and sustainable management can no longer simply be a site-level function with a primary focus on technical solutions, but must also include a stronger engagement process, both at the site level and at the corporate level. This shift, however, appears more as rhetoric rather than real observable change, for while the company has instituted various panels and committees at the corporate level, primary responsibility for environmental matters is still retained at the site level. As a result the company has strong site-level management systems and local engagement processes, but the corporate management shows limited leadership on environmental management and little desire actively to seek engagement with external stakeholders. This may, in part, explain the company's decision not to participate in organisation-wide programmes such as *Enduring Value* or the *Greenhouse Challenge Plus*. The company is well equipped to deal with local issues, but there is a question as to how well the current model will adapt to a need for a corporate response on issues such as climate change or emissions trading.

Case study 4

Local Miner

OVERVIEW OF THE ORGANISATION, REGULATORY ENVIRONMENT AND STRUCTURE

Local Miner is a small-scale mining company listed on the Australian Stock Exchange. It has a single operational site located in the vicinity of a large regional city. The corporate head office is located in the city. The site must comply with specific government regulation and, due to its location, is under considerable community scrutiny. Since it was established the company has been feeling its way towards production and as a new company had the opportunity to develop its management and reporting systems in an integrated way from a clean slate.

Local Miner is subject to National Pollution Inventory reporting requirements, and is a signatory to both the Minerals Council of Australia's *Enduring Value* and the Australian Government's *Greenhouse Challenge Plus* programme. The company has developed an integrated environmental management system aligned to ISO 14001. It has produced an annual *Environmental Report* since 1998, which is in compliance with the company's commitment to *Enduring Value*. This is currently available as a PDF on the company's website.

Local Miner has a published environmental policy on its website which is signed off by the managing director. The policy includes statements on active involvement and open communication with employees, open and honest engagement with people affected by the company's operations, and the integration of their concerns into the decision-making process.

The company, at board level, has a Health, Safety, Environment And Security Committee which is charged with the responsibility to review and make recommendations to the board. The company also has an independent Environmental Review Committee (ERC) that was established as part of the government approvals process. The ERC meets quarterly and has membership that includes representatives of relevant government authorities (including the EPA) and independently elected members from the community. The engagement with the community is becoming more prescriptive, and will be articulated through the *Mineral Resources Sustainable Development Act* in the future.

At the initial stage of this project, the company was forecasting an imminent move to full production and corresponding increase in environmental impact through processing. However, at the time of writing, the company has had a reassessment of resources and has wound back the expectation on full production and closed the processing plant. This has had consequences on the staffing and development of the environmental team and management system because of a reduction in operations. The company is now focusing on exploration.

SIGNIFICANT ENVIRONMENTAL ISSUES AND TARGETS

Local Miner has adopted a proactive strategy towards management of environmental impacts, and the issues arising. It wishes to be seen as a leader in terms of the strategy adopted towards responsible mining, and is committed to a strategy of sustainable development. The overall environmental footprint of the company is relatively small, because it is constrained by the boundaries of the mine site. Currently most of the operations of the mine site are below ground, with the physical presence restricted to the mine entrances and tailing ponds. Approximately 20% of all materials mined are taken above ground, with the remainder used as back-fill.

The main operations of the mine are directly under the city. Materials removed from the mine site are then treated by cyanide leaching in a tailings pond. The relative impact of the mine is small, but due to the nature of the impact and location of the mine, environmental considerations are of significant importance to the company and the local community.

There is a considerable amount of information that is publicly reported by the company, including physical performance data on issues such as greenhouse gas emissions. However, the company does not publicly report performance targets. The environmental report includes a number of environment-related initiatives and performance against these initiatives. For example, one of the initiatives reported was on continual improvement in compliance and conformance with regulatory obligations, against which the company reported improved performance and the initiation of a conformance monitoring programme.

The company is subject to stringent environmental performance requirements, and a considerable proportion of the environmental budget is spent on the monitoring of performance, with environmental performance influencing many of the capital expenditure decisions.

'...we're trying to ensure that we build a plant that is sort of best practice environmental performance, so a lot of its engineering solutions try and prevent having to deal with noise issues and so forth, so buying trucks which are inherently quiet is much better than trying to put up noise bunds and put sound insulation all over them after you've bought them ... wherever possible we're trying to engineer these things out from the start.' (Manager, HSE)

OVERVIEW OF ENVIRONMENTAL MANAGEMENT SYSTEMS

The primary responsibility for the EMS rests with the health, safety and environment manager and the environmental coordinator. The environmental management system would be best described as evolving. The company is small and, therefore, has limited access to both personnel and resources. At the start of this project, the company had not yet commenced commercial operations so, as a result, the full extent of the mine's impact had not been realised.

The EMS that is being developed is drawing upon ISO 14001, but the company does not yet intend to achieve certification against the standard. As the company describes the process, it is seeking to align with the standard. The system is also drawing from the Minerals Industries risk management model and from *Enduring Value*. As a result, the company has developed its own mine management system, which has allowed some flexibility to reflect the changing nature and scope of the operations.

'What we have is basically an in-house management system that's being put together to meet business needs at the time but with a rapidly growing organisation I guess its evolving all the time and the level of complexity is changing.' (Manager, HSE)

The developing management system does not fully align with ISO 14001 so a gap analysis was undertaken by the company.

'We've been at work towards closing those gaps over time. Given that we're in such a state of flux and in terms of the fact that the workforce has grown by about 300%...so we've gone from about 40 to 200 in 18 months...A certified management system wouldn't help us...' (Manager, HSE)

'I think basically when you line the Minerals Council code up against our management system, our management system essentially fills all those obligations, so it's just another perspective in terms of it's set out slightly differently in our own internal system, but it fulfils those obligations.' (Manager, HSE)

One of the significant catalysts for change and development of the EMS are the contractors employed by the company. These contractors bring prior knowledge and expertise to the operations, as well as established EMSs and other management practices. From the contractors the company has identified and adopted a number of practices that result in improved outcomes for operations.

'[Contractors] do all of our underground mining. All the people belong to [contractors] at the moment. They have a number of their own systems...We require them to have something that meets our needs but it can have their stamp on it. In most cases, their management systems are quite adequate to meet all of our requirements because they're a very professional organisation that have a lot of experience in these things and we just have to put some checks and balances in place to make sure that they cover off on all key aspects, legal obligations, duty of care, all those sort of principals... If they are doing something better and they let us know that, you know, this is a good way of doing it then we'll definitely consider it. Anybody on site can basically say this standard isn't good enough or this procedure doesn't work or anything like that.' (Manager, HSE)

The size of the company, and developing nature both of the operations and systems within it, has provided an opportunity for environmental government by the company. The company has no legacy of systems or assets from prior operations. Its permission to operate has occurred within a period of considerable regulatory oversight and community concern, and as a result, the environment and the management of environmental performance has always been at the forefront of planning.

'It's just a part of business, I guess, at the end of the day, it really is an integrated part of everything we do...it's impossible to separate the environment from operating, it's just a part of business.' (Manager, HSE)

The size of the organisation is an enabling factor allowing all managers to be more intimately involved in operations management and the consideration of environmental performance.

'...the operational management team, which I'm part of,... meets weekly every Friday morning at 8.30 to discuss the week's events, and our planning for the following week, and everyone gets to raise their issues in an open forum, and that covers your mining, exploration, geology, environmental, finance, it's the whole spectrum. We have our monthly environmental health and safety meeting which all operational managers are involved in and there's a lot of reporting on health and safety, it also has an environmental section as well.' (Administration manager)

STAKEHOLDER INVOLVEMENT IN ENVIRONMENTAL MANAGEMENT

The relationship between the company and the community with respect to environmental issues was a key component of approval when the company was first established. This was highlighted by the formation of the Environmental Review Committee, an independent body created by the relevant government minister and regulator as part of the licensing conditions. As previously indicated, the membership of the Committee includes representatives of government, government agencies, local government and elected community representation. The Committee reviews the environmental performance of the company and reports on performance to the Department of Primary Industries. While the company has input into the Committee, it does not control the agenda and currently does not have membership of the Committee.

'The purpose of the ERC is to review our environmental performance against our work plan.' (Environmental coordinator)

The commitment to stakeholder engagement goes beyond the licensing requirements with the company's managing director also setting up a Community Advisory board. The focus of the advisory board is much broader than the ERC, seeking to provide a conduit for engagement on any issue of relevance to the broader community.

'The ERC is part of our licence condition...it's got people like the DPI (regulating department) and the EPA and they fine tooth comb through every little environmental aspect

of the business...it's very serious and it's very long...the advisory board is all community members, so they're generally high profile people who have a lot of contacts and would hear a lot in the community and that's the idea, they act as a conduit to the people and we've got them spaced out through all the town.' (Community relations officer)

Membership of the advisory board is determined by the managing director, with those invited to join seen as important members of the community who could have input into the way the company operates and engages with the community.

'They're good networkers and they know a lot of people and they're generally...high-profile business people who have got their finger on the pulse. We're actually looking at restructuring that and maybe changing – revolving like every two or three years,...because some of those people have been on the board for many years...so we can just get a broader range and perspective on different things.' (Community relations officer)

There is no overlap between the two committees and they are seen as serving two very different roles for the company.

'I think they're good because they are very different...the people who nominate to go on the ERC often are passionate about an issue, and as much as they may be extreme, say their issue is dust, they might be really extreme about the dust issues and that's all they want to talk about, but at least we get the worst case scenario... from those people. We don't get any fence sitters. The ERC people are very passionate about the environment and that's why they're there. Whereas the advisory board it's much more, do it right but let's get this moving sort of thing, or that's how I sort of feel, proactive and positive and – whereas the ERC is very hard work.' (Community relations officer)

The use of the stakeholder committees is, however, not seen as a complete panacea to problems of stakeholder engagement. The company has established a community hotline and carries out an annual community attitude survey. The survey's purpose is to provide feedback on how the company is responding to community concerns. The hotline is intended to encourage the community to approach the company on issues of concern in the first instance.

'The community stakeholders are encouraged to come to us so we can fix it because there's not much point them all running off to the EPA complaining because then the EPA comes to us and then we fix it, so we would – things like we've got a twenty-four hour hotline, so if you hear a noise or you see a truck or you see dust, we want you to ring us straight away and that will be turned off or covered up or whatever within hours. So we're trying to make sure the relationship between all of us comes to us first, but then there will always be people who will ring the EPA first. I mean we've got a handful of those who just prefer to do it that way, so we've got to win their trust basically.' (Community relations officer)

FACTORS INFLUENCING THE DEVELOPMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

Local Miner is perhaps unique in the development of the site EMS and stakeholder engagement, as the company is not constrained by prior operating systems. Stakeholder engagement is a key component in the licensing considerations and the size of the company means that key executives are involved in day-to-day operations. As a result, the EMS is evolving as operations develop and stakeholders are consulted on the continuous development of the system.

The geographic location and impact of the mine's operations, being under and next to a regional city, are perhaps the most influential factors in determining the shape of the EMS. It is the mine's location that brings the immediate attention of the local community and its involvement in the development of management practices. Aware of this local concern, mine management actively consider the implications to the community in any significant actions being undertaken. This relationship is reinforced by the over-site function provided by both the ERC and the Advisory board.

The company's decision to become a signatory to *Enduring Value* and referencing ISO 14001 has also impacted upon the development of the EMS. The code and standard have provided a basic framework for the initial development of the EMS.

OVERVIEW OF EXTERNAL REPORTING AND FACTORS INFLUENCING ENVIRONMENTAL REPORTING

Environmental reporting can be observed at two levels within the company – formal reporting covering the company performance through channels such as the *Annual Report*, website and *Environmental Report,* and informal reporting targeted to specific community stakeholders, typically covering very specific issues or activities undertaken by the company.

The basis of the formal reporting process is the company's decision to sign up to the Minerals Council's *Enduring Value*, which requires the issue of an environmental or sustainability report. The company has issued an environmental report since 1999. These reports are available as PDFs via the company website. The latest published report follows the 'G3' GRI Sustainability Reporting Guidelines and the Mining and Metals Sector Supplement. The report itself has been verified by an independent consultant, and the same consultant provides verification services on the environmental monitoring undertaken by the company. The driver for verification is a requirement of *Enduring Value*. The company also formally reports against the NPI and the Greenhouse Challenge Plus.

'Enduring Value does require us to produce an annual sustainability report, publicly reported and I guess it's one of the reasons why we do our annual sustainability report, not the only reason, we'd probably do it anyway.' (HSE manager)

'...we're trying to write up a report that's consistent with the GRI guidelines and G3 and that's been a little bit difficult because there's a mining sector supplement as part of the GRI which hasn't been updated. Most mining companies just pick up the mining sector supplement and report against that in terms of their sustainability reporting. We've tried to integrate if you like the generic G3 version of GRI with the mining sector supplement.' (HSE manager)

The company also engages in considerable informal external reporting and engagement with the local community. In the first instance communication is undertaken through the ERC and Advisory board. Such communication is still broad-based, however, and not targeted to specific stakeholders.

Given the localised nature of the company's operations, the community relations officer utilises more direct means of engagement. This may include letter drops and/or a door knock of the local area. The informal communications is not just about reporting on the company's activities, but also to condition the community on changes in activity and receiving feedback on performance.

'...we would naturally respond to anybody who had an issue with us, so there's that sort of response and there's a lot more proactive stuff, whereas, say we're doing some work somewhere...I go out to an area where there's going to be some work and I'll either do a letter drop and mostly I knock on every door there is. So, for instance, we're doing a ventilation shaft up near the hospital, so I went out... we're nowhere near starting it but we started our consultation way back then, so we'll do at least six months of consultation on that...I've probably done about four sets of different correspondence. It might be a letter drop, then I'll knock on all the doors so they can meet me, then I'll do a bit of an update because we've been doing some drilling there, so we'll get the rig there and, just to let them know what it is. And then, when the drill rig goes, I'll contact them all again, tell them it's gone, what it did and that sort of thing. So it's very, it's quite labour intensive, because we've just got to keep them up-to-date all the time because they just forget. They get the idea that if anything's going to happen they'll be informed, and I think that's my crusade, to make sure they all know what's happening, all the time.' (Community relations officer)

Face-to-face communication is not the only means of informal engagement with the local community, but it is seen as the most effective avenue for engagement on day-to-day activities. Other means of communication used to supplement local engagement include a series of articles in the local newspaper on issues such as land clearing. A difficulty in communication with the local community is providing information, which initially is in a technical format, in a style that can be understood by a lay person. The significance of the face-to-face approach was highlighted in the company with the recent undertaking of an 'Outrage Mitigation' programme designed to educate staff on how to deal with community concerns, particularly where such concerns were 'intuitive' rather than based on science.

Local Miner is also involved in secondary education programmes, where the mine site is used as a case study for high school environmental science students. This involves personnel from the company going to local schools and speaking about the environmental programme.

STAKEHOLDER INVOLVEMENT IN EXTERNAL REPORTING

External reporting of environmental issues has been developed over a decade through a special *Environmental Report*, which has been developed into a fully fledged sustainability report. Targets are set and actual performance reported on for a range of environmental aspects of the business – for example, noise, dust, water quality and land subsidence. There are no indicators of stakeholder involvement in the reporting process, for example, there is nothing cited on the company's Web page. As a result, community involvement in external reporting appears monologic rather than dialogic, with readers of the special reports about community and environmental performance being receivers of information rather than active participants in its generation. However, the emphasis in these communications is on keeping the local community and regulators informed, as well as sensitive and rapid responses to any issues raised. Newsletters and home visits are seen as the most effective ways to generate a two-way understanding of community concerns, as people seek quick responses when their homes have been shaken by underground blasting, or when water spills occur.

Community representatives and representatives from regulators are members of the Environmental Review Committee, which provides advice to and validation of environmental performance information about the company's operations. The main community engagement, however, is through the Community Advisory Board and its community-based activities, such as the distribution of monies from a trust fund established to finance local projects designed to help the environment or community, for example, through school projects.

One possible reason for the lack of involvement in the reporting area is that Local Miner has yet to commence production and has been much more heavily engaged in complying with site licence requirements for setting up the mine, as well as planning of necessary rehabilitation and closure once the mine is worked out. These issues are being resolved through regulatory oversight. For example, approved closure and rehabilitation plans have to be finalised and approved before production commences. Certain safeguards must be in place in relation to the provision of monies in the financial accounts to ensure that ongoing costs of rehabilitation during production and closure costs are covered at no cost to the local community. In addition, a rehabilitation bond deposited in a bank and regularly reviewed for its current worth provides additional security that Local Miner will meet its obligations.

Overall, Local Miner is balancing a reactive stance to reporting on environmental issues by responding to regulatory needs in the process of establishing and developing a new mining venture, with a proactive stance in relation to the use of reporting and feedback mechanisms for community members.

INTERACTION BETWEEN INTERNAL MANAGEMENT SYSTEMS AND EXTERNAL REPORTING

The formal reporting undertaken by the company in compliance with the National Pollutant Inventory and Greenhouse Challenge is directly generated from the internal systems.

'I guess some of the information for the NPI is collected as part of our monitoring programme, in fact the bulk of it would fall out of our internal monitoring programme which is part of the system. And I guess there are a number of things over and above that which we have to do to meet the NPI requirements that – either they cost money and resource, and at times are questionable value. I mean, I've certainly, historically, spent huge amounts of money on collecting information for the NPI, and the information provided to the public by the NPI website never really stimulated any interest from the public in terms of questions or calls...I guess the value is questionable in my mind.' (HSE manager)

The informal reporting undertaken by the company is very much driven by current activities and is responsive to community concerns over operations. In this respect, the communications and engagement process is explicitly linked with operations, where it is necessary to bring the community along with the company with respect to performance of current and future operations.

SUMMARY OF KEY POINTS FOR LOCAL MINER

Local Miner is a medium-sized functionally based new mining organisation with central control over, and direct executive involvement in, the ways in which environmental issues are addressed. The company has from the beginning been proactive in engaging the local community to remove any fears they might have about new mining operations so close to their backyards.

Strict conditions for the operating licence have been laid down by the regulator. Local Miner seeks to comply with these as well as to go beyond compliance in the context of engaging the local community in dialogue through its Community Advisory board and actions taken to address noise, dust and transport concerns. Local Miner is determined to gain and maintain its social licence to operate. To this extent, it works closely with regulators to fulfil their expectations in relation to the operating licence, environmental review, mine safety and reporting on performance. The company has introduced a strict monitoring regime over actual and potential environmental impacts and has the resources in place to act promptly where non-conformance with regulatory requirements occurs.

The company's strategic commitment to sustainable development incorporates financial success as well as protection of the environment and community values. Environmental protection is enhanced through the development of an environmental management system aligned with ISO 14001 and is founded on an environmental policy, the notion of continuous improvement in performance, employee awareness and training in environmental matters, and open communication. However, given the exploration status of the mine operations, there is no evidence as to how successful this process will be in terms of improved environmental performance.

Targets for environmental performance are yet to be reported to the public, with past performance attracting most attention in information disclosed, thereby facilitating extrapolation as to what future performance might be. Rehabilitation of disturbed land is of financial as well as physical concern and provides a link between information provided to members of the company in the *Annual Report* and information released in the *Sustainability Report* to stakeholders.

Case study 5

Capital Water

OVERVIEW OF THE ORGANISATION, REGULATORY ENVIRONMENT AND STRUCTURE

Capital Water is owned by an Australian state and constituted under the *State Owned Corporations Act* 1989. Its purpose is to supply water, wastewater, recycled water and some stormwater services. The utility operates in one of Australia's largest cities. The company has a functional structure which separates management of assets and services. The environment is a separate functional area.

Capital Water's operating licence 2005-2010 sets out its obligations under the *Capital Water Act 199X*[1]. In addition it has obligations under the *Protection of the Environment Operations Act 199X*, *Public Health Act 199X*, *Fluoridation of Public Water Supplies Act 19XX*, *Water Act 19XX*, *Water Management Act 200X*, *Independent Pricing and Regulatory Tribunal Act 199X*, *State Owned Corporations Act 19XX* and the *Environmental Planning and Assessment Act 197X*. The operating licence requires the development of a five-year environmental plan through a public consultation engagement process. The environmental plan itself must be available to the public and is subject to annual review, involving government and non-governmental organisations. The operating licence further requires that the environmental plan is integrated into business plans.

Capital Water's environmental management system provides a framework for monitoring actions and performance against the environmental plan. Capital Water is subject to annual audits by the operating licence regulator.

Capital Water's 2007 annual report identifies three principal objectives:

- protect public health
- protect the environment
- be a successful business.

It states the key priorities of:

- providing clean, safe drinking water
- serving customers
- helping develop a water-efficient city
- contributing to clean beaches, oceans, rivers and harbours
- optimising resource use
- developing a safe, capable and committed workforce
- delivering an economically efficient business.

Capital Water has adopted principles of ecologically sustainable development (ESD) following the protection of the *Environment Administration Act 199X* as follows.

Precautionary principle – to reduce the chance of serious environmental problems even if we are not sure that these problems will occur.

Inter-generational and intra-generational equity – to reduce the effects of activities on the environment that the community, now and in the future, relies on to meet its needs and expectations.

Conservation and biological diversity and ecological integrity – to maintain or enhance the range of native plants and animals and the health of natural areas.

Improved valuation and pricing of environmental resources – to improve the way we undertake valuation of environmental costs and benefits and to use this information when making decisions.

The focus in implementing these objectives is on:

- reducing environmental impacts of discharges to air, water and land
- minimising the creation of waste
- reducing the use of energy, water and other materials and substances
- re-using and recovering energy, water and other materials and substances.

The environmental focus is largely led by regulatory requirements and the need to negotiate performance criteria on a regular basis.

SIGNIFICANT ENVIRONMENTAL ISSUES AND TARGETS

Capital Water does not explicitly state its major environmental impacts, but the targets that it has set indicate that the key impact is seen as the extraction of water from the environment. Less emphasis is placed on greenhouse gas emissions and discharges of waste to the environment in target setting.

Capital Water's reporting of quantified targets in its *Annual Report* and in its climate change strategy document is limited. Its *2007–12 Environmental Plan* includes targets, some of which are mandated by Capital Water's operating licence. These documents do not provide information on current performance on these measures or percentage improvements required to achieve them. The targets include the following.

- Recycle 70 billion litres of water per annum by 2015 (100 billion by 2045).
- Generate 60 GWh of renewable energy per annum by 2010.

1 Year not provided to maintain anonymity.

- Reduce water use (excluding re-use water) to 329 litres per person per day by 2010/11.
- Reduce drinking water leakage to less than 105 million litres per day by mid 2009.
- Ensure all sewage treatment processes (with some exceptions stated) use 85% recycled water by mid 2009).

Capital Water's *Environmental Plan* does not provide a target for emission reduction but sets an objective to 'implement projects that improve energy efficiency and generate renewable energy' by 2010, in addition to complying with 'relevant energy related regulations'. On its website (accessed 19 June 2008) Capital Water states it aim to be carbon neutral by 2010 and to reduce emissions by 60% by 2012 (base level not provided).

OVERVIEW OF ENVIRONMENTAL MANAGEMENT SYSTEMS

Capital Water has a five-year *Corporate Plan*, with a stronger immediate one-year focus. Each division has a business plan, most commonly with a one-year focus. The *Corporate Plan* is developed using both a top-down and a bottom-up approach. The board receives monthly reports on performance against the *Corporate Plan*, primarily on financial data, perhaps a result of the business planning process which is the responsibility of the financial controller. A partial 'management review' is conducted quarterly and a fuller one on an annual basis. A *Statement of Corporate Intent* is prepared annually for government and sets out financial targets, both capital and operating. The *Corporate Plan* includes environmental targets, although less than previously as the environmental focus has become a more 'business as usual' approach, with a greater trust in the environmental management system. The *Environmental Plan* is not formally part of the *Corporate Plan* but sets out the organisation's focus on the environment.

'So we're still trying to improve our reporting system, it's relatively manual as far as the corporate planning goes but we are aiming at automating that and through various codings and whatever trying to link. So…all my *Corporate Plan* actions will have a code, they flow down into a divisional plan…but a lot of them will be cross-coded to the *Environment Plan* so that hopefully we'll get a smoother series of progress reporting, so it's only reported once and goes to all the places it needs to go.' (Business improvements manager)

Environmental planning is integrated into business and strategic planning through a sustainability scorecard.

'The effect the scorecard will have on corporate strategy is yet to be established, obviously it's just being bedded down this, whole thing…the part of the practice which is well entrenched is the environmental input into corporate planning and that's documented in our EMS. Basically there's the quarterly management reviews…and then there's an annual management review which is a much bigger affair that actually reviews all this annual data here and makes evaluations of performance. It sort of validates your internal management indicators [provided] on a quarterly basis. They need to be validated with actual more objective data. The outcomes of that management review, along with a range of other inputs are fed into the corporate aspects and impacts process, or basically a corporate environmental risk process. That process runs in parallel with other corporate risk assessment processes and it is consolidated into a key enterprise risk kind of input into the planning process. So environmental risks are…pulled together with corporate risks, and that kicks off the planning process, so then you've got a fully integrated planning start.' (Environmental manager).

Capital Water uses a model known as SCAMPS (Sewer Catchment Area Management Plans) to determine the economically best way to achieve licence compliance with its works programme. The organisation is developing a separate 'activity-based costing system' to enable determination of, for example, the cost of providing waste water services to a particular area in anticipation of further deregulation of the water supply market. Financial and environmental performance data are collected through different systems. Another complexity is that the managing director, the general manager and the area managers need different information from that required by the regulator, which the scorecard has attempted to bridge. The environmental manager argued that Capital Water was slowly moving towards a more performance-based culture around corporate objectives rather than compliance requirements. This indicates a move to a more proactive, rather than reactive, strategy.

The process for considering the social and environmental impacts of capital investment decisions lacks formalisation and robustness:

'A case in point would be water main renewals, you know, we're gonna have to cost to fix a water main as opposed to keep repairing etc, but the social dislocation that occurs when an unexpected main breaks, at the moment we haven't got a cost for that, but we're aware of it. So when things get relatively close you say, well, what are the other factors that you have to take into account.' (Business improvements manager)

The reason given by the company for the lack of a formal process to consider the social and environmental impacts of capital investment decisions is that once *Environmental Plan* targets are met, the regulator will not approve additional costs to make further environmental improvements.

The waste water management system integrates safety, quality and environmental issues and is certified to ISO 14001. One service provider is used to audit all ISO certified management systems.

Data collection from different sites is standardised where possible.

'So across the inland ones [there are] very similar [data collection and monitoring] requirements... in terms of the basic set of nutrients and physical parameters. And then there's a unique set for the coastal ones.' (Assistant assurance manager)

STAKEHOLDER INVOLVEMENT IN ENVIRONMENTAL MANAGEMENT

Two main stakeholders groups are of evident importance in discussions with personnel at Capital Water: regulators and suppliers. Engagement with other stakeholders on environmental issues is limited, though Capital Water is looking to engage more actively with other stakeholders in the future.

Capital Water's environmental performance is scrutinised by two regulators and we will consider the importance of these. The first is the licensing regulator, which oversees performance with respect to all relevant regulatory requirements including environmental regulations. It is an independent regulator and undertakes annual performance audits against the licensing conditions that are then reported to the relevant government ministers. Capital Water and the licensing regulator negotiate the terms of the licence every five years, so the nature of the requirements is evolving over time. The development of a level of trust resulted in the requirement for an accredited EMS being built into the last licensing agreement, reducing the number of specific environmental performance requirements. There are no incentives to achieve performance improvements beyond what is specified in the licensing agreement and the cost and consequential higher expectations can be a disincentive.

'[Going beyond compliance] bites us actually. [The regulator] sees us performing beyond compliance so they change the rules saying so OK you can perform better, we'll make you perform better. And so it has bitten us, so that's why we say well why should we perform better because then they'll set that as the benchmark and we won't have the flexibility to push back on when we have to...[It hinders our operations] especially when we're so pressured to reduce costs, more so particularly in the last couple of years.' (Assistant assurance manager).

There is at times a disparity between the performance measures needed by management and those required by the regulator.

'There's a difference between the system focused on compliance reporting – this is what the regulator needs... what the minister needed – and aside from that you have the operational reporting that is developing under the management system and this is what the managing director wants, this is what the general manager wants and this is what the relevant area managers needed to know—how well their assets are performing. And often what a manager needs to know to make sure his plant's performing right is different to what the operating licence needed – two different needs. And so there was a lot of difference in the data you'd collect for each of them, and now we're trying to bring them together, but we have very, very little influence at changing the operating licence indicators, but we're still running two separate reporting systems anyway.' (Assistant assurance manager)

When asked if the regulators were aware that the information they want is not the type of information that the manager needs to make decisions, this interviewee replied:

'I'd probably say no, because what happens is when an operating licence audit review is coordinated it's done from a Capital Water perspective, a high level perspective, and yeah, we provide input, but how well that input... manages to get to the top doesn't appear to be good. I mean we're going through these new operating licence indicators...and we prepared a six-month report to that, and we're sitting here saying who negotiated these indicators, what happened to this? ...we can just sit back and say this is not what we want to give. So that negotiation process...there's no conflict, it's more about the level of resources you need to run two separate reporting systems and the systems you need underneath to catch all this data.' (Assistant assurance manager)

As a result, despite a process of negotiation with the regulator and attempts to align the regulator's needs with those of the business, there was still a perceived gap, creating tensions over required performance levels.

The second regulator with an oversight function for environmental performance is the state EPA. The EPA is primarily responsible for compliance against the *Protection of the Environment Operations Act 199X*. The operating license of Capital Water requires regular meetings between the two organisations, with an emphasis on operations compliance with regulatory requirements. Currently there is a memorandum of understanding which covers the relationship between the two parties. Unlike the licensing regulator, the EPA does not see the establishment of an accredited EMS as a substitute for specific measures of environmental performance, despite considerable negotiation over this issue. The EPA has taken a reasonably hard-line stance and has exerted considerable pressure on Capital Water continually to improve environmental performance. This creates tension between the parties as to desired outcomes and those outcomes which are achievable within the constraints of the operating environment.

'Our environmental regulator would like to see lots and lots of things done for the environment and then we have to say well we can't afford them, who's gonna pay for them, and sometimes they're a bit over the top in what they ask for.' (Business improvement manager)

A further variable in determining the approach to going beyond compliance, ie beyond regulatory requirements, are budget constraints.

'We were at a stage where we did beyond compliance, now I think we're pushing back, we're at a stage where we are pushing back...it is purely compliance. I mean I've been here for twelve years and I've seen it pushed back. It really comes down to what sort of constraints you're under at the time. We're under huge budgetary constraints at the moment, more than I've ever seen and it really is we just do the bare minimum.' (Assistant assurance manager)

A second key group of stakeholders discussed are suppliers. In purchasing decisions, the main focus is on managing risks to the water supply. Capital Water does not screen suppliers for environmental performance. The procurement manager standardises the environmental data which will be required from suppliers in the tender process.

'...well in advance of a contract expiring and I brief [the environmental group] on what the particular procurement contract is about and they then have the opportunity to review that and see whether there might be opportunities to do things a little bit better from an environmental point of view and provide that feedback back to me before I go out to tender basically...I've got the opportunity then to get that feedback before I actually design the tender document and go out to the marketplace...And then within the tender...there's a schedule of environmental performance, so we ask a whole series of questions in relation to the supplier's attitude, behaviour and management structure around environment, and we take that into account as part of our selection criteria. And there's also provision in the terms and conditions for them to give us reports back on what they've done in relation to that so that I can then pass that information onto the relevant people and it gets aggregated as part of the general environmental reporting that [name of company] does.' (Procurement manager)

Suppliers of general-supply items were discussed.

'Basically we have a system where price is given a certain percentage weighting, you know, somewhere between 40-60% typically for normal supply items, and the balance of the weighting is spread over other non-price criteria and they will be things like their safety performance, their quality systems, their environmental systems, those sorts of system type issues. We take their responses into account there, add up the points, apply the weightings and make a recommendation on that basis. So it's on like a total cost of ownership model not just the raw price of the materials.' (Procurement manager)

In some cases there are limited alternative sources of supply, so the organisation is restricted and has little discretion in the way it can change the behaviour of suppliers.

'With some of the...products, say a chemical that we might need, is particular to a process and there aren't a lot of alternatives, and if we do have alternatives they're quite expensive. So in some ways we are locked into a particular supplier and technology. So what we can then talk to the supplier about I suppose is what we can do around the edges in that regard, you know, so it may be that well we need this particular product for our process but can you do anything in terms of reducing packaging waste or perhaps recycling the packaging, those sorts of things...' (Procurement manager)

Purchase and use of recycled paper is now embedded within the culture and supply chain, despite an additional cost.

'...we're using recycled paper in the organisation and we've worked with our stationery supplier over the years and developed a fairly low cost solution for recycled paper. Paper's a fairly big spend item in that contract...But it took some time to move to that because of the cultural issues and so forth, you know, and interestingly people were sort of saying well recycled paper's not good enough, it's not white, you know, it clogs up the printer and all that sort of stuff. But now people are used to using recycled paper and it will probably be quite hard to move people back to using normal paper I would've thought. But the way pricing has now come we're probably paying extra...for recycled paper which would represent probably about 10% or more of the purchase price.' (Procurement manager)

FACTORS INFLUENCING THE DEVELOPMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

One major factor influencing the environmental management system was the regulator. Capital Water took the initiative of working with the operational licence regulator to get EMS requirements into the operating licence agreement. The environmental component of the previous operating licence was described as haphazard and building the operational licence regulator's trust in the EMS was seen as important in getting a lot of the environmental issues managed internally rather than being separately managed through the operating licence requirements. The environmental regulator was seen to be more sceptical about environmental management systems.

'It's not our environmental regulator who requires [certification to ISO 14000], it's our operational regulator, our environmental regulator doesn't particularly acknowledge the value in 14000. It's unlike the [name of other state] EPA which has a history of cultivating EMS as a management tool. [Our state] EPA is far more sceptical about the value of 14001 as delivering any environmental outcomes'. (Environmental manager)

Environmental data is reported internally on a quarterly basis. The business improvements manager reports each quarter against the *Corporate Plan* to the board, which raises concerns about issues which are off-track.

OVERVIEW OF EXTERNAL REPORTING AND FACTORS INFLUENCING ENVIRONMENTAL REPORTING

The main influences on environmental reporting are the operating licence requirements and the *Environmental Plan*, as determined by regulation. Capital Water has been acknowledged for the quality of its sustainability reporting through the ACCA sustainability reporting awards process. It has integrated sustainability reporting into its *Annual Report* since 2003, which has presented some difficulties.

'It has been difficult in terms even of...with our financial people, their reporting is all number based...a lot of environment issues aren't necessarily numerical.' (Environmental project manager)

Public relations play a part in the environmental reporting process. Customer relations coordinate the *Annual Report*, with separate input coming from the finance and sustainability areas. There are about 30 primary contacts in the organisation for environmental data for reporting. This resulted initially in lengthy reports and efforts were made to make it more succinct. While many data are collected internally, energy usage data are collected by consultants on an annual basis.

The *Annual Report* for 2007 lacks reporting of trend data and reporting of environmental performance data against quantified targets. In addition, it provides little information on: environmental management systems; stakeholder engagement processes; and sustainability reporting processes. This may be explained by the focus of the 'financial people' on quantitative data measured in dollars.

The GRI guidelines inform the selection of sustainability indicators. Capital Water has moved from verification of sustainability data in their *Annual Report* to assurance, using the AA1000 assurance standard. Determination of the voluntary indicators to be included in the *Sustainability Report* fell to the project manager responsible for the sustainability scorecard. Different people worked on the environmental, economic and social indicators; one possible reason why Capital Water interprets eco-efficiency in its *Annual Report* solely in terms of physical flows, rather than through the integration of economic and environmental data.

With regard to reporting media, Capital Water moved away from HTML reports to PDF reports, but has now moved back to HTML reports. Around 2,000 hard-copy reports are printed.

STAKEHOLDER INVOLVEMENT IN EXTERNAL REPORTING

The EPA provides feedback on environmental reporting, but there are no stakeholder forums and there is little feedback received from the general public. There was acknowledgement that the feedback process on the report could be improved. Despite the lack of feedback, the fact that data were publicly available was seen as a driver for performance improvements. Some concern was expressed about the ability to make further improvements on some indicators and the likely public response to that.

The regulator ran a process of public consultation to determine the indicators to be included in the operating licence. There is also a process of negotiation between Capital Water and the regulator. The compliance reporting system is seen as rather 'archaic' and 'clunky'.

INTERACTION BETWEEN INTERNAL MANAGEMENT SYSTEMS AND EXTERNAL REPORTING

The sustainability scorecard links the *Corporate Plan* and the *Environmental Plan*, ensuring that environmental impact of decisions is considered and regulatory requirements are met.

'So one prong of the whole thing is the integration of environmental planning into business planning and taking a sustainability approach to business planning and strategic planning and reporting and that's all centred around a scorecard, so the scorecard provides a transmission if you like between the reporting framework, the strategic framework and the business planning framework. The other strand of work that's been going on for the best part of the 10 years is expanding the environmental impact assessment process which in NSW is fairly broad based, so environmental impact assessment takes in social assessment and economic evaluation and other sort of tools, expanding those assessment tools and pushing them up the planning pathway. We've currently got to the lower levels of strategic planning in terms of integrated decision making, at that point you really get to the limits of what engineering discipline can actually handle in terms of multi-disciplinary input and we're working on that.' (Environmental manager)

Capital Water introduced the balanced scorecard methodology in 1997 and put considerable effort into tailoring it to its needs, but still found it unworkable.

'There are two problems with the balance scorecard methodology. Firstly it's not a true triple-bottom-line methodology, it's a financially driven methodology recognising broader financial drivers. Secondly, it assumes a course of business process and that's just not the case... Our problem in particular is because we have very broad triple bottom line drivers, we're not financially driven solely so that kind of just exploded, the whole thing turned into spaghetti diagram after spaghetti diagram. People tried to map in all the different outcomes and drivers... They rolled it down to business level. They spent eighteen months and five hundred people trying to do this, it was kind of craziness, and this was within the context of the business excellence framework.... Since then, what we've kind of done here is much more similar to some of the research coming out of the EU and the UK on the sustainability balance scorecard where they acknowledge that indicator development is iterative, participatory and all that.' (Environmental manager)

Environmental reporting and the EMS are separate management processes and are not integrated. The data used for environmental reporting in the annual report are based on the operating licence requirements. However, the process of collecting data for reporting informs the aspects and impacts review and the process of ranking significant impacts, which in turn informs the corporate planning process. In this way the data-collection process for environmental reporting 'is pretty integral in then generating the continual improvement cycle in the EMS' (Environmental projects manager).

SUMMARY OF KEY POINTS FOR CAPITAL WATER

Capital Water is a large complex organisation operating in a highly regulated environment, which has a significant influence on its strategy, planning and systems. The relationship with the regulators is critical and one which has evolved over time. The negotiated requirements from the licensing regulator have had the unfortunate consequence of creating instances of divergence between reported data and those which are used to manage operations. It has been working to reduce differences between the information requirements of its regulator and the information needed by managers, through the inclusion of the EMS as part of the licensing agreement and subsequent reduction of specific performance indicators. This has had the effect of the regulator adopting a 'business as usual' approach with respect to environmental performance. Ultimately, the organisation is seeking to move away from divergent systems aimed at separately collecting financial and environmental performance data and data needed by managers and required by regulators toward an integrated system driven by business objectives. This process has been slow. The environmental regulator, on the other hand, has maintained strict performance-based criteria for the organisation.

The fact that annual reporting, which includes sustainability reporting, is driven by the finance group was seen as hindering the development of qualitative and non-financial quantitative reporting. Another important factor inhibiting the further development of non-financial reporting is the financial pressure under which the organisation operates. There is a sense that regulatory requirements (both for environmental and financial performance) are burdensome in terms both of data collection requirements and in improving the environmental focus in decision-making.

Case study 6

Driland Water

OVERVIEW OF THE ORGANISATION, REGULATORY ENVIRONMENT AND STRUCTURE

Driland Water is a water retailer and sewage treatment provider owned by the government of an Australian state and has an independent board of directors. It was established in the mid-1990s under the *State Owned Enterprises Act 199X* and is subject to Australian corporations law. Driland Water's water and sewage licence is issued under the *Water Industry Act 199X*.

The utility serves people in one of Australia's largest cities, has just under 400 full-time employees and owns assets and infrastructure worth AUS$2 billion.

Driland Water is not a listed public company, but the directors adhere to the corporate governance practices based on the Australian Stock Exchange listing rules and the *Code of Conduct* issued by the Australian Institute of Company Directors.

The state's Environmental Protection Authority (EPA) determines environmental standards under the *Environment Protection Act 197X*, state environment protection policies and discharge licences. Driland Water is also required to comply with the Australian Government's Environment Protection and *Biodiversity Conservation Act 199X* and the State Government's Greenhouse Strategy. Driland Water's statement of obligations under the *Water Industry Act 199X* includes a number of environmental obligations concerning, for example, conservation and recycling of water, responding to drought, management of waste, environmental management systems and river health.

Driland Water has to report plans and data concerning its environmental performance to a number of government agencies. These include the EPA, the Department of Treasury and Finance and the Department of Sustainability and Energy (DSE). Driland Water has to submit a three-year business plan to the Essential Services Commission. It is required to follow ISO 14001 and ISO 14004. It is not required to be accredited to these standards, but first received accreditation to ISO 14001 in 1996 and is subject to six-monthly audits. It has a Hazard Analysis and Critical Control Point (HACCP) plan certified to World Health Organisation standards.

Driland Water's mission statement includes being recognised for its commitment to sustainability of the environment. Improving its environmental performance is one of the company's six business objectives. It uses the Bruntland (1987) definition of sustainable development: 'Sustainable development is one that meets the needs of the present without compromising the ability of future generations to meet their own needs' (as quoted by Driland Water in its *Sustainability Report*). It also uses the Natural Step principles.

'The Natural Step principles were developed in the late 1980s by Karl-Henrik Robèrt in consultation with a large group of Swedish scientists and intellectual leaders. The Natural Step starts from a set of four principles, which state that:

In a sustainable society, nature is not subject to systematically increasing:

- concentrations of substances extracted from the earth's crust
- concentrations of substances produced by society
- degradation by physical means.

In a sustainable society, human needs are met worldwide.

The Natural Step principles are a quantitatively verifiable definition of sustainability. The 'system conditions' that they outline are based on scientific principles such as the Second Law of Thermodynamics and basic cell biology.' (Driland Water's *Sustainability Report*, 2005)

The environmental focus is led by the board and the managing director and is integrated into the day-to-day activities of the business.

'My role is environment but environment crosses culture and we've just run an environmental training programme for the whole business...when I'd put together our environmental policy and our strategy I effectively said look we're 10% of the way there so actually putting words on paper, while it takes a lot of effort and it consumes a lot of time from senior people, effectively it's just putting another sign up on the wall and people can look at it and say, yeah, I agree. But nothing changes. So we made a commitment as a business that this was important to us and it was one of the two key strategic objectives...we also...decided as a company that we wouldn't set up an environmental group but this would be core to everyone, everyone's jobs etc, assessment, approaches, whatever. So then it was my job to implement that and integrate that into the day to day activities of the business.' (Manager, sustainable development)

SIGNIFICANT ENVIRONMENTAL ISSUES AND TARGETS

The current drought in the Australian state in which Driland Water operates has significantly influenced the environmental priorities as well as operational issues and capital investment plans. Driland Water's major environmental impacts are caused by the extraction of water from the environment, greenhouse gas emissions and discharges of waste to the environment. Under the *Water Industry Act 1994* Driland Water is required to develop and implement plans, systems and processes which minimise the detrimental social, economic or environmental effects of managing its assets.

Driland Water has four key elements of business focus: customers, environment, efficiency and culture. With regard to the environment the company's aim is to provide its services within the carrying capacity of nature.

In 2002 Driland Water set ambitious targets which go well beyond compliance levels. They include:

- reducing emissions to 50% of 1990 levels by 2008
- reducing average water consumption per person to 80% of 1990 levels by 2010
- reducing waste to landfill to 10% of 2002/3 levels by 2010
- setting targets for reducing pollutants to sewerage by 2006.

Plans to reduce emissions include: reducing electricity consumption; purchasing green power; buying abatements; and, reducing vehicle emissions. Plans to reduce water consumption include: water recycling; mandatory dual pipe systems in some new developments; and education.

OVERVIEW OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

Driland Water used ISO 14001 as a guide in the development of its environmental management system (EMS). Staff considered that there was scope for a lot of diversity in how organisations went about achieving the ISO 14001 aims, such as identifying aspects and impacts and putting in place an emergency response plan.

Driland Water claims to be the first Australian water utility to prepare an *Environmental Cost Statement.* It was developed with the assistance of a consultant and in collaboration with Driland Water's finance group. It calculated the costs incurred in 2006/7 and the 'cost gap to environmental sustainability difference between 2006/07 and planned an annual average' for 'key areas of opportunity for reducing environmental impacts through six environmental strategic objectives' (Driland Water *Sustainability Report* 2006/7, page 15). These are: extraction from and discharge to waterways, septic tank management, water conservation, bio-solids reuse, greenhouse gas emissions and sustainability leadership. The largest cost gap is in water conservation, followed by project waterways and septic tank backlog. The *Environmental Cost Statement* is considered a success.

'...while it's rudimentary it's the first time we've actually brought them together and it's fantastic because it normalises environment in a parameter, a language that everyone understands.' (Manager, sustainable development)

Driland Water was the first organisation to be recognised, in the year 2000, by Quality Assurance Services (QAS) in Australia to have an integrated management system based on the principles of: ISO 9001, concerned with the Quality Management System; ISO 14001, the Environmental Management System; and HACCP, concerned with the Hazard Analysis and Critical Control Points. The company maintains a calendar of compliance requirements according to legislation or regulations. Responsible managers have to sign off that due dates are met and delays have to be explained at monthly board meetings.

Each site has an *Environmental Improvement Plan* concerned with asset management and operational issues to achieve environmental improvements. These plans can be accessed by all employees.

Divisional managers are responsible for a monthly *Business Review Meeting Report*, which covers a range of environmental aspects, impacts and actions such as: electricity usage; sewer spills and responses to them; continuous improvement actions; and, actions from audits.

An environmental assessment is carried out in the design phase of each project and requires divisional manager approval. It considers matters such as: physical chemical land management; water management; air quality; visual impact; noise management; waste management; biodiversity; risk of hazard management; and social and cultural impacts have recently been added. New projects are assessed against the four strategic objectives (efficiency, culture, environment, customers). For each strategic objective there are a number of key performance indicators (KPIs) and each new project is given a score for each KPI indicating its expected contribution to improving KPI performance.

'We go through a business planning cycle on a yearly basis...each function across the organisation identifies initiatives they want to undertake for the year ahead linking back to our strategy. The initiatives can be of an environmental/sustainable nature, they can be customer focused, efficiency focused or cultural. Employees have the opportunity to have their ideas input into the pool of projects. There's a ranking mechanism for the pool of ideas that we can allocate funds [to] certain projects. Of course, OH&S may get the first pool of funds depending on how critical it is, but the rest are all ranked against each other. There is a feedback mechanism that allows the executive team to seek additional information. Additional information and business cases are prepared for some items. We had a process where each of the items were weighted against certain criteria...linked to the strategy. The executive Team...decides which projects are to be undertaken in the forthcoming year and the level of funding to be allocated. Decisions are based on the company as a whole...in line with our strategy as opposed to isolated functional decisions. (Divisional manager, treasury)

'...I'm in charge of the certification through [name of company]. We're certified to quality, environment, HACCP, information security and OH&S. So we've got our five certifications. So I'm in charge of, I suppose, the integrated management system and that's sort of a system that...we put together that shows our auditors how we operate and things like that. So, as far as environmental management systems go, I'm the sort of contact with our external third party auditor, I arrange the audits. I'm also in charge of the environmental audit programme. But there are other areas that I'm involved in, the reporting and that sort of side of things.... What do I actually do? Well I work in the risk management area so we're heavily involved in doing risk profile across the organisation. We're in charge of all the water programmes across the business.... From a

certification point of view I'm in charge of document control across the business...' (Business improvements coordinator)

'...I'm the sort of liaison with SAI Global, who's our certification agent, they come and see me about their overall management of it but they go around to different departments and discuss different things.... We have appointed environmental auditors, external auditors...they perform these particular audits over...the life of their contract. They're put on for three years but these are sort of the audits that they sort of perform so, just as an example – liabilities for users of treated water – they do a report on it and we track all the actions by this sort of system that it's sort of a workflow system linked to the email and sends people out stuff to do when they're supposed to do it by.' (Business improvements coordinator)

The board takes ultimate responsibility for environmental management. Balance scorecard data is reported to the board quarterly.

'...we had environmental improvement plans and it's something that was embedded in the business...for many years and there came a time when we reviewed...when we introduced...our balance scorecard reporting which again was structured around carrying capacity of nature, four targets, lead indicators, lag indicators and processes which came from our new policy. And we were saying, well where do our environmental improvement plans fit in with that? And we had to revisit why we were doing that and what value it was giving to us...there are many requirements of us as a business, how can we integrate them all together and have them aligned to our strategic objectives. And so we've actually taken that and built it around the structure of our strategic intent and our balance scorecard which is the enactment of our strategic intent, and our management system actually is a process that helps us deliver it and monitor what we're doing. And so many people have requirements of us...environmental improvement came out of a commitment with the EPA and so we said OK we'll do that, but we found that we were reporting a lot of things. So firstly we said: look as a hierarchy we want the balance for our strategic intent to be the highest order thing. The management system is a screening tool that answers different questions people have of us. So we have licence requirements which are separate to our strategic focus and...DSE has requirements of us, the Essential Services has requirements of us, we're audited...for our ISO 9000, 14000 and HACCP [Hazard Analysis and Critical Control Points]. We've got them all integrated now...so it's now not just an add-on process but it's core to the business and so the management system allows us to drill in with different questions. So rather than being the primary structure of why we operate, it's a screening tool to get the information out of our focus to delivering our strategic objectives.' (Manager, sustainable development)

STAKEHOLDER INVOLVEMENT IN ENVIRONMENTAL MANAGEMENT

Driland Water is required by its *Statement of Obligations* under the *Water Industry Act 1994* to follow ISO 14001 and ISO 14004, though it is not required to be accredited to these standards. The Essential Services Commission audits the environmental data it receives.

The Water Industry Association at state level has put together a compliance manual and holds regular forums. However the state does not set aspirational goals, which were seen to be a hindrance to sustainability progress.

'...so when we're talking about our greenhouse gas reduction strategy, when we last spoke we had a commitment as a business to reduce our greenhouse gases by 50% of the 1990 target. Now feedback, from the people that authorise our pricing structure, didn't approve that, and we've gone further than that, but there isn't – that's done despite the [state] government or the federal government not having a greenhouse gas target. So we have to work very hard to get that through. It only got approved when we went to our customers with a 'willingness to pay' survey, and they unanimously supported the changes.' (Manager, sustainable development)

The customer consultative committee meets quarterly. It has a significant impact in the company's *Water Plan*, which includes a statement of key environmental objectives to be covered.

Driland Water has an environmental strategy advisory group providing high-level strategic advice and replacing an environmental consultative committee, first established in 1995 to assist in the development of Driland Water's first *Environmental Improvement Plan*. The environmental consultative committee has representation from environmental NGOs and regulators and was established to identify the concerns of environmentalists, as a way of identifying other stakeholder groups and as a means of identifying possible risks. The change in the nature of the committee came as the organisation recognised the need for advice in different areas, and at a more strategic level.

'The committee was established as a think tank to provide [the company] with advice on how to advance our performance in environmental sustainability. It comprises a number of national experts who have specialist knowledge in water and environmental sustainability...The committee has been very effective in constructively challenging the company's activities, policies and objectives.' (Driland Water, *Sustainability Report,* 2006/7: 36–7).

The environmental strategy advisory group now comprises experts in a range of environmental issues who can 'add business value' (Manager, sustainable development). It meets two or three times per year.

With regard to engaging with stakeholders it was felt that more could be done.

'We recognise that we need to do more with stakeholders, so of the four processes that we identified, when we put together a policy, working with stakeholders was certainly one that we identified there. It is...probably the most underdone in terms of what we could do and what we want to do and we're learning what that means. So look we have a customer consultative committee that meets... quarterly.... Whenever we have works in any area we certainly have a stakeholder consultation process there.' (Manager, sustainable development)

The change in organisational culture has facilitated better stakeholder engagement which brought its own benefits.

'I'm working on a project where I'm working together with...our wholesaler, ourselves and [a] city council, and together we bring together the whole urban water cycle because we've got stormwater and that's outside our business boundary, and stormwater's split between [the wholesaler] and councils, and the urban water and sewage system is split between [the wholesaler] and us, so bringing together all those organisations we see that we can get a different outcome, and we need to because we're environmentally constrained in terms of how we provide services, there's not enough water. So from that perspective we see there's a huge benefit in working with stakeholders.' (Manager, sustainable development)

Some additional external and internal barriers to setting sustainability targets were also mentioned:

'...for us to fund additional projects we have to go to the independent pricing body that links prices to customer bills to the amount of money that we can spend. So they're saying well why do you want to spend more money on greenhouse gases when no one's telling you to do it, why do you want to spend more money to improve water efficiency so there's water for the environment when no one's saying that there has to be more water for the environment, and equally in nutrients. So if we're trying to come up with a sustainable definition it gets screened by the economists or...treasury and they say well there's no reason for it to be done. Certainly that's external, internally yes, I mean there's the barriers of knowledge internally.' (Manager, sustainable development)

An environmental audit had highlighted that 'there was a collective perception of the business that the EPA was actually a hindrance to us becoming more sustainable' (manager, sustainable development). Most of Driland Water's interaction with the EPA has been with the regulatory arm. It is seen as a policeman driving a hard bargain and the company's relationship with it is adversarial. Driland Water has identified some anomalies in its approach.

'So we have them telling us to decrease phosphorus at a sewerage treatment plant and we are saying well if it's doubling our greenhouse gas emissions well what's the total environmental impact? So they are struggling with that. They struggle also with well what's your end point in terms of phosphorus that we are putting into the river, what should we be aiming for and they can't answer that.... So as a business we were quite confused and certainly our view was that look we don't know if it's actually giving us the best environmental outcome, it's very prescriptive, it gives us no room to say well what's your long term goal and what's our direct line of sight to the ultimate goal rather than this piecemeal approach which may cost us a hell of a lot more money.... Is that a problem, when will that be a problem, and you know, if we go down this path foreseeable it could be a problem for us so we're in a no-win situation. So we didn't see that holistic guidance.... Our experience with the EPA was that they are predominantly regulatory and our view was that it was the DSE's role to be the policy makers, and really they've only increased their staff over the last few years so. There's scope for us to work together to get more sustainable solutions yep, so there's an institutional impediment.' (Manager, sustainable development)

FACTORS INFLUENCING THE DEVELOPMENT OF THE ENVIRONMENTAL MANAGEMENT SYSTEM

Leadership was cited as an important factor driving the culture of focus on environmental issues. It is seen as a way of people creating meaning and satisfaction out of their work. This leadership driven change in culture has been the main factor in environmental performance improvements and has been led by a value-driven managing director.

'I think there's a lot of things involved [in changing the culture] and our approach has been it is information – people have to know that there's a need to change – but to get to major change there's a number of things that have to be done. One is, a person has to be aware of the need, they then have to take those values inside, on board, and you can't just tell a person to do it, to change, they have to actually believe that it's important. And you have to have a culture within an organisation that supports the goals, the objectives as well...and as...you go down the environmental path...you can't do it on your own, and so you have to engage stakeholders and you have to work with people collectively. Collectively it's the win-win situation...so collectively you have to do that. Now to do that, that requires culture change in terms of their competitiveness, so that's an individual change...we've done a lot of work as an organisation to give people strength in people skills.... [When] you look at stakeholders...it's a different organisation because you have to build trust. So as an organisation we've...got our environmental stream and at the surface you can talk about environmental goals and what we've delivered, but...to understand that it goes down in layers to an individual level.' (Manager, sustainable development)

Recognising the importance of changing the internal culture in embedding environmental values, Driland Water used consultants to assist in the development of personal skills as well as organisational change. Culture change has been seen as the key to success in improving environmental performance within the organisation and employee opinions on the business commitment to

environmental performance were tracked. An example given as evidence of the change were invitations made to experts in particular fields, such as stream biologists, to make presentations to the business.

The Green Office Strategy has assisted in changing employee behaviour and embedding environmental values.

'They took away all our bins. We only have bins in our kitchenettes now and we have recycling bins and paper toweling bins and we have just normal rubbish bins but we also have little compost bins for our food recycling, there's no foam cups or plastic cups around the organisation at all, everyone was given a cup, a knife and a fork and a plate instead of going down to the canteen and using plastic plates. We've got tea rooms that have got sinks in them but there's washing facilities in the canteen. As part of the property facility management site, we've put water tanks all around the site to catch the water; we've captured storm water off the car parks and use it for toilet flushing, so we walk the talk.' (Business improvements coordinator)

Both the managing director and the new graduates sometimes get frustrated that change isn't quick enough, There are functions, however, that were not expected to make significant changes (the finance group was identified as one of these), but even these have surprised the manager, sustainable development.

OVERVIEW OF EXTERNAL REPORTING AND FACTORS INFLUENCING ENVIRONMENTAL REPORTING

Driland Water has a steering committee that determines report content. Emails are circulated requesting report content to give staff the opportunity for input. In determining report content, Driland Water is guided by the key targets it is set to achieve by 2010 and consideration as to what customers and other stakeholders will be interested in. It uses the Essential Service Commission's KPIs. Driland Water has used the Global Reporting Initiative's *Sustainability Reporting Guidelines* , which are used as a guide for sometime producing, for the first time, a separate GRI report, using the G3 guidelines in 2006/7.

All external reporting, including sustainability reporting, is the responsibility of the divisional manager, treasury and financial planning. The Australian water industry is unusual in that sustainability reporting is generally included in the *Annual Report* [2] and is the responsibility of the private sector equivalent of the financial controller.

Sustainability reporting is not independently assured. In the context of being a state-owned company subject to external audits, it was decided that the benefit to Driland Water did not outweigh the costs. An external verification was not seen to add value to the significant performance achievements made on some KPIs. The consultant providing the service was seen as the main beneficiary.

The company view when reporting bad news is that:

'It's about being open and honest...and especially with the Essential Services Commission you need to report what's happening. It's more about, well, if something's gone wrong why has it gone wrong, what can we do to improve that KPI or measure, what's the driver of where things have gone wrong...what are we gonna do to enact and make sure that we improve on that for the future.' (Manager, sustainable development)

STAKEHOLDER INVOLVEMENT IN EXTERNAL REPORTING

Specific reports are required by some stakeholders, such as reporting on sewage spills to the state environment protection authority. Voluntary reporting to customers includes a customer charter, newsletters, both for residential and business customers and brochures and factsheets. The *Our Water Our Future* policy of the Department of Sustainability and the Environment influences the focus on water conservation in the report.

With regard to stakeholder feedback on the report:

'Both the Department of Treasury and Finance and the Department of Sustainability and Environment always give us feedback on what our report...Now the feedback we got last year ensured that the whole process of putting together the annual report has changed. We have a steering committee that now run this to try and make sure that everything that we got as feedback is now incorporated...We're also targeting the KPIs to use...we're trying to find the major ones. Rather than have a whole list in there...we're trying to get ten around each of those elements that really talk about what we're trying to achieve...The other thing we're doing is we're calling a strategic refresh, so we've always had this [pictorial representation of key goals] but we're trying to give more clarity around what are we trying to do for environment... That becomes a strategic outcome and then what are the objectives...A lot of it may stay the same but just to make sure that we're really gonna get these targets that we've set ourselves for 2008/10. That's something we're doing internally.' (Manager, Sustainable Development)

'So we have a strategy and communications group that produce this report and they do all the feedback sessions. There's different ways, we get them interviewed by external parties, try and get feedback that way as well.' (Manager, sustainable development)

2 Though note that Driland Water produced its first separate sustainability reporting in 2006/7.

INTERACTION BETWEEN INTERNAL MANAGEMENT SYSTEMS AND EXTERNAL REPORTING

'Our internal reporting has been significantly improved by the discipline of a balance scorecard approach saying well you're talking about the environment, you're doing all these things, how do you know whether you're better in terms of your environmental performance this year than you were last year and what are you doing to put you on a course for next year, so it's the lag and the lead indicators. So the balance scorecard was very good in disciplining...' (Manager, sustainable development)

Internal reporting has a significant impact on performance management. It has been driven by the company vision and strategy rather than external reporting.

External reporting and following the G3 guidelines has focused the company's attention on matters which might not otherwise have been considered. Biodiversity and social impacts were examples mentioned.

SUMMARY OF KEY POINTS FOR DRILAND WATER

Driland Water operates in a highly regulated environment, with a number of government agencies and regulations involved in defining its environmental focus, setting targets, guiding processes by which targets are achieved and monitoring performance. The organisation has made considerable efforts to identify appropriate approaches to sustainability; aiming, in some areas, to go further than economic regulators would wish, due to costs involved. In doing this it has worked with experts and engaged consultants. There is some frustration with the piecemeal approach to setting environmental targets by government bodies, which can be inefficient in the longer term and fail to take account of overall environmental impacts.

The utility's strategy with respect to the environment is led from the top. Significant resources have been deployed to change the internal culture of the organisation in order to effect changes in behaviour and embed the environmental strategy. The approach has led to the integration of environmental management, stakeholder engagement and external environmental reporting.

There is a strong belief among those staff interviewed at Driland Water that it is leading on sustainability and, with that, a strong sense of pride and a desire to influence others in the business to do better.

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