

# Environmental Tools:

## Voluntary Corporate Reporting

### **What is voluntary corporate reporting?**

There are generally two types of corporate environmental reporting: legislated<sup>1</sup> and voluntary. Although both types of reporting exist within Canada, there is a growing trend within the corporate world to voluntarily report on their environmental performance. In fact, many corporations are finding that voluntary corporate reporting provides a strategic advantage over competitors who do not voluntarily disclose environmental performance.

Voluntary corporate reporting is different from government-required reporting. There are no legal requirements to compel a corporation to report, or to specify the format, scope, and content of the report. Corporations are therefore able to choose their disclosure information, although third party auditing schemes are encouraged, to provide credibility to the report.

Voluntary corporate reporting can be defined as the formalized communication of information directed to the firm's stakeholders about environmental policies and objectives, management systems, and measured environmental performance.

### **How are they used?**

Voluntary corporate reporting follows a variety of formats and mediums. Corporations may incorporate environmental performance into their annual report. However, as corporate social responsibility becomes a norm within business management practices, a stand-alone environmental report provides a more comprehensive approach to disclosing information on environmental reporting. Corporations may report on the environmental performances and plans of each of their facilities, or target reports to communities where their facilities are located. Facility and community reports may either substitute for, or augment, stand-alone environmental reports.

### **Where are they used?**

There are currently 114 Canadian companies in 13 sectors voluntarily reporting on their environmental performance, corporate social activities and other non-traditional information. According to Stratos, over 70 percent of the companies listed on the Toronto Stock Exchange disclose corporate information in sustainability/corporate social responsibility reports. To illustrate the increasing popularity of this tool, consider that in 2001 only 35 percent of listed Toronto Stock Exchange companies disclosed information related to environmental performance.

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<sup>1</sup> A domestic example of legislated reporting is the National Pollution Release Inventory (NPRI). This program requires industrial facilities that manufacture, process or use any substance listed under the NPRI to report any release over and above allowable levels established by Environment Canada.

Standardized voluntary formats have been suggested for appropriately developing a report. The most notable reporting scheme is the [Global Reporting Initiative](#) (GRI). This organization has created [A Common Framework for Sustainability Reporting](#). Companies following GRI format are required to report on economic, environmental and social performances – also known as the triple bottom line. The GRI requires reporting on five sections: visions and format; profile; governance; performance indicators; and additional information.

### **Why are they used?**

Traditionally, corporations have solely been concerned with fulfilling their obligations to shareholders. Increasingly, corporations are becoming accountable to all stakeholders who interact with them, or who are impacted by operations.

### **Tool performance**

#### **Pros**

- Inspectors could rely on credible and complete reports as verification for companies with good environmental records, freeing resources and staffing hours to concentrate on monitoring companies with histories of environmental noncompliance.
- By preparing and following-through on credible corporate reporting, companies can establish positive environmental track records.
- Companies can improve their management of environmental risks. Voluntary corporate reporting can identify not only their environmental liabilities but also strategies for mitigating these liabilities.
- The market appears to be placing a growing emphasis on sustainability issues, as evidenced by the existence of indices such as the Dow Jones Sustainability Index and the FTSE4Good, which includes companies with high corporate responsibility practices in three areas, including environmental.
- By reporting, corporations can identify how improvements in environmental performance can result in increased profitability.

#### **Cons**

- Not enforceable – their strength depends purely on the commitments of corporations and their willingness to employ environmental audit criteria.
- Some may view voluntary corporate reporting as a form of “greenwashing.”
- If an association of companies agrees to establish a standardized reporting formula, the credibility of the formula might be damaged if most members of the association take very little or no action to adopt and act on this formula.
- Since there are no legal requirements stipulating the scope, quality, or regularity of reporting, companies use a wide variety of formats. This may cause confusion on the part of the general public regarding the true purpose of a voluntary report.

### **Special considerations**

- Corporate reports are credible if they are audited and/or contain the information verified by an independent third party.

- Voluntarily produced reports have the greatest appeal to corporations that clearly identify how improved environmental performance can result in improved financial performance.
- Reports are most effective if they provide performance indicators to measure progress against stated goals.