

Case study:

# Z Energy's approach to sustainability reporting

 CLIMATE  
LEADERS  
COALITION  
ON A MISSION TO REDUCE  
EMISSIONS IN NEW ZEALAND



## Case study:

# Z Energy's approach to sustainability reporting

Z's sustainability journey started soon after our inception. Sustainability has always been one of the central pillars of our organisation, and is one of our four key 'Stands'; the others being Community, HSSE and Diversity and Inclusion.

Z's first Sustainability Stand was agreed with the Executive in 2012, with a goal of meeting various commitments against a 2012 baseline by 2015.

In recognition of the old adage "you can't manage what you don't measure", we began reporting against our carbon footprint in 2012. We then decided to take our commitment to sharing everything to the next level in 2015, by creating an [annual report](#) that compares our performance against external environmental, social and economic standards. We're doing this as part of our commitment to sustainability, transparency and to best practice reporting. As a result, Z's first annual report that's in accordance with the [Global Reporting Initiative \(GRI\)](#) international sustainability reporting framework was published in 2016.



By signing the Climate Leaders Coalition CEO's [Climate Change Statement](#), business leaders have committed to: Measuring and reporting their greenhouse gas emissions; setting a public emissions target; and working with suppliers to reduce greenhouse gas emissions. Measuring and reporting on greenhouse gas emissions (or your carbon footprint) is the first step in the journey to organisational sustainability reporting. Guidance on greenhouse gas reporting has been developed by the Ministry for the Environment and can be found at [this link](#). The guidance encourages best practice in greenhouse gas reporting and supports voluntary reporting initiatives.

# What is sustainability reporting

Put simply, sustainability reporting is a snapshot of an organisation's economic, environmental and social performance.

Global Reporting Initiative (GRI) reporting is the most applied sustainability report format in New Zealand, and provides a prescriptive process to follow and very clear guidelines to ensure key principles are followed and targets are reported on.

We decided to go with the GRI process we found it a great fit for reporting in line with Z's fairly conversational tone, and with our values of being straight-up and sharing everything. It is also widely recognised as the pre-eminent reporting tool.

**GRI reporting requires organisations to work through a series of steps as outlined below:**

1

**Prepare** an overview of what the final report might contain and the process to get there

2

**Connect** with stakeholders to find out what they want from the report, and their issues

3

**Define** the content (including disclosures) based on stakeholder input

4

**Monitor** your performance by collecting relevant data and analysing it in a format for inclusion

5

**Report** performance through disclosures

# Why we did it

Gerri Ward, Sustainability Manager at Z Energy, says the report is a big step in effective engagement with the company's stakeholders. "The fact we chose to adopt the GRI framework for our annual report is evidence of how integral sustainability is to all levels of Z's operations," she says.

Gerri says that one of the most gratifying aspects of the report was the way it highlighted Z's strong internal performance. "We're a values-based business so we rate very well on measures of internal performance, which is something we don't tend to shout about from the rooftops. That includes the way we treat our staff, employee turnover, and return to work rates after parental leave. The GRI report gave us a framework to tell that internal story.

"The other section of the report that was a highlight for me focused on how our corporate staff relate to sustainability. We asked corporate staff about how committed they are to sustainability at home and the results showed that 100 of them recycle all the time; 72 get to work by foot, bike, public, transport or carpool; 86 use energy-saving light bulbs at home; 60 never use disposable coffee cups; 77 take reusable bags to the supermarket; 55 have their own garden at home growing fruit or vegetables; and 38 volunteer their time outside work. Figures like that help our stakeholders see our business as real people."

Z Energy won the [2017 Plain English Awards](#) Best Plain English Annual Report, with feedback that the report was clear, easily understandable, and had a friendly, conversational tone.

After three years of successfully reporting against the GRI, Z decided to also report against the [Integrated Reporting](#) (IR) standard. A key driver for this was some feedback from shareholders that our annual report was effectively reflecting where we'd come from, but not where we were heading.

## What we do at home

We wondered how our corporate team was committed to sustainability at home. So we asked! We found out that out of 114 people surveyed...



**100 people**  
recycle all the time



**72 people**  
get to work by foot, bike,  
public transport or carpool



**86 people**  
use energy-saving light  
bulbs at home



**60 people**  
never use disposable  
coffee cups



**41 people**  
have a compost at home



**77 people**  
take reusable bags to  
the supermarket



**38 people**  
volunteer their time  
outside of work



**66 people**  
buy local and support  
local veg markets



**55 people**  
have their own garden  
at home growing fruit  
or veg



**96 people**  
switch it off when they  
are not using lights,  
TVs and laptops

# What is Integrated Reporting?

The [Integrated Report \(IR\)](#) framework has been created to enhance accountability, stewardship and trust as well as to harness the information flow and transparency of business that technology has brought to the modern world. It is predicated on the assumption that providing investors with the information they need to make more effective capital allocation decisions will facilitate better long-term investment returns.

An IR is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. It tells the story of the company, who it is and what it does and how it creates value, its strategy, opportunities and risks, its business model and governance, and the performance against its strategic objectives in a way that gives stakeholders a holistic view of the company and its future.

Financial reporting tells only a part of the story of any organisation. Integrated reporting aims to give a holistic view of the organisation by putting its performance, business model and strategy in the context of its material social and environmental issues. Importantly, integrated reporting includes forward-looking information to allow stakeholders to make a more informed assessment of the future value creation ability of the organisation.

## What's the value to investors?

The primary purpose of an IR is to explain to providers of financial capital how an organisation creates value over time.

In a survey of 300 investors, 90% said it would be "valuable for companies to combine financial and non-financial information into an integrated reporting model". Investors identified the main benefit as being an "enhanced understanding of the long-term outlook of a company", while Harvard Business School research found that "[more IR is associated with a more long-term investor base](#)" and that IR is positively associated with percentage of shares held by transient investors".



## How does it fit with GRI?

The IR Framework would provide an additional framework for Z to report against. It closely aligns with the current GRI framework but is more targeted to the need to providers of financial capital. Many of the definitions, principles and disclosures align across both reporting frameworks with the GRI being more specific in how material issues should be reported. You could argue that following the GRI guidelines produces report that is overly focussed on traditional sustainability performance (environmental and social) whereas following the IR framework produces a report that is overly focussed on the needs of providers of financial capital.

<b>The additional benefits for Z adopting the IR framework in conjunction with the GRI reporting framework have been:</b>	<b>Challenges of adopting IR</b>
<ul style="list-style-type: none"> <li>A clear, complete and holistic communication of how we create value for all our major stakeholders (including shareholders, customers and society), how we define value and what the risks to achieving this value are.</li> </ul>	<ul style="list-style-type: none"> <li>Before you can implement integrated reporting, you need a broad understanding about value drivers in your business.</li> </ul>
<ul style="list-style-type: none"> <li>It shows how everything links together – for instance, how governance interacts with remuneration and risk, when strategy is designed to capitalise on the opportunities presented by a changing market environment, and when strategic priorities align with key resources, relationships and key performance indicators.</li> </ul>	<ul style="list-style-type: none"> <li>Other issues may need to be addressed first, such as alignment of strategic goals across the organisation and understanding what drives value in the business, this in turn leads to a better understanding of KPIs [key performance indicators] and opportunities.</li> </ul>
<ul style="list-style-type: none"> <li>Talking about our key risks and opportunities how we plan to mitigate or capitalise on them. This shows we're on the ball and that we're scanning the horizon for changes that may be just out of sight.</li> </ul>	<ul style="list-style-type: none"> <li>One of the distinguishing features of Integrated Reporting is that in contrast to compliance based reporting, there can be no model report – every report must be built around the unique business model of the preparer. This has left many organisations unsure on how to structure integrated reports.</li> </ul>
<ul style="list-style-type: none"> <li>More interconnected internal decision making where we can all articulate the impact that decisions have on our value (financial, social and environmental).</li> </ul>	<ul style="list-style-type: none"> <li>One of the key practical challenges organizations continue to face is transitioning a traditional annual report that is focused on financial metrics and related detailed disclosures to a broader report that tells the value creation story of an organisation in an understandable way.</li> </ul>

## What did Z need to do to produce an Integrated Report

1

**Materiality** – be clearer about what our material issues are, and how these link to our business values and outcomes.

2

**Boundaries** – be more precise when it is covering topics about exactly what is, and is not included, in that discussion. For example, when discussing people does this relate to employees only (i.e. those in our corporate office), retail staff, contractors or a mix of these. Ideally the same boundaries would apply throughout the report but this may not be possible in some instances.

3

**Outlook and strategic focus** – a clear articulation of our vision, targets and delivery for all the capitals is required. Coverage of these aspects has been somewhat patchy to date.

4

**Identify the capitals and documenting the value creation process (business model).** Note that an organisation can refine its representation of the business model over time as both organisational understanding and business drivers change.

It should be noted that these improvements (with the exception of the capitals and value creation process) apply to both the existing GRI and the IR reporting.

## What Z did:

**Just start** – We never set out to perfect our sustainability reporting in our first GRI report. We have a do-learn-do culture at Z; which has been put into avid practice in this case!

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**Get measuring** – How are you going to know how you're doing against any targets you've set yourself, if you don't have a baseline? You'll have to have at least a year's worth of data to report against before you can plan to write a report – so get measuring!

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**Continuously improve** – Report a bit, learn a bit, report a bit more... Most ESG reporting is principles-based, and provided you show your workings and are honest, you don't need to be able to tick every box to start on the reporting journey. Z focused on four IR capitals in our first year of reporting, stated what they were and why we picked them, and then went for the full six capitals the next year.

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**Collect material data during the year** – The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. That material information – both financial and other – is defined by the authors of the report. The simplest way to do this is to keep a track of material information as you go – who did you talk to, what did you talk about, what was the Board's agenda for the year, what did the Directors study, who did they talk to?

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**Be open** – Z was singled out by the Plain English awards as being “honest, transparent and forthright”, which was a positive reflection of our values of Sharing Everything and Being Straight Up.



## Top tips to implement IR

- Form a Steering Group – needs cross business representation at senior level (you may also wish to have a working group over time).
- It is a journey. Consider the fundamental concepts of IR – don't expect to get 10/10. No one is producing a perfect IR report yet.
- You need buy in at the top level – education of Exec and Board
- Take an inventory of our current reporting portfolio, both internal and external. Inventory all the KPIs that are used. What are our most important communication pieces and how do they align?
- What reports & KPIs would we like to have? What is our reporting strategy?
- You don't have to report your IR externally immediately – you may wish to 'test' out things internally first.
- Use the IR database – look up business models for retail and logistics companies. This is accessible through the IIRC website.
- Think about how what we report will add to the investors NPV models. How do we measure the value creation of our business model internally?
- Connectivity – you can reveal information more easily with linking in electronic mediums, get it with 'one click'; rather than having to trawl through dense reports.



## The benefits

Sustainability reporting is here to stay. Firms continuously seek innovative ways to improve performance, protect reputational assets, and win shareholder and stakeholder trust. The benefits of sustainability reporting go beyond relating firm financial risk and opportunity to performance along ESG dimensions and establishing a 'license to operate'. Sustainability disclosure can serve as a differentiator in competitive industries and foster investor confidence, trust and employee loyalty. In a review of more than 7,000 sustainability reports from around the globe, researchers found that sustainability disclosures are being used to help analysts determine firm values and that sustainability disclosures may reduce forecast inaccuracy by roughly 10%. Thousands of companies around the world issue sustainability reports, and the number of companies reporting grows every year.



**“ The report should represent, rather than create, how a business is doing against what they said they’d do. ”**

*Gerri Ward, Sustainability Manager at Z Energy*

## Sustainability reporting:

1

Provides a framework for measuring performance and allows you to identify your company's strengths and weakness; and the risks and opportunities.

2

Allows you to improve your management systems and goal setting.

3

Attracts and retains talent: 75% of millennials say they are looking for companies to work for that are environmentally and socially responsible.

4

Connects employees and departments within the company, promoting engagement, continuous improvements and innovation.

"The trick to telling good stories is having good stories to tell." Says Gerri Ward, Z's Sustainability Manager. Before we started down this road, I had feedback from those who'd led GRI reporting in other firms that they'd found it hard; but they said that was because they'd found it a chore to find content to generate for the report. We have the opposite problem – the hardest thing about our reporting process is cutting it down to a readable length." Gerri says the entire objective of sustainability reporting is reflecting a business's activities; rather than initiating them: "The report should represent, rather than create, how a business is doing against what they said they'd do."

**As our Chair said in this year's Z Annual Report, "We remain committed to IR because we know an increasing number of investors and other stakeholders are interested in how we create long-term sustainable value."**

**Want to know more?** Contact Gerri Ward, Z's Sustainability Manager  
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