SUSTAINABLE DEVELOPMENT REPORTING CASE STUDY

THE WAREHOUSE GROUP

Introduction

The Warehouse Group, established in 1982, currently comprises three trading operations - 77 Warehouse Stores, selling general merchandise in New Zealand; 36 Warehouse Stationery stores selling small office and home office products; and the Australian operations (the former Clints and Sollys stores) comprising 118 stores. The Warehouse and its founder, Stephen Tindall, and both are household names in New Zealand. Early in 2001, Greg Muir became Chief Executive Officer, and Stephen Tindall moved from his role of Managing Director to that of Founder of The Warehouse.

The Warehouse marketing approach is based on two brand statements: “where everyone gets a bargain” and “where quality is affordable”. This approach is backed by a “money-back” guarantee. The product range in New Zealand exceeds 90,000 lines, reflecting a very large number of individual suppliers both domestic and overseas. The company also sells a number of own-label products, together with an increasing range of international brands.

The company’s annual reports have included 1-2 pages on environmental initiatives since 1998. These reports have not, however, included performance measures or data. The first dedicated SD Report of The Warehouse was released in December 2001. It covers the activities, performance, and policies of the Warehouse Ltd only. Suppliers and contractors may be included in later reports, but only inasmuch as they are influenced directly by The Warehouse as part of its supply chain management policy.

A summary of the key aspects was included in the company’s Annual Report and a stand-alone document was placed on the company’s website. A number of factors contributed to the decision to produce the SD Report only on the Internet. These were:

- A wish from the Board take a measured approach to the distribution of the SD Report
- Printing deadlines

The Warehouse has for some time reported its activity with reference to its five stakeholders (team members, community, suppliers, shareholders and customers) and for reasons of consistency, a decision was made to structure the SD report according to stakeholder groupings, rather than the “silos” of sustainability (economic, social and environmental). This way, the dimensions of sustainability can cut across the various stakeholder groups. This method of reporting was familiar and had worked well in the past.
The Warehouse and Sustainable Development

The Warehouse has in place a number of initiatives that reflects the Founder’s commitment to sustainable development. These include:

- **People First** - adopted as a philosophy, focusing attention on the five key stakeholder groups: customers, team members, suppliers, shareholders, and the community. “The Warehouse Way” - a written policy, supports this philosophy internally. In 2000 this philosophy was extended to “People First Everywhere”.

- **A Supplier Code of Conduct** - introduced in 2000, which, in addition to dealing with the rules of commercial engagement, begins to impose standards of environmental and social performance on suppliers.

- **A “Zero Waste” philosophy** - supported by “Reverse logistics” that returns packaging, store, and product waste through the company’s distribution system to central sorting points. From there it is sent to recycling operations or to landfill, as appropriate. In this way the company has brought the majority of its stores into line with the zero-waste goal, removing the waste skips and local disposal costs.

The Warehouse is also a participant in a number of initiatives that promote and assist in encouraging sustainable development in business organisations. These include:

- The NZ Business Council for Sustainable Development (NZBCSD)
- Massey University’s Annual Survey of Corporate Environmental Responsiveness.
- The pathfinder programme of The Natural Step
- The Redesigning Resources (RR) conference group and workshop series.

In addition to this, the Warehouse also

- Supports the NZ eco-labelling scheme, Environmental Choice
- Supports the community through a tree-planting scheme through its credit card points programme, “Clean-up New Zealand”, Project Kiwi, and support for schools and national organisations, e.g. Plunkett and Surf Life-Saving.
- Received national awards for its energy efficiency management.

SDR Drivers

The drivers for SDR reflect both the influence of a visionary founder and leader, as well as the need for systems and procedures for managing sustainable development in a large organisation.

Visionary Founder and Leader

As with many organisations where the founder has a keen interest in sustainable development, and is still involved in the organisation, Stephen Tindall has maintained an active role and continues to act as champion for sustainable development initiatives within the Warehouse.
Demonstrate Leadership
The Warehouse also recognises SDR as a way to influence stakeholders, especially others in the New Zealand business community, to improve their own contribution to sustainable development.

Additionally, producing their own SDR will demonstrate how The Warehouse itself has benefited by implementing sustainable development thinking and technology.

Continuous Improvement
Measurement of important SD issues will enable the organisation to better manage corporate risk through a comprehensive assessment of social and environmental performance.

Greater measurement will force internal discipline and influence what the company does, and force it to do better.

Greater awareness should also achieve greater resource-use efficiency and reduced operating costs, encourage innovation in product and service lines and marketing to enhance to company’s advantage gained from applying SD principles.

Producing a SDR will provide information to benchmark the business against others reporting in the sector around the world.

Reputation
Being open and honest will help to build brand awareness and reputation in a society where values are shifting towards greater sustainability.

Shared values and trust
Producing a SDR is also a way to acknowledge issues of concern to stakeholders, and talk about what The Warehouse is doing to address them. This should contribute to building enduring stakeholder support for The Warehouse through shared values, trust, and also to demonstrate integrity.

SDR Experiences
In addition to undertaking a number of initiatives outlined above, and participating in a number of programmes directed at producing SD Reports, the company also commissioned a greenhouse gas emissions assessment by Landcare Research - utilising the Ebex21 programme, and also undertook a “values audit” with Social Audit NZ.

The SDR process has raised a number of important issues for the Warehouse. These are essential organisational issues that need to be considered in order to make any reporting process successful for the organisation. These issues include:

- The need to achieve buy-in from the board and senior management team.
The importance of a reporting team with a champion and suitable representation.

Recognition of the risks in SDR - particularly as any reporting on corporate SD performance for such a high-profile organisation is likely to attract significant attention.

The multiplicity of SD initiatives in the organisation - while a strength in terms of exposure, also has the potential to cause confusion.

The financial costs of reporting.

The Warehouse’s policy statements in some areas are still under development or yet to be addressed.

These issues were exacerbated, as few models exist for the retail sector.

Feedback on Progress

The NZBCSD project has enabled the company to receive valuable feedback from Landcare Research on building on the initiatives already underway, and consolidating this into a finished report for publication in 2001.

Landcare’s approach reflected the above issues and also incorporated the process The Warehouse was already participating in through the Redesigning Resources workshop series. This is based on their Key-PAD model. The recommendations were grouped into three key areas - organisation of the reporting process, developing Key Performance Area Drivers and Indicators, and issues around stakeholder engagement.

Organisation of the reporting process

The main thrust for SD reporting comes from Stephen Tindall, but the Company Secretary, who is responsible for annual reporting, leads the reporting process, supported by the Environmental Coordinator. A SD reporting team, with committed representatives from different departments has not yet been established. A reporting team is valuable for sourcing new types of performance data from across the business. Evidence suggests that access to information, and its ease of collection requires a sound understanding of the rationale and implications of SD reporting.

Key Performance Area Drivers and Indicators

The most significant goals for The Warehouse were identified as influencing the supply chain to improve its performance, and driving greater consumer demand for sustainable development.

Based on the Key-PAD model, Landcare Research suggested the following key performance areas for the Warehouse to consider:

<table>
<thead>
<tr>
<th>Driver 1: Vision, values and goals</th>
<th>Stakeholders would expect to see The Warehouse’s ethic of “People first everywhere” assessed in the report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Given the company’s vision, values and goals, as stated in the SCI, what areas of performance would stakeholders expect to see</td>
<td>Stakeholders would expect to see The Warehouse’s ethic of “People first everywhere” assessed in the report</td>
</tr>
<tr>
<td>Driver 2: Stakeholders</td>
<td>Given their own values and needs, what performance areas would the stakeholders expect to see addressed?</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Driver 3: Risk management</td>
<td>How does the company identify and manage risk in its environmental and social performance, and the potential impact of environmental and social issues upon itself?</td>
</tr>
<tr>
<td>Driver 4: Internal management</td>
<td>What management systems exist and how well do they perform in translating the vision, values, and goals of the company into sustainable performance?</td>
</tr>
<tr>
<td>Driver 5: Global issues of sustainable development</td>
<td>What impacts does the company have on society and the environment in terms of the major</td>
</tr>
<tr>
<td>Driver 6: Strategic elephants</td>
<td>Driver 7: Influencing potential</td>
</tr>
<tr>
<td>-------------------------------</td>
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</tr>
<tr>
<td>global issues? What impact do those issues have upon the company, both now and in the future?</td>
<td>ozone depleting substances, and other hazardous chemicals in its products? How effective are measures to reduce these? What does the company’s “Zero Waste” goal mean in practical terms?</td>
</tr>
<tr>
<td>What opportunities does the company take to lead its stakeholders towards sustainable development, and how effective is that leadership?</td>
<td>How effective is that leadership? For example, outcomes can be achieved by engaging customers and other stakeholders in the company’s “Zero Waste” goal? What is being achieved by engaging the retail sector in discussion of sustainable development?</td>
</tr>
</tbody>
</table>

It is normal that companies work up to full SDR over a period of years. This reflects the time taken to both identify the issues of importance to stakeholders, and gather meaningful and reliable data. While The Warehouse began reporting on SD projects over the past 2-3 years, a much more comprehensive framework is being proposed for the next annual report. Decisions will be needed on subsequent content, especially in those sensitive areas discussed above, where reliable data is not yet available and will be harder to access.

*Indicators and data issues*

The Warehouse is working to develop a range of performance indicators, around the Key Performance Area Drivers identified above, through the different SD initiatives in which it is engaged, (e.g. Triple Bottom Line
reporting with Landcare Research, The Natural Step, the NZ survey of corporate environmental responsiveness, Social Audit, etc).

**Stakeholders**

As highlighted above, and in the SDR Guidelines, the reporting process and the content should strongly reflect the key stakeholder groups and their interests. The Warehouse has identified their key stakeholders, and their involvement in the current reporting cycle, as follows:

- **Shareholders:** no plan for engagement beyond the usual interactions
- **Staff:** views recently surveyed by Social Audit NZ, but not so as to develop KPAs and relevant indicators
- **Customers:** views recently surveyed on levels of customer service in the stores, and a survey is in progress on customer attitudes to sustainable development issues
- **Communities:** surveys in relation to the sites of new stores
- **Suppliers:** informal contact in relation to implementing the Supplier Code of Conduct. No plan for further engagement in relation to reporting.

The following table provides a framework for relating the Key performance Area Drivers and stakeholders to the production of a SDR. The approach they have followed to date, towards their next report, is summarised below. The table also provides an overview of the actual process taken by The Warehouse.

<table>
<thead>
<tr>
<th>Process suggested by Landcare</th>
<th>Process undertaken by the Warehouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure the top-level commitment to SD reporting and allocation of the necessary resources.</td>
<td>Completed</td>
</tr>
<tr>
<td>Select the SDR champion.</td>
<td>Completed</td>
</tr>
<tr>
<td>Prepare a system for documenting the decision process and activities in producing the SD Report (this is essential preparation for external verification).</td>
<td>The process of obtaining suitable and verifiable metrics was a major challenge for the business. Processes are in place to address this</td>
</tr>
<tr>
<td>Decide upon the reporting entity, scope, and time period covered by the report.</td>
<td>Completed</td>
</tr>
<tr>
<td>Identify stakeholders and what they would expect of the report. Develop a programme for engaging key stakeholders that clearly indicates which groups will be engaged, when, and the reasons for including or excluding specific groups. (Incomplete)</td>
<td>The Warehouse considered that it did not have sufficient time to undertake a full stakeholder engagement process. However based on previous stakeholder contact The Warehouse believed it understood most of the key stakeholder issues.</td>
</tr>
<tr>
<td>Identify key performance areas on which to report using the Key</td>
<td>KPI development was still under review at the time of the</td>
</tr>
<tr>
<td>Performance Area Driver model or similar framework</td>
<td>production of the first SD Report</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Document the reasons for selecting the Key Performance Areas (KPAs) on which to report, as below. (Incomplete) a) Acknowledge KPA, report performance. b) Acknowledge KPA, plan to address in future. c) Unsure about KPA, plan to assess its importance.</td>
<td>KPI development was still under review at the time of the production of the first SD Report</td>
</tr>
<tr>
<td>Assign key performance indicators to the key performance areas, ensuring balance, comprehensiveness, and objectivity.</td>
<td>The process of obtaining suitable and verifiable metrics was a major challenge for the business. Processes to improve this are in place.</td>
</tr>
<tr>
<td>Build upon existing scorecards and performance measures but avoid presenting a report skewed towards internal priorities.</td>
<td>The Warehouse reported a “warts and all” assessment being careful not to be selective. Areas of weakness were noted in the “Challenges” section for each stakeholder.</td>
</tr>
<tr>
<td>Document internal management processes and identify gaps in policies, accountabilities, planning, and monitoring.</td>
<td>The extent of reporting in this area was limited as we wished to keep the report into a manageable size.</td>
</tr>
<tr>
<td>Where appropriate set performance targets for the next reporting period.</td>
<td>KPI development was still under review at the time of the production of the first SD Report</td>
</tr>
<tr>
<td>Select approach to report verification and stakeholder comment.</td>
<td>Incomplete</td>
</tr>
<tr>
<td>Develop the report content, format, illustration, and dissemination, taking care to reflect the values of the company (e.g., use of recycled/recyclable materials, gender and ethnic depiction, use of jargon, invitation of feedback, contact points, etc).</td>
<td>Incomplete</td>
</tr>
</tbody>
</table>
Use of International Reporting Standards

*Global Reporting Initiative (GRI) guidelines*

The GRI was used as a checklist of report content and candidate Key Performance Indicators. However there are two areas where The Warehouse’s approach differs from the GRI format in two particular ways:

1. **Influencing potential**
   - “Influencing potential” is seen by Stephen Tindall to be a major part of the company’s strategy for contributing to sustainable development both in New Zealand and overseas. For example, improved performance can be demanded in the supply chain, and customers can be introduced to the concepts of SD and helped to implement measures such as waste reduction, selection of products with a better SD profile, etc. The GRI does not yet offer measures of influencing potential, focusing instead on the direct impacts of an organisation’s activities. It is expected that GRI will develop in this direction, and that The Warehouse’s experience in developing relevant measures of “influence” will be of international importance.

2. **Integrated performance**
   - The second area of divergence focuses on the linkages between social, economic, and environmental performance in the context of any one issue. The GRI tends to consider social, environmental and economic performance in distinct “silos”. Integration of indicators is limited to rather simplistic context-setting by using ratios (e.g., carbon dioxide emissions per $ turnover).
   - The Warehouse is considering the value in taking an issue-based approach to SD reporting. This means that once key performance areas have been identified, they will be analysed in terms of their social, economic, and environmental components.
   - Take solid waste as a simple example. This is a key performance area for The Warehouse, which has a Zero Waste goal. Solid waste has:
     - **Economic dimensions** (for example, cost of disposal, cost of product returns, staff time costs in handling both, relative costs of reverse logistics, cost of providing recycling facilities for customers, liability for higher waste charges pending future legislation, etc)
     - **Social dimensions** (for example, influencing staff and customer behaviour to reduce solid waste, effectiveness of training and other approaches, acceptance of waste sorting, recycling, etc)
     - **Environmental dimensions** (for example, landfill demands, additional greenhouse gas emissions from producing new versus recycled material, environmental contamination from hazardous wastes (e.g. batteries), etc).

*AccountAbility (AA1000) process*

The company’s “People First Everywhere” vision puts stakeholder engagement in the spotlight for The Warehouse. If reporting is not to be a
one-way communication from the company to stakeholders, how can the company engage them in a cost-effective manner? Similarly, the company’s desire to embed SD thinking throughout its management processes and staff raises the need for an effective mechanism.

AA1000 provides such a mechanism. It is used internationally, but the approach is unfamiliar in New Zealand. As accredited consultants become available, the Warehouse will review the use of the standard and what value it offers to their reporting.

**Verification**

The Warehouse had intended to include stakeholder commentary and/or an official verification statement in its SDR. This is seen as a way of ensuring credibility, as with financial accounts, but this is still incomplete at this stage.

**Key Learnings of the SDR Process**

**Benefits**

The company’s long commitment to sustainable development, having had some experience in producing limited social and environmental information in Annual Reports, and undertaking a formalised SD Reporting process provided the organisation with a number of benefits, including:

- Putting all of the various initiatives that the organisation is involved in into context; and
- Identifying areas of the organisation’s sustainability processes that were incomplete - such as a shared strategy, systems for collecting accurate information, ensuring data required was complete and easily accessible.
- Providing a focus for further improvement in both performance around sustainable development, and internal systems and procedures for being more sustainable. For example, the reporting revealed the importance of integrating social and environmental performance measures into the regular reporting expectations of managers. Further, the results of the reporting process revealed poor performance in areas such as eco-labelling. The process also highlighted that a number of key areas had no targets set around them. For example, Foreign Stewardship Certification of hardwood.

**Key Challenges**

One of the key challenges that the Warehouse faces around SD Reporting is how to formalise the reporting process and to integrate the importance of it throughout the organisation. While the Warehouse feels that their report does cover the major areas of sustainability for their business (community impact and consumerism), it was recognised that the issues and indicators had been part of an extensive research and investigation over a number of years - and may well continue to evolve.