

# Full product transparency is the future of reporting

Posted by [Ramon Arratia](#) [1] on Jan 22, 2013

Reporting on product life cycle impacts is the next step for sustainability reporting

Good corporate reporting is based on the principles of accountability and transparency. When reporting on sustainability, this transparency is greatest when focused at product level. After a decade of corporate responsibility, full product transparency heralds a new era for reporting.

With many – and often most – environmental impacts occurring outside a company's boundaries, extending reporting from the narrow confines of a company's own operations to the wider effects of the products it sells demonstrates superior accountability.

This is the ultimate in transparency. It is also of greater relevance to most stakeholders, who are more interested in a company's products than its facilities.

## Accountability across the value chain

So forget reporting at company level. Classic CR reporting is too narrow in focus, and it misses too much. Environment sections of reports are usually limited to the immediate impacts of a company's operations, perhaps with a nod to managing impacts in the supply chain.

By extending reporting to include the impacts of products throughout their life cycle, companies can demonstrate transparency and accountability across the value chain.

But which environmental impacts, for instance, should a retailer be accountable for – and report on? The environmental impact of a supermarket extends well beyond the doors of its stores to include the impacts of all the products it sells.

These occur before and after the products enter and leave the stores – in their production, their use and their disposal. Yet conventional corporate reporting would largely ignore anything that happens outside of the store.

A traditional corporate report might pick out one or two products as case studies and look at their impacts, but what about the rest? If a company produces environmental product declarations (EPDs) based on life cycle analysis for all its products, this can reveal its overall impact much better than any CR report.

An EPD takes into account the ingredients of a product, its methods of production, and the full environmental impact of each stage of its life cycle.

## Double counting is OK

A life cycle approach does, however, raise the issue of double counting. Reporting has been dominated by accountants, and environmental reporting has been developed along financial reporting lines. Company A owns 33% of company B, so it must account only for 33% of the environmental impacts of company B. But does this really work?

For the accountancy profession, accuracy is paramount. In financial terms, double counting is a disaster to be avoided. But for environmental reporting, does it really matter?

After all, the aim is to identify and cut environmental impacts globally. It's better to over-report these impacts than to miss some out. If they aren't reported by anyone, they're not being addressed by anyone.

In this case, double counting simply means impacts are being tackled on more than one front – by the supplier, the retailer and the end-user. That has to be a good thing.

### **Re-inventing the concept of scopes 1, 2 and 3**

Scope 1, 2, 3 thinking has been designed with a focus on the company, not the product. A more sensible reporting protocol would re-define the scope of categories by putting the life cycle of the product at the centre of things, not the profile of the company.

For example, we could keep scopes 1 and 2, and then add the following:

- Scope A: raw materials and supply chain
- Scope B: product transport
- Scope C: commercialisation and/or installation
- Scope D: use phase
- Scope E: end of life
- Scope F: other company indirect impacts such as employee travel
- Scope +: carbon abatement of products and services

Scopes A to E are already being reported separately in the new EPDs that have been agreed for the construction industry. An EPD accounts for impacts before the product gets to the company and after it leaves, rather than just providing a snapshot as it passes through.

### **Who reads the reports?**

CR reports can be useful for sustainability experts and some NGOs. But most customers don't read CR reports.

Consumers and B2C customers are not interested in the company; they're interested in the products they buy. They want to know about the environmental impacts of the products, and how much carbon, toxicity or recycled content they have. Publishing an EPD provides that information in a validated way. It's a credible way of substantiating marketing claims.

For example, if you are buying company cars, you no longer have to worry about how many ISO14001 compliant factories BMW has, or what kind of score it has registered with the Carbon Disclosure Project. You simply look at the gCO<sub>2</sub>/km metric for the cars you're buying.

And while people buy products, investors buy companies. But investors need to understand a company's future cash flows, which come from the ability of the company to sell its products.

To understand sustainability risks, looking at the actual impacts of the products that a company sells can provide more insights than the generalities and corporate spin of a company report.

In the car industry, for example, investors need to have a handle on the tailpipe emissions from each vehicle to ensure that the company will still be able to meet impending regulations, or if it will be able to compete with other manufacturers that are rapidly reducing their emissions.

### **Full assurance**

Expensive external assurance of CR reports is used by companies as a way to verify what they're saying. But many stakeholders find the resulting bland, heavily-caveated statements unsatisfactory.

Full product transparency eliminates the need for this type of assurance, which would be a relief to everyone but the assurers. Product reporting is the ultimate in transparency – clearly showing the environmental impacts of each product. By building third party assurance into the EPD process at product level – for example by auditing the data that goes into creating the EPDs – the classic CR report assurance statement becomes redundant.

What could be more reassuring than a company making a promise to cut the impacts of its products, and then annually publishing its EPDs to show whether those impacts are reducing or not? Certainly not the standard boilerplate assurance statement at the back of a CR report.

### **The integrated model**

There is a big discussion to be had about integrating reporting. Companies are increasingly moving towards this model as a way of demonstrating that sustainability is core to their business. Some people talk about it as the holy grail for CR reporting. But this is still about integrating corporate impacts in a corporate report.

The aim is to show integration of sustainability considerations into the core of the business. And what lies at the core of any business? Its products. Reporting on the impacts of a company's products can demonstrate true integration in the business.

CEOs often trot out the cliché that “sustainability is embedded in our DNA”, which is easy to say but more difficult to measure. Sustainability is not really in the DNA of any company until the products are zero waste, zero carbon, 100% recycled, contribute to the health of customers, and create socio-economic value across the whole value chain.

Full product transparency is about full accountability across the value chain, not just within a company's boundaries. It can provide clear guidance on materiality. It also offers a useful analytical tool for investors looking at the long-term prospect of a business, and it does away with the need for bolt-on assurance that has little value.

There is only one way ahead for the environment reporting and it's full product transparency.

*Ramon Arratia is sustainability director at Interface, a position he has also occupied at Vodafone and Ericsson. In this article he draws on content from his book [Full Product Transparency: Cutting the Fluff Out of Sustainability](#) [2]*

### **Links:**

[1] <http://www.ethicalcorp.com/users/ramon-arratia>

[2] <http://www.dosustainability.com/shop/full-product-transparency-p-11.html.html>