

IMS CONSULTING WHITE PAPER

Benchmarking the sustainability communications of the UK construction sector

IMS Consulting has undertaken what is thought to be the most thorough and comprehensive benchmarking study on the ways in which construction companies in the UK are communicating their progress towards sustainability. The study established a robust set of criteria, in the form of a 'sustainability reporting scorecard', and used this to evaluate and compare the standard of sustainability reporting of the UK's largest construction companies.

Aims

The overall aim of the study was to benchmark the standard of sustainability reporting and communications of the largest UK construction companies. The resulting work provides insight into the current sustainability reporting landscape in the UK construction sector, revealing areas of strength and weakness, and highlighting examples of good practice.

It is important to recognise that the study does not intend or claim to benchmark sustainability performance itself. For example, the way in which carbon emissions were communicated was assessed, but actual carbon emissions, and whether they are increasing or decreasing, were not considered.

Method

IMS Consulting developed and applied a robust methodology for benchmarking sustainability communications based on a framework previously established and used by Ceres¹. Each construction company's sustainability communications were evaluated against a bespoke 'sustainability reporting scorecard'. The scorecard consisted of a set of criteria that IMS Consulting believes represent good practice in terms of how sustainability policies, activities, actions and progress are communicated. In essence, they form a set of expectations for 'good' sustainability communications.

The criteria cover three main themes:

- (1) **Governance** including disclosure about how sustainability processes are managed and assessment of the importance given to sustainability when communicating corporate performance, business strategy and risk assessments.
- (2) **Reporting framework** including communication of the processes by which sustainability reports and other communications are produced and disseminated, their accessibility, format, scope and content, and evidence that third party guidelines, standards or certification have been used.

¹ For example, Ceres (2009) Roadmap for Sustainability (www.ceres.org/ceresroadmap) and Ceres (2006) Corporate Governance and Climate Change report (www.ceres.org//Document.Doc?id=90).

- (3) **Disclosure** of information relating to a company's operations, supply chain, products and services and employees, which would typically be expected to include aims and objectives, past performance, future targets, recent progress and evidence of initiatives.

For each criterion, a simple three-point scoring system was applied. A score of 0 meant that little or no evidence was found. A score of 1 reflected that some or limited evidence is provided. A score of 2 signified that a considerable amount of evidence was available. A total of 50 criteria have been identified, meaning that each company can receive a maximum score of 100.

The Construction Index's Top 100 list of construction companies (September 2010) was used to identify the UK's largest construction companies by turnover (Table 1). Eaga plc (ranked 24 in the list) was not assessed, as construction was not considered to be its primary focus. ROK (ranked 26) was also benchmarked, but its results have been omitted from analysis after it entered administration in November 2010.

Table 1. The largest UK construction companies by turnover from the Construction Index Top 100 list (September 2010).

Rank by Turnover	Company name	Turnover (£)	Pre-tax profit (£)
1	Balfour Beatty	10,339	267
2	Carillion	5,427	148
3	Laing O'Rourke	3,070	50
4	Morgan Sindall	2,214	44.7
5	Kier	2,146	24.8
6	Interserve	1,907	89.2
7	Babcock	1,902	107
8	Mitie	1,720	91.7
9	Sir Robert McAlpine	1,631	60.9
10	Skanska UK	1,542	38.9
11	Amey	1,531	106
12	Galliford Try	1,461	-26.9
13	Bovis Lend Lease	1,278	8.6
14	Vinci	1,163	15.4
15	BAM	1,134	19.6
16	Costain	1,061	18.1
17	Enterprise	1,060	-30.6
18	ISG	1,046	11.8
19	Keller	1,038	74.7
20	Willmott Dixon	999	18.2
21	Wates	945	38.9
22	Bowmer & Kirkland	874	28.8
23	Miller	783	-72.4
25	Mace	726	19.3

The sustainability communications for the 24 largest construction companies were assessed based on the same 50 criteria. The written reports from each company's most recent reporting cycle were assessed, as well as information available on each company's website. Consequently, the analysis was dependent on the information that each company has placed in the public domain.

IMS Consulting is confident that this method provides a fair reflection of the overall scope and content of communications, not least as the principle of materiality dictates that if the issues covered by the criteria were felt to be genuinely important by each company, they would have been prominently and clearly communicated². It also stands to reason that those companies that make more evidence available in the public domain about their approach and progress towards sustainable development are expected to score better.

IMS Consulting accept that the nature of the methodology, specifically the analysis of outputs from the most recent reporting cycle as of September 2010, means that the results will become dated as new sustainability reports are published after this time.

Outputs

For each of the construction companies assessed, a 'Sustainability Reporting Checklist' was produced. This contains the score given for each of the 50 criteria, along with some evidence and justification for why that score was assigned. The scorecard also provides the aggregated score for each of the three main areas (Governance; Reporting framework; Disclosure) as well as the total score out of 100.

Based on their overall benchmarking score, the 24 construction companies have been assigned performance bands, ranging from 'poor' (<20/100) to 'excellent' (>80/100).

A variety of further data analysis has been undertaken, to help understand and illustrate what the sustainability communications landscape looks like, for the UK construction sector, in 2011. The study also allowed examples of good practice from within (and outside) the construction sector to be identified.

Discussion

IMS Consulting believes that the results of this benchmarking exercise could be, and perhaps should be, of considerable interest to UK construction companies.

Traditionally, financial reporting provided much of the information that was used by stakeholders to assess companies' performance and form perceptions of them. However, recent years have seen increasing importance placed on non-financial aspects of business activities. In contrast to financial reporting – which is now a long-

² Hubbard (2009) 'Unsustainable Reporting' paper presented to the CR Debates, Royal Institute of Great Britain (www.corporateregister.com/crra/2008-ceremony/media/UnsustainableReporting.pdf).

established discipline with well-defined processes and protocols – the scope and content of non-financial reports is much less well understood.

Sustainability reporting, in particular, has forced organisations to re-evaluate how they evaluate and communicate performance. It requires stakeholder engagement to be an integral part of the reporting process, informing what is reported and evaluating success. It necessitates performance to be understood not just in terms of turnover and profit, but instead to encompass a wide range of non-financial issues including social and environmental factors. It challenges organisations to move beyond the focus on historical performance, since reporting on sustainability by definition must address future risks, opportunities and strategy.

Although considerable work has been done to develop common non-financial reporting frameworks and performance indicators, there remains considerable inconsistency between how organisations undertake sustainability reporting. Differences between sustainability reports include management responsibility, the processes used in their production, their scope and content, and the ways in which their content is communicated. As a result it is difficult to evaluate the quality of sustainability reporting, and consequently sustainability performance itself, as no two approaches to reporting performance are the same.

Coming at a time when sustainability is rising rapidly up the agenda of the boardrooms of many UK construction companies, IMS Consulting believes this benchmarking study is a timely and important piece of research. By providing an overview of how UK construction companies are addressing the challenges of sustainability, and are embracing the opportunities they provide, the results give valuable insight for companies and their stakeholders alike:

- They are a valuable way of engaging in constructive dialogue about why and how progress towards sustainability should be communicated by construction companies. Even where companies disagree with the methodology or their score, the results provide a useful context for discussing and justifying the approach they have adopted.
- They can help drive competition, as the performance bands make it clear which construction companies are leading the way and which ones are lagging behind. Competition can be healthy if companies are competing on the right issues, such as sustainability, or if this can be used for the basis for better stakeholder decisions.
- They can initiate improvements in sustainability communications across the sector as a whole. Construction companies that are performing poorly will be able to understand how they can do better and learn from those who already do. The results also highlight areas of opportunity where best practice from other sectors can be applied.