Transcript of ‘Sustainability Benchmarking’

Season 1, Episode 9, Transforming Tomorrow

[Theme music]

Paul: Hello and welcome to Transforming Tomorrow the podcast from the Pentland Centre for Sustainability in Business here at Lancaster University Management School. I'm Paul Turner.

Jan: And I'm Professor Jan Bebbington.

Paul: And today Jan, it's my nightmare. We've got two accountants in the room and I'm worried that you two are just going to go off on a tangent and I will not be able to keep up.

Jan: I think you ask us some really good questions ‘cause like every discipline we kind of use our own language, we use our own sort of ideas, and we need to be held to account, as it were.

Paul: Puns, the puns! [Jan laughs] Yes and we're going to be specifically discussing benchmarking, corporate reporting and how they tie in with sustainability.

Jan: Yes, indeed. And so reporting happens in many different ways, it can be financial reporting or non-financial reporting, and we're going to kind of focus more on the latter. And um as you'll find out my very good friend and colleague is doing some work at figuring out how you'd rank people from best to worst.

[Theme music]

Paul: Yes, because we are joined here today by Dr Dasha Smirnow a lecturer in Accounting in the Department of Accounting and Finance at Lancaster University Management School.

And her work explores whether voluntary adoption of the global reporting initiative framework by a company is associated with the quality of their ESG disclosures, or the level of their ESG performance.

That's ESG Jan, what does that mean?

Jan: It's Environment Social and Governance factors, so it's where are the finance world try to figure out what they might do with sustainable development.

Paul: Yes, and as we may have mentioned yes, another accountant, someone who is working with you on a paper on non-financial reporting benchmarks.

Welcome, Dasha.

Dasha: Oh, thank you so much for having me. I'm really quite thrilled to be here.

Paul: We'll see how you feel when we've discussed benchmarking. Having read the paper that you and Jan are working on I've discovered I'm very much a cynic when it comes to uh benchmarking as a principle. Which may, it speaks a lot to my background both as a journalist and working here in higher education and the obsession that there is with rankings and in very many different places.

Before I become cynical, Dasha tell us a bit about yourself your, your background and your work on this area.

Dasha: Um sure, I guess my background is all in accounting. I've done my bachelor's and my master's degree in accounting, and then followed that up with a PhD in accounting. And the PhD really wasn't on my radar until I was doing my Master's degree and um, it was, it was one of those things where somebody suggested I should do a PhD in accounting and I thought, wow what is that uh what, what would that entail?

So at that point in time I tried, you know, several different jobs I worked in a large organisation um doing a lot of data entry and reconciliations, and I worked for a small uh organisation as an assistant accountant, and none of that really resonated, so I thought, yeah I should go back to school and see how the PhD works out, and many years later here I am so [laughs] I think it is working out.

So accounting is something I've been studying for a long time. My personal interest has always been around sustainability, I would consider myself to be an environmentalist. I care for social environmental dimensions of what corporations do, so that's been always a big part of my interest, and a big reason for why I'm here, and why I'm working on this paper with Jan.

Jan: It might be was saying something about the raw materials that go into a benchmark, ‘cause it's a pretty big area, but also a rapidly evolving area.

So most large corporations, across most of the world, produce non-financial information. And so they will produce information about the profits they make, about their balance sheets, their cash balances, all of those elements that you might imagine that an accountant would be interested in.

But at the same time they also produce information about non-financial matters that might arise from their financial interactions, so it might be how many emissions are associated with their activities, might be effect on biodiversity, on water, on all other natural systems. But also the social impacts of organisations as well.

And so, these non-financial reporting practices that people engage in have been around probably for 30, maybe 35, years but in say in the last decade to 15 years become really commonplace. And so this is the raw materials that go into benchmarking.

Paul: What, what you're studying is benchmarking into corporate reporting, and specifically the transparency of corporate reporting, how easy it is to understand what people are actually doing how much they're revealing within their reports. Can this be used as a valuable, valid way of measuring what people are actually doing or can it only be used as a way of measuring what they're bothering to put in reports?

Dasha: It's obviously a complex question, with a complex answer. So there's several ways of looking at it. One is, inevitably corporations have a certain interest when they're producing the disclosures that they make public, when they're releasing certain information. Now having said that, even in the most cynical way, we know that that information does have value, and there's a lot of stakeholders who are using it and relying on it and finding it very meaningful.

So in that sense we can't you know we can't disregard it, in the sense that it's not just a public relations exercise or a marketing exercise. That that information does carry a lot of, it does carry a lot of value to many different stakeholders. On the other hand, though, uh we also know that uh practices change over time so we can look at an evolution not only of uh reporting, but also in a in a bigger sense how then other stakeholders, like civil society organisations and governments, engage and change the expectations around what a company might say.

So, you know, a hundred years ago you might have been equally cynical about the information that's in the financial statements. But today most of us would see the financial statements to be a very reliable source of very useful information, and certainly we wouldn't discount that. So if we can think about these disclosures, the reporting around environmental and social uh corporate practices, as not being a final product, but being a product that is shaped uh in in these ongoing processes then, then maybe we can be less cynical about it.

Paul: [slight laugh] Don't worry about my cynicism. Jan is normally the one who's very negative about the future of the whole world, but you talk there about maybe the comparison to 100 years ago in financial reporting and obviously there's a lot of regulation that now goes into financial reporting that maybe isn't there for non-financial reporting.

So does benchmarking maybe step in there as a way of making up for the fact there isn't that regulation, it forms maybe not an official type of regulation for it, but it helps in that regard.

Dasha: Yeah, yeah I would definitely agree with that in a sense that benchmarking is a sort of a natural step. If we think about the landscape um of the different actors who are in the space, and information as being information! It's uh, it's something that we can look at and analyse and discuss, then naturally we would have a set of actors develop who would be interested in processing the information and making sense of it, and using it for their own purposes.

So benchmarking, there's, benchmarks have evolved to meet many different types of uh purposes. They're trying to influence corporate behaviour, uh in the sense that if we can, if we can sort of analyse this information in a certain way and make it public, possibly use it as, as part of a, of a bigger public awareness campaign, then we can we can change corporate behaviour very much in a similar way that regulations could also possibly do it.

Although I don't, I don't want to overstate the uh… [laughs]

Jan: …yeah, yeah…

Dasha: …the kind of the uh association, not, not the association, but the, the strength of a comparison between regulations on one hand, and benchmarks on the other. Both have issues.

Jan: One of the things that we quite like about benchmarks is that it gives you if you like you, you have the reporting, you have kind of some kind of instrument that converts the reporting into a benchmark, and then you have a best to worst list.

And the reason why people quite like benchmarks, and this really comes out of the literature, is that it allows the good stuff to rise to the top, and so people doing great stuff you get they get quite good recognition of that. But at the same time it highlights where the bottom is as well, and so if people are doing less well over time, the idea is that a benchmark will help educate them and inform them about how they can lift their practice, should they wish to.

And so in that respect it's, it's not um it's not a pass-fail, okay, it's not a sense of shaming organisations, although people might feel a bit horrified about being too far down the list of their peers, and so if you like it's got that ability to, to lift everyone, if it works well.

But if it works well, behind that is a lot of other you know mechanisms and dare I say infrastructures, uh given that we've been talking about that in some of the previous podcasts, that either allow this to happen or prevent it from happening.

Paul: And I think it's interesting a couple of the points that you've made there, one of which is companies at the bottom will want to push up, but I noticed in the paper that you're working on there's a talk that, particularly with one particular benchmarking um group that you were looking at to do with the salmon industry, there was talk of the people who were interested in the report were actually those who were already doing well, and that they were the ones who tried to improve, but the ones at the bottom maybe didn't even access the report in the first place to find out what the report said.

So is there may be a fact that people who are already doing well, quite well want to do better, but maybe some people just don't care?

Dasha: Yes absolutely. Part of what our interest is, is understanding, well when do benchmarks actually work, and when can they influence corporate behaviour.

So in this particular benchmark that we're studying in our paper, it is not one that is publicly disclosed, and so that is um you know both a limitation but also a strength because it allows us to separate the impact of the benchmark from that of the publicity that can be generated by the benchmark.

So we do find that, if there's not that publicity side of things, aspect, then firms are more likely to improve, as you say, if they're already doing well. In which case we, we see that benchmark can be, if it's well constructed if the methodology is transparent, if as a, as a rating guide it can be helpful to companies to improve their performance, because it tells the companies here are the issues you should be focusing, on um here's sort of uh relevant uh dimensions that you should, you should try to perform better, on at least make disclosures about.

Now in terms of the public aspect, it does seem that that's uh necessary if we want to move these companies who are not performing as well, so you know, these guys at the bottom so to speak. So that gives us an insight into the different channels, the different mechanisms uh through which benchmark works, and it also gives us um an insight into the importance of other players in the field who can, who can help sort of exert pressure on the companies to change. Because not all companies uh will change voluntarily, not all companies are true believers, if you will.

Paul: I know you talk about the power of shame. Essentially that if these benchmarks can be made public the power of shame to therefore potentially, you know, is that a factor that can drive firms into wanting to improve?

And I guess a question I'd have is not so much the power of shame but the power of markets, how much do investors pay attention to things such as benchmarks therefore driving up values of companies, which is for most companies the be all end all, especially those that are publicly listed?

Jan: I think one of the fun things about this benchmark that we've got to see on the inside of, and we can come back to how we came to understand more about it, is that because it was sold to people who wanted the information, we know that it was sold to investors.

And so that's that was quite an, that was a surprise to us ‘cause we didn't necessarily anticipate that. So whilst those who are interested or those who want to do better bought the benchmark, so do investors in the companies that were in the benchmark.

And I suppose that prefigures um, this is a, a slight historical case and that the benchmark’s now finished, which is also means why we've been able to study it in more depth, but that kind of prefigures the ESG, the Environment Social and Governance funds and rankings.

And there's a lot of research around them that uh is perhaps not very complimentary, because people worry about both how exact they are and their probity, and you know, all sorts of worries about that.

So in some ways that, you know, who uses the data and how they use it, we get a little bit of glimpse in this particular study but it's a big issue across the board.

Paul: That ties in perfectly with something else that I was wondering about, which is all about the transparency of the benchmarking itself. The, the people who draw up the benchmarks, whether they're independent from the industry, how they fit into the industry, and how easy the benchmarks are to understand, so that obviously there, there can be issues with transparency and how easy to understand the reporting can be, but then if the benchmarks aren't easy to understand that can affect their value too surely, and how much people are using them.

Dasha: There's a couple things that come to mind in, in thinking about the transparency of the benchmark. We have to think about what the benchmark is meant for, what, what are the objectives, what is the purpose with which it was designed.

So in the case of the Benchmark that Jan and I are studying, for example, we are looking at an explicit goal of trying to change corporate disclosures on the environmental and social dimensions in the seafood industry.

And so the transparency of the benchmark is really instrumental in accomplishing that. Because it gives companies a, a good sense of where they can make improvements, what are the specific indicators that are very important in this particular setting to this particular industry, and sometimes you know these indicators they may not be even thinking that they're important, and so it's really helpful for somebody to highlight them as actually being important indicators.

So in that sense, if we're concerned with improving uh corporate behaviour and having them learn from the benchmark, then the transparency of the benchmark becomes absolutely crucially important.

Now having said that, and we've just touched upon this idea of ESG ratings, where companies are being rated on the Environmental Social and Governance factors, a lot of these ratings are commercial um products. And so here uh the objective is very different, the objective is for the rating agency which is just another company to be generated revenue.

And so they might, they might want to make some of the methodology transparent as a way of improving the legitimacy, the trust in the product. But ultimately it might not be their objective.

So you know if we think about making a comparison with uh some of the practices and on the financial side we have credit rating agencies who rate credit worthiness of companies, and here we're, we often don't quite know exactly what the methodology is, it's actually quite opaque.

But that doesn't stop uh the credit ratings from being incredibly influential. So so in that sense, whether or not a methodology is or isn't transparent, or should or shouldn't be transparent, is probably a function of what the benchmark or the rating is trying to, to accomplish.

Jan: I think another part of your question, which I think was really helpful, is that there's a, a body that's emerged since the time of our case study called the World Benchmarking Alliance. And they have several different benchmarks, some of them around particular problem areas um, so like they have a nature benchmark, some around particular industries as well, so they have industry level benchmarks as well.

One of their benchmarks that that we know quite well is the Seafood Stewardship Index. The best performer on that index gets under 50% score. And so I always feel more reassured about benchmarks where you know people, if people are sitting at 90, 95% then I sort of think oh well actually you could probably do better than that, whereas sometimes also you know not everyone getting full marks is, is actually an indication that the benchmark might be actually quite tough, and is asking the same kind of questions, because intuitively we know that everything isn't going fine.

So it's also if you like the array of grades that you can get off a benchmark that helps you understand how it's constructed.

Now, the World Benchmarking Alliance is really interesting, because they have open public consultation on what's going to be in the benchmark. So they put something forward, and then there's a lot of feedback and, and negotiation and then a benchmark is proposed.

So their process is incredibly transparent, um and allows people to have a voice in it, and so in some ways are very different from um ESG ratings who are selling it for a business. Their business is to lift the whole sectors that they're engaging with, so that's a slightly different example again.

So I think that, um and I think you can't be cynical about benchmarks, because I would say which benchmark do you mean? Because they're quite varied.

Paul: Well I have to say when I first read about the World Benchmarking Alliance I thought, hang on this is someone who's benchmarking benchmarks and…

Jan: …there is a bit of that… [laughs]

Paul: …you say I can't be cynical ,and surely if there's someone benchmarking benchmarks then this is… [Jan laughs]

If, if they're benchmarking the benchmarkers, who's benchmarking them? That would be my, my next question along those lines.

But no I, I can, I can see value in some ways if you've got someone whose, an alliance whose job it is to have the right areas in place to be benchmarked, choose what is benchmarked, how it's benchmarked and for their independence, like you say if you've got benchmarks where the top marker is getting 99% and all they need to do to get 100% is actually correct that typo on the report that they sent through, that's a bit ridiculous.

But if the, if the marks seem to be you know serious, and they're assessing them in proper ways where they're getting marks, oh you're, the best one is below 50%, maybe these marks are a bit harsh but at least it's showing that you know they've identified areas for improvement that can be applied there.

I mean the, the question that that raises for me though is do companies improve just for the sake of improving on benchmarks, or are they improving to become a better company? Are they improving in areas that aren't necessarily relevant to but it will boost them up the benchmarking scale, or are they improving in areas that won't necessarily affect their benchmarking but makes them a better company?

Dasha: This kind of resonates with um some of the concerns around greenwashing. Uh you know, in a sense of whatever it is that firms disclose is it, is it meaningful information, or are they just producing this really large, really colourful reports full of uh lovely pictures, and so they might improve, improve the public perception of the, the firm but they might not necessarily tell us a lot about what's actually happening in terms of the, in terms of the uh corporate performance.

So we could, we could think about benchmarks I guess in a similar fashion, that as soon as you have a new tool then we can expect that there will be uh some degree of uh gaming behaviour and, and companies will use strategies to improve their standing in these benchmarks.

And so I don't even think you know you'd be a cynic for doing that, I think you'd be a realist. And indeed it would be you know a bit silly, or a bit naïve, if we if we didn't anticipate that.

So then we can talk about maybe the degree, the degree to which uh we're witnessing gaming behaviour in firms just to improve their standing, as opposed to the degree to which there is corporate learning and there is changes to internal processes, to internal policies.

And once again it's always interesting to think that this is not a final product, and that the practices do evolve and even if we might start with a practice that not be very strong to begin with, if we can observe changes over time that result in improvement in corporate performance, well, then benchmarks are doing their job in a way.

Jan: And on the one we looked at I think the really, um the thing that I really like about this paper and the data behind it, is that we are co-authors but there's a third co-author, and that's the person who invented the benchmark that we're studying.

And so you say well how on Earth can they be a co-author on a paper but we kind of try to you know keep a distance from, because we weren't involved in it, but what it's allowed us to do is to ask the person how did it work.

And so um he did this benchmark between 2012 and 2017, and the, by collaborating together we've been able to open up the black box, and see the things, the decisions that he had to make, the compromises that he had to make, um but then also we know what people said to him about it, um because he's able to convey that to us in a, you know, appropriately confidential way.

Um and so in that respect if you like, this engagement with the practice and the practitioner who put it together has allowed us to know a bit more about benchmarking, but like most good researchers it actually has raised a lot more questions that we might ask another benchmark as well.

Paul: It was interesting to see as well the way the benchmark evolved, the way that he set it up in the first year based upon his experience working in the salmon industry, as a journalist as it happened, and the contacts that he'd made and the, the knowledge that he had, and how it evolved over the course of making that benchmark over the next few years, where he thought well actually this doesn't quite work, that doesn't quite work, it'd be better to measure them in this way, better to measure them in that way.

And I guess that that speaks a bit to benchmarking, that you can't be too, too rigid in the way you structure it, you can't just set it up and say right that's it, that's how we're going to measure forever.

Jan: It did, um, 'cause Dasha did that part of the analysis, the poor girl almost pulled all her hair out at various say, [mock shouting] it's not the same. [laughs]

And it really was that change which is natural and what you would expect creates some really big problems of really trying to understand did anything change, because when the whole you know basis is changing at the same time then that's tough.

Paul: I can imagine as accountants that's especially frustrating.

Jan: [laughing] Kind of.

Dasha: Just to add to that, um this, this really highlights this really interesting tension between uh our objectives and interest as researchers, and sort of the objectives of the benchmark and what work it can do, or what impact it can have uh in the real world, so you speak you know outside of academia.

And so it is really interesting to know that yes, from our perspective if we want to see uh if something has had an impact then we want to keep other things constant, right? That's, that's sort of the ideal of a scientific method and kind of having that experiment where you only change one thing at a time.

In reality of course not only does the world not work that way, but also we, we do in having conversations around the process of creating a benchmark we've came to really appreciate and value the importance of that change, and seeing that that's actually one of the measures of what makes a benchmark successful is the fact that it doesn't stay the same. Even though it makes it our job a little more difficult. [laughs]

Jan: A lot more difficult, is what Dasha is saying.

Paul: These practitioners, they're just not considering researchers when they're setting these things up [Jan laughs] it's very, very inconsiderate of them. I hope you had strong, stern words with your co-author about, about all the changes that he made…

Jan: I have to say that we've really enjoyed having conversations with him, and I think he's got a big buzz out, out of it, that somebody's interested in his data and can help him make more sense of it.

So when we uh talk to him, and like we formally interviewed him in order to you know draw insights out, he often comes away and go, oh I didn't know that about my benchmark.

And so it's been um you from our perspective, and I think from his as well, a really positive interaction to co-write a paper together to really understand a practice.

Paul: Do you feel that your work has helped him understand, and helped you understand, what makes benchmarking successful? What, what you need to have in for a benchmark to be more than just that tokenistic list that, that puts companies from one to 100, and that no one pays any attention to.

Jan: I think you're right Paul and, and we're starting to draw out some of those themes within the conclusions. And that I think for um our readers, they will have a sense of how a process works, that they might have seen before, but we are also really keen to highlight in the paper that there's lots of different benchmarks.

And so we're hoping we're generating questions that would allow them to be understood better. So um the, I mean I mentioned the WBA um benchmark set, but then there's also like you know the um protein manufacturers of the world are benchmarked on animal welfare standards.

Dasha: There's definitely no shortage of examples. So we're seeing a lot of industry-specific benchmarks, and a lot of issue-specific benchmarks, so yeah, just to add a couple more to the list, there's a benchmark for the largest digital companies that are being rated on the digital rights of the users, uh there's a benchmark that looks at uh forestry practices of companies and whether companies are helping or um contributing to deforestation, some of the other issues around uh forest management.

So what's interesting here is that the benchmarks are often created by non-governmental organisations, civil society organisations, that have an explicit aim of changing corporate behaviour.

And again we can contrast that with some of the benchmarks around ESG ratings, for example, uh that are more, um that are created as a, as a data provider for the markets, for the investors, and they are a commercial product. So a very, very different set of uh goals there.

Paul: So what then, as a final question, would be the biggest sign for you that a benchmark is successful?

Jan: Oh he's really asked tough questions. I felt sure he was looking at you but I think he was looking at me, I can't tell.

I would say a successful one has a sensible cohort, so the people that are drawn together to be benchmarked have sufficient things in common that you can actually compare them to each other. That would be, be one thing.

Dasha: My answer will go back to the objective of the benchmark, and the successful benchmark is the one that is accomplishing what it set out to accomplish. So if the goal of the objective was to change corporate behaviour along a certain dimension then we can look to see if we can identify any changes in that area.

[Theme music]

Jan: The transparency and the engagement with people who are going to use a benchmark and be benchmarked will be there as well. So it's not a standalone sort of, you know quite isolated activity, but it's an activity that's enmeshed in the lives of the people that are being benchmarked, and those who might use it.

And at that stage the reason why I like that design, is it's more likely to develop new norms and expectations, encourage learning and encourage change. So it's not an arm’s length sterile activity, but one which is actually more social in nature.

Paul: Thank you very much, Dasha. I think the lesson I've taken from this is maybe some benchmarks I can be cynical about, but there are actually values to some benchmarks as well, and potentially very positive effects.

Jan: But you have to design them for it. So I think your cynicism is justified, but I'm pleased that we've moved you on just a little bit.

Paul: That's the end of this episode Jan, but in the next episode we've got another accountant!

Jan: I don't know what's going on Paul, but there's more accountants coming.

Paul: Yes, we'll be joined by Richard Spencer, Director of Sustainability at The Institute of Chartered Accountants in England and Wales, and we'll be discussing lots more accounting issues.

And can I just credit both of you, for this episode, for not taking it too far down the accounting rabbit hole.

Jan: Ah no, we're happy, happy, happy… [Jan and Dasha laugh]

Paul: …so until next time, I've been Paul Turner.

Jan: And I'm Professor Jan Bebbington.

[Theme music]