

**Sustainability Reporting by the Australian Commonwealth Public Sector**

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## **Abstract**

This paper explores sustainability reporting in the Australian Commonwealth public sector through the focus on departments with a primary responsibility for social and environmental issues. The research moves beyond existing theorisation for social and environmental reporting and adopts new institutional theory in order to assess the extent to which coercive, mimetic and normative influences impact sustainability reporting in the public sector. The practices of the two selected departments for this study are assessed through interviews and documentary data. Our findings support new institutional theory but highlight that the internal perspective also impacts public sector sustainability reporting.

## **I Introduction**

Research into sustainability reporting has emerged to prominence as a result of the increasing emphasis on social and environmental issues in contemporary society (Unerman et al, 2007). Even though the focus of sustainability reporting is on organizations, the majority of the literature has concentrated primarily on the corporate sector (see for instance, Patten, 1992, Gray et al., 1995, Deegan and Bloomquist, 2006, De Villiers and Van Staden, 2006, Cho and Patten, 2007, Aerts and Cormier, 2009).

Legitimacy theory (Dowling and Pfeffer, 1975, Lindblom, 1993) has been extensively utilised to explain the motives for sustainability reporting in the private sector (Deegan, 2002, 2007). A number of studies have emerged over time which highlight that companies seek to legitimise their existence to society by voluntarily disclosing social and environmental information in a range of media (see for instance, Patten, 1992, Deegan & Gordon, 1996, O'Donovan, 1999, 2002, Wilmshurst and Frost, 2000, Cormier and Gordon, 2001, Lodhia, 2005, De Villiers and Van Staden, 2006, Cho and Patten, 2007, Aerts and Cormier, 2009)

There is clearly a lack of literature into public sector sustainability reporting (Ball and Grubnic, 2007), even though the public sector provides a theoretically useful context for such research. In addition to the voluntary pressures from society for responsible behaviour that corporations usually face, sustainability reporting in the public sector could also be subject to mandatory pressures such as regulation. For instance, in Australia, there is a mandatory requirement for Commonwealth Federal government departments for sustainability reporting. Moreover, public expectations are expected to be significantly higher for public sector entities when compared to the private sector (Ball and Grubnic, 2007). Whilst private sector entities have useful voluntary mechanisms such as the Global Reporting Initiative (GRI) to guide reporting (GRI, 2006), these principles could also be used in the public sector. More recently, the Public Agency Sector Supplement (PASS) for the GRI was developed to provide guidance to public sector entities on sustainability reporting. These developments suggest that sustainability reporting in the public sector is subject to both voluntary and mandatory pressures and requires a need for extensions to the existing theorisation of sustainability reporting.

It is argued in this paper that legitimacy theory explanations are inadequate in providing a complete understanding of the influences on sustainability reporting in the public sector. Using a case study of the Australian Commonwealth public sector, the paper investigates a range of possible influences on their sustainability reporting practice. New Institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983, 1991; Scott, 1987, 2008; Caruthers, 1995) provides the basis to theorise public sector sustainability reporting, and the study uses this theory to address some of the gaps in the literature and explore the Australian practice.

## **II Prior Literature**

The scant research into public sector sustainability reporting when compared to prior research in the private sector provides potential for exploring a range of issues. Prior literature into public sector sustainability reporting is discussed and the gaps in this research provide scope for the present study.

Gibson and Guthrie (1995) explored environmental reporting in the New South Wales (NSW) public sector in addition to a focus on the private sector. The authors highlight that reporting in the private sector was more extensive than in the public sector. Environmental reporting in the public sector lacked environmental performance information and lagged behind disclosure in the private sector.

Burritt and Welch (1997a) explored environmental disclosure by Australian Commonwealth Government Departments between 1984-1993 and found that budget entities (those that relied extensively on government funding) disclosed more information than non-budget entities (those with a commercial motive and not reliant extensively on government funding). The authors revealed that disclosure increased over time with a focus on internal disclosure but pointed out that these disclosures were inadequate and did not accord with the Commonwealth notion of ecological sustainable development<sup>1</sup>. The lack of performance standards to judge disclosure further exacerbated this situation. This led the authors to develop an environmental performance accountability framework in a subsequent paper (Burritt and Welch, 1997b).

Frost and his colleagues have contributed to the literature on public sector sustainability reporting through an emphasis on the connections between environmental management structures and environmental reporting in the NSW public sector. Frost and Toh (1998a) found evidence of environmental management and reporting in the NSW public sector but revealed that government policy was quite often a deterrent to environmental disclosure. In a further study (Frost and Toh, 1998b), the authors suggest that entities with positive managerial attitudes towards the environment, and those which were environmentally sensitive and large, were more likely to have a higher level adoption of environmental management and reporting. Frost and Seamer (2002) found a positive relationship between the environmental management structures and environmental disclosure of NSW public sector entities, and found that such disclosure was driven by legitimacy concerns.

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<sup>1</sup> A term defined by the Australian Commonwealth government as “...using, conserving and enhancing the community’s resources so that ecological processes, on which life depends, are maintained, and quality of life for both present and future generations is increased.” (Commonwealth of Australia, 1992)

Dickinson et al (2005) undertook a survey of international public sector reporting with a focus on national, regional and local governments. They found that performance was the primary motive for preparing sustainability reports and this was often driven by internal considerations. The authors found evidence of the awareness and use of the GRI but such practices were found to be in infancy. Awareness of the GRI public sector supplement was low. However, the authors found that national and regional agencies were more likely to be driven by external considerations such as the GRI than local authorities. It was also found that there was a lack of disclosure on public policy by all public agencies and that environmental departments within the organization quite often prepared sustainability reports.

Fanetti and Guthrie (2008a, 2008b) represent a recent attempt to explore sustainability reporting in the public sector. Unlike the prior literature which have focused on large samples, their studies have focused on seven public sector agencies in Australia; representing Commonwealth, State (NSW) and local councils. Fanetti and Guthrie (2008a) focused on the preparers of sustainability reports in the public sector. They found that emphasis was primarily on reporting to internal stakeholders. The GRI was used for reporting and quite often reporting was driven by “internal champions” responsible for reporting. Fanetti and Guthrie (2008b) focused on what and how public sector agencies reported in relation to sustainability issues. A range of media was used but disclosure was found to be fragmented and still in infancy. The GRI public sector supplement was found to be too generic for reporting and the authors suggested that mandatory guidelines were needed for sustainability reporting in the public sector.

There have also been a number of case studies that have focused on the development of sustainability reporting in organizations. Herbhon (2005) assesses the unsuccessful attempt at developing a full cost environmental reporting experiment in the Australian Forest Sector through interviews with staff and stakeholders. Adams and McNicholas (2007) uses Kurt Lewin’s organizational change framework to observe the development of a sustainability report by a statutory body in Victoria, Australia. Rahman et al (2004) on the other hand argue that the adoption of environmental reporting by the Ghanaian government authority, VRA was influenced by external

pressure from the World Bank rather than a tool for enhancing environmental performance.

In addition to the exclusive focus on sustainability reporting, prior literature has also focused on sustainability accounting in the public sector. This includes the work of Ball and colleagues (Ball 2004, 2005, 2007, 2008, Ball and Seale, 2005, Ball et al, 2007) who have focused on the potential of sustainability accounting in UK and Canadian local govt councils, applying a range of different theoretical perspectives. The work of Ball highlights that sustainability accounting is a useful tool that can be used to bring about organizational change. Conversely, O'Dwyer (2005) found that contradictions and conflicts were inherent in the evolution of social accounting in an Irish Government overseas aid agency. The author contends that conceptions of social accounting can be emasculated by management and designed to serve organizational as opposed to broader stakeholder interests.

The prior literature discussed here provides a basis for the current study. In addition to the key findings of prior research framing the current study, there are a number of gaps in the literature which this study explores. There is potential to extend the literature in relation to coverage of sustainability issues, context, private sector comparisons and theorisation.

A majority of the earlier literature has focused on environmental reporting, given that the environment was a more developed and focused area for research at this time. There have been a few studies that have considered social accounting over time, highlighting a move back towards social issues over a period of time. Thus, developments in the public sector literature parallel that in the private sector. This study focuses on disclosure of both social and environmental issues and in line with Fanetti and Guthrie (2008a, 2008b), uses the term sustainability reporting.

The research context is another area that could account for differences in sustainability reporting. Studies have either focused on large sample sizes or merely on case studies of particular contexts. With the exception of Burritt and Welch (1997a), the large sample Australian studies have focused on a regional context; namely the NSW public sector. The findings of these studies are therefore limited to a

regional state government and do not necessarily represent the situation at a federal or other regional and local areas. The case studies based literature on the other hand focuses on particular contexts and their findings may not be applicable in other contexts. Clearly, there is a need for an indepth study that focuses on a carefully selected context that enables the theoretical conclusions of the study to be generalised. This study addresses these issues through an exploration of sustainability reporting in the Australian Commonwealth Federal sector. In line with Burritt and Welch (1997a), the study focused on the federal government rather than a particular regional government such as the NSW public sector. Emphasis is on selecting specific organizations in the Commonwealth sector that are the leaders in sustainability reporting and are subject to a range of mandatory and voluntary pressures in order to establish theoretical generalisations of Commonwealth Government sustainability reporting.

Apart from the initial study by Gibson and Guthrie (1995), prior literature has limited emphasis on the impact of the private sector on public sector reporting. There is clearly a need to explore whether reporting in the private sector influences the practice in the public sector. This study will focus primarily on the public sector but will seek to explore whether developments in the private sector impact public sector sustainability reporting.

The theorisation of public sector sustainability reporting is another area that needs to be explored. Unlike the research into private sector sustainability accounting, theories to explain sustainability reporting in the public sector are lacking. Most of the prior literature into public sector sustainability reporting is descriptive, highlighting the conspicuous absence of theoretical insights that could explain the factors driving current practices. As highlighted earlier, the public sector provides a theoretically useful context for sustainability reporting, and this requires a need to move beyond present theories in the corporate sector which have a focus primarily on voluntary reporting. This study will attempt to theorise sustainability reporting in the Australian Commonwealth public sector.

### **III The Current Study**

This study seeks to extend the literature on public sector sustainability reporting and establish the issues that drive sustainability reporting in the Australian Commonwealth public sector. The central research question is as follows:

*“What are the factors that influence sustainability reporting by Australian Commonwealth Public Sector departments?”*

This research emphasises both social and environmental issues, focuses on the Commonwealth public sector as a research context, and attempts to explore both private sector and public interest motivations for reporting through an institutional lens.

The Australian Commonwealth public sector was selected for this study because sustainability issues are quite critical to government. An Environmental Protection and Biodiversity Act was promulgated in 1999 and under section 516A of this act, Australian Commonwealth Departments are required to disclose their commitment to the principles of ecological sustainable development. Thus, there is a mandatory requirement for sustainability reporting in the Australian Commonwealth sector.

In 2007, the Rudd Labour government was elected to power in Australia partly due to their social and environmental credentials. One of their earliest tasks was to ratify the Kyoto Protocol and to commission Professor Ross Garnaut to provide a report on Climate Change and its impact on Australia (the Garnaut Review, Commonwealth of Australia, 2008a). The promulgation of a National Greenhouse and Energy Reporting (NGERS) Act (Commonwealth of Australia, 2008b) whereby companies had a mandatory requirement to report on their carbon emissions if they met a certain threshold and the proposed development of the European Union style Emissions Trading System called the Carbon Pollution Reduction Scheme (CPRS) suggest that environmental issues are critical to the current government. Consequently, the Australian public sector provides an interesting case for an exploration of sustainability reporting because mandatory and voluntary expectations exert

significant pressure on Commonwealth public departments to be accountable for social and environmental matters.

### **Theoretical Perspective**

New Institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983, 1991; Scott, 1987, 2008; Caruthers, 1995) is utilised for this study as it emphasises that a range of pressures (factors) lead to organizations adopting particular structures (sustainability reporting). Thus, unlike legitimacy theory which focuses primarily on voluntary corporate behaviour, institutional theory emphasises both mandatory and voluntary pressures. The institutional perspective is therefore more useful in providing skeletal theory for addressing the research question for this study. A brief overview of institutional theory is provided next, before it is applied to the current research.

Meyer and Rowan (1977) assert that formal organizational structures are driven by external institutional influences, rather than rational drivers for internal efficiency, leading to homogenization of organizational practices. Isomorphism occurs when there is congruence between external influences and organizational arrangements. DiMaggio and Powell (1983) add to this theory by specifying that isomorphism includes both competitive and institutional forces. Competitive isomorphism occurs when external competitive forces drive organizational structures. Institutional isomorphism on the other hand involves coercive, mimetic and normative influences.

Coercive isomorphism occurs when external forces exert pressure on organizations to adopt internal structures and procedures. Quite often, regulation is the primary coercive pressure on organizations (Scott, 2008). Mimetic isomorphism on the other hand occurs during periods of uncertainty whereby organizations emulate the internal structures and procedures adopted by other successful organizations. Lastly, normative isomorphism occurs when professionalization such as formal education, professional networks, and trade associations drives organizations to adopt internal structures and procedures.

The effect of institutional pressures is that organizations, in the aggregate, constitute a recognised area of institutional life, referred to as organizational field (DiMaggio and Powell, 1983). Moreover, over time, logic of confidence occurs whereby it is believed that both internal and external participants are acting in good faith (Meyer and Rowan, 1977). However, there may be a disconnect between formal internal structures and actual activity, referred to as Decoupling (Meyer and Rowan, 1997, DiMaggio and Powell, 1983). This suggests that institutional pressures will not always lead to the desirable output.

New Institutional theory provides a theoretical lens for this study. It is suggested that sustainability reporting by Australian Commonwealth Departments (organizational field) is subject to institutional pressures. Coercive pressures include the requirements of the Environmental Protection and Biodiversity Act as well as the public expectation of responsible social and environmental behaviour by Commonwealth departments. The numerous developments such as the NGERs and proposed CPRs suggest that government public policy could also place pressure on government departments on their own social and environmental impacts.

Mimetic influences could include the impact of the private sector on public sector sustainability reporting. For instance, government departments could be influenced by private sector initiatives such as the global reporting initiative.

There are also signs of normative influences on public sector sustainability reporting. The development of the GRI public sector supplement to provide specific guidance to public sector agencies represents a move towards professionalization.

Issues such as the logic of confidence and decoupling can be observed in an in-depth study of current practices. Hence, a methodology and specific methods are needed to apply the theoretical perspective of this research to current practices.

## **Methodology**

A case study approach (Hagg and Hedlund, 1978, Otley and Berry, 1994, Humphrey and Scapens, 1996, Scapens, 2004, Yin, 2008) was undertaken in this study. Case

study research requires an initial theoretical framework to be developed and applied to the research. The findings of this research could confirm this framework and possibly lead to its extension through “findings from the field”. It is the analytical generalisations which are the theoretical conclusions of a study that are critical in case study research.

The new institutional theory perspective discussed in the prior section represents the research framework for this study. However, the researcher was alert to any new findings from the field that had the potential to extend this theoretical perspective. Emphasis was on developing analytical generalisations of the factors that influenced the sustainability reporting practices of Australian Commonwealth Departments.

In order to select the cases for this study, the annual and sustainability reports of Australian Commonwealth departments was analysed. Emphasis was on identifying the leading practice. Two organizations were found to be disclosing social and environmental issues more extensively than their counterparts. In addition to their annual report, these departments also had separate environmental, or social and environmental reports available. The departments also had the primary responsibility for social and environmental issues within the Australian federal government. These organisations were selected as the cases for this research.

Once the case study organizations were identified, contacts were established in order to gain research access. Emphasis was on undertaking semi-structured interviews with personnel in these organizations as well as to analyse documentary data such as annual reports and sustainability reports related to each organization. A “snowballing technique” (Minichiello, et al, 2008) was used for further interviews with the initial contact used as basis for getting access to other key personnel.

Interviews focused initially on gaining background information on each organization. Their social and environmental impacts, responsibilities and stakeholders were determined. Focus then shifted to their sustainability reporting practice. The coercive, mimetic and normative influences on reporting were assessed. Interviewees also had the opportunity to address any other issues related to their sustainability reporting practice at the end of the interview. Interview questions are provided in the appendix.

The Nvivo software package was used to analyse the interview data. Emphasis was on searching for patterns that resembled the theoretical constructs of the study. Moreover, any other factors that did not relate to the research framework were also coded as findings from the field.

## **IV Findings**

### **Department A**

#### **Overview**

Department A is the Commonwealth Department with the primary responsibility for social issues. Its 2007-2008 sustainability report states that its “purpose is to improve the lives of Australians by creating opportunities for economic and social participation by individuals and communities”. This department is the main source of advice for social policy for the government and is also the largest spending department (Department A Sustainability report, 2007-2008).

While Department A has a social policy agenda, it also has social and environmental impacts. Its sustainability reports indicate that environmental impacts relate to energy and water usage, use of paper, waste management and recycling as well as impacts related to staff travel. Social issues focused on employee attraction, diversity and health and well being. There was also emphasis on economic issues with performance being measured through managing expenditure and efficiencies.

Prior sustainability reports of the department did not mention who its stakeholders were. Interviewees were probed on this matter and one of the interviewees stated :

*“I came in fresh last year. I just came in for a contract to do this job and I’d been involved in a lot of environmental reporting over time, but clearly to me it was that we had to identify who our stakeholders were and why we were doing the report. Now you’d think with an organisation that’s done it for some four or five years, that would be fairly clear. You wouldn’t believe it but it wasn’t clear, and I still don’t know to this day why we’re doing the report really, and who the stakeholders are. Terrible thing to say if we think we’re doing reporting well.”*

Interviewees mentioned that for their 2007-2008 sustainability report, they had used the services of an independent agency and were asked about identification and

management of stakeholders. After a period of extensive consultation, they identified major stakeholders as internal staff, ranging from the Minister and departmental secretary to current and potential staff. The Department of Environment was also considered as an important stakeholder, especially in relation to environmental performance. External stakeholders included bodies such as ACCA which encourage sustainability reporting as well as the general public.

Management systems for sustainability included an environmental management system (EMS) in its major facilities. A corporate style EMS was considered for the future. An interviewee elaborated on the importance of an EMS in establishing responsibilities for managing environmental impacts:

*“..the EMS we have is basically what I call a paper base. It’s like a folder on the shelf. People see the folder on the shelf as the Environmental Management System. So every now and again someone pulls it out and says “Well what’s going on?” What we want is an Environmental Management System which has responsibilities in it so that there’s someone who’s responsible for providing a report every year on waste, or every six months or whatever. There’s someone responsible for the energy management side of it. So that’s clearly part of, not only the EMS, but some responsibilities and operatives within the agency.”*

### **Sustainability reporting**

Department A was the first commonwealth agency to prepare a triple bottom line report. These reports have been prepared on an annual basis since the 2003-2004 period. More recently, the term sustainability has been used instead of triple bottom line in order to emphasise the increasing importance of sustainable development in government departments.

Department A’s reporting practice focuses on disclosure of existing operations, rather than the programs and policies that it implements in regard to social issues. Programs and policies are reported in other publications.

Sustainability reporting in Department A is done through the Property Division but there is a multidisciplinary approach taken to the preparation of the sustainability report. A steering committee oversees the development of the sustainability report and this includes representatives from all over the department.

The sustainability report is perceived as the primary medium for disclosure. However, as required by the EPBC act, the annual report is used to disclose the department's commitment to the principles of ecological sustainable development. The website was used to host these reports and to provide summary information on sustainability issues.

### **Influences on Sustainability Reporting**

The interviews suggested that coercive, mimetic and normative influences affected sustainability reporting in Department A. However, the effect of these influences varied with some influences being stronger than others. Moreover, internal factors were another critical driver of sustainability reporting.

### **Coercive Influences**

Department A had to meet the requirements of the EPBC Act but interviewees stated that they found this requirement unhelpful:

*“we’ve actually found that the Environmental Protection Biodiversity Conservation Act has – the reporting that you need to do in the Annual Report is not helpful.”*

*“It’s a real tick and flick. I haven’t ever found it useful and I think it’s a real shame. But I don’t think you can do much in terms of environmental reporting in the annual report for the reasons you said. The timeframe’s not right and it’s a different sort of reporting. The Annual Report usually, despite the fact that it’s supposed to be very factual, is fairly glossy and upbeat and you’re trying to make everything look good. The Sustainability Report should be factual, trying to say “This is what we’ve done,” “No gilding the lily,” “We’ve got work to do,” you know, “There are issues here.” So I haven’t found it very useful at all.”*

Thus, annual report disclosure was limited to the EPBC Act while other influences guided the preparation of the sustainability report. This finding suggests that the medium used for communication had a critical role in what was disclosed.

There was also discussion of a committee on sustainability issues driven by the Prime Minister which interviewees saw as a potentially useful future driver of sustainability reporting:

*“Rudd Sustainability Committee would report saying “Agencies will do this.” A bit like what Obama did when he got into power over in the States. He said “Government agencies will improve their environmental performance by doing these things,” and it’s very clear – and that’s a terrific lead for anyone working in the public sector. If the boss says “This is where we’re going and I want everyone to work this way,” then we can put up papers and justify doing things and make these reports much more useful and valuable.”*

Thus, interviewees did perceive a role for coercive influences through directions from top leadership in order to enable sustainability reporting to move beyond annual report disclosure in terms of the EPBC act.

### **Mimetic Influences**

The reporting in the private sector was a critical influence on Department A's sustainability reporting and explains the use of sustainability reports. Interviewees highlighted the importance of private sector sustainability reporting throughout the interviews:

*“But I think the private sector is leading the way.”*

*“The private sector should have a strong influence over us because we are judged by the private sector, we're assessed by the community. That's our charter to meet the community's expectations.”*

*“I think the private sector is a strong influence. I mean I've come in to the private sector. I worked in the Commonwealth for years and worked in the private sector as well and my involvement in environmental management in the private sector is clearly different to a government agency. I think there's a lot we can learn.”*

Given the emphasis on the private sector, Department A relied extensively on the Global Reporting initiative(GRI) for its sustainability reporting. The GRI public sector agency indicators were also utilised for reporting. Sustainability reports indicated that GRI based indicators dominated reporting.

The ACCA awards was also a critical influence on sustainability reporting in Department A. Even though the ACCA was perceived as a body that provided knowledge on sustainability reporting in the private sector, the department engaged extensively with this body. Winning an award from this body had a lot of prestige associated with it for the department.

### **Normative Influences**

There was also increasing evidence of professionalization and networks guiding sustainability reporting. The GRI public agency indicators were utilised by the department. However, interviewees indicated that these indicators needed further development. Developments in these indicators have been stagnant since 2006:

*“In fact am I right in saying that the GRI public indicators hasn’t developed as a document? It’s sort of gone to sleep?”*

Interviewees felt that this was disappointing as there was a lack of specific guidance for public sector reporting:

*“It is disappointing. I thought things would have moved along enough to help me a bit more. So yeah, we had a fair bit to do with – we put in some really detailed comments on the first round of indicators that were suggested in that paper. But a lot of them weren’t picked up. We were actually a bit disappointed that what came out looked fairly similar to the sort of first draft which had some of the problems that we thought – that kind of issue of where you draw the boundary is still the biggest one that I don’t think has been resolved in the public agency indicators area is that you can’t as a public agency assess the whole government’s policy program.”*

Government networks also contributed as normative influences for sustainability reporting. Department A staff contributed to the Government Agency Environmental Network (GAEN) which involved staff from all government departments with responsibilities for environmental issues:

*“People getting together from around all the agencies saying “What are you doing? How do you do this? How do you do that?” and it’s a great sharing mechanism.”*

There is also an environmentally conscious network within government departments which could encourage sustainability reporting:

*“the Environmentally Conscious Office Staff Network allows us to have someone in a building somewhere that we can link to, to discuss environmental issues and to bring forward issues that are relevant to that local site. So from an environmental perspective that’s a very important network from our point of view. It’s developing really well. We’re running a conference later this year to bring it all together because we think it’s important. But that’s the sort of driver we – if we get driven by that, people keep asking questions, “Well why aren’t we doing this here? What can we do here?” and we’re only a little group of three people and all we’re trying to do is plug the holes in terms of, as I say, waste management’s a big issue for us. So we’re trying to get the message out there about – and we’ve produced posters and information guides. We try and run Earth days and ride to work days and all those sorts of things. So we’re doing a lot of other things as well. But that’s the sort of thing. They’re a strong driver for us.”*

### **Internal influences**

A key “finding from the field” was that internal factors also enabled sustainability reporting to be undertaken. Leadership from senior staff enabled sustainability reporting to be undertaken. The origins of sustainability reporting in Department A can be traced back to its former Chief Financial Officer:

*“..the CFO put a couple of people on the job of actually thinking about whether [Department A] could model best practice behaviour by doing it. So he hired a couple of young Turks who*

*were environmentally trained and they went about sort of designing our first one. So it was a very much top down leadership thing, and once we'd sort of done the first one, which was obviously groundbreaking in terms of a public sector agency, we felt I suppose that we had shown that leadership and we wanted to keep it going, and we actually tried pretty hard to improve it year by year."*

Top down leadership was also influential in Department A's current practice. One of their deputy secretaries was an environmental champion who played a vital role in their sustainability steering committee. The interviewees were also environmental champions who had a strong commitment to sustainability and saw a critical role for sustainability reporting. However, these interviewees mentioned that one of the impediments to reporting was when such champions left the organization:

*"You'll probably find there's no one there that was involved in it previously. That's the dilemma too in a government..."*

*"That's pretty typical isn't it? People move in and out of things. So there's no corporate line or corporate knowledge involved."*

## **Department B**

### **Overview**

Department B is one of the two major commonwealth departments entrusted with responsibilities for the environment. It develops and implements national policy, programs and legislation to protect and conserve Australia's environment and heritage and to promote Australian arts and culture (Department B webpage). The department also has social and environmental impacts. Its sustainability report for 2005-2006 indicates that social impacts include taking care of its workforce and local communities where they operate while environmental impacts include energy and water usage, waste and biodiversity. The department is also concerned with economic sustainability whereby it needs to secure cash and capital resources to carry out business

The interviews suggested that the department regards its staff (including the union) and the minister as key stakeholders. Other commonwealth departments are perceived as stakeholders as well and the department needs to set a good example for these departments by managing its own impacts. The local community in areas where the department operates and the broader community are also critical stakeholders and the department has responsibilities to them.

The department has in place environmental management systems based on ISO1400 but not all the sites are certified. Department B also has strict policies for in place for its procurement activities:

*“I think the Department just recently in its tender for ICT, for its computer provider, I think was recognised as probably one of the most greenest tenders and processes. I guess that’s just a manifestation of the type of approach the departments can take, and that’s not saying all of our tenders are that way, but I think that’s just showing the way that it can take place and make an improvement.”*

### **Sustainability reporting**

Department B prepared triple bottom line reports from 2003-2004 to 2005-2006. However, in more recent times, the annual report was the key medium for disclosure:

*“Our sustainability reporting at the moment is limited to, or the main mechanism is through our departmental Annual Report and it’s in response to the legislative obligation to report under the EPBC Act which I’m sure you’re more than familiar with. It has really three things within that report, obligation, again which is specified in the Act about reporting on our activities and how they accord with the principles of ESD, how our outcomes contribute to ESD and then about the environmental impacts of our operations and the management actions that we take.*

An overview of the department’s annual reports confirmed the interviewee’s perceptions, indicating extensive disclosure in these reports according to the requirements of the EPBC act. The act emphasises adherence to the principles of ecological sustainable development (ESD), thereby highlighting the increasing importance given to environmental issues.

Interviewees were probed about the reluctance to use sustainability reports in more recent times. They highlighted that their concerns were primarily related to having systems and processes in place, rather than focusing more on reporting. They highlighted that reporting would not be useful if there was a lack of data to support it:

*“That’s a question that’s been asked around and the information in that is probably more of an elaboration of what’s in the Annual Report. I think not being privy to what the actual decision was at that time, but essentially what has been discovered or found is that getting the information together on... there are difficulties in bringing the information together in a consistent way and the different indices that are used. My understanding is in bringing that report together, some of the information or I guess the quality, the scope and the depth of that information, the desire is to try and get that to an improved level before I think – well it was felt that that data needed to be of an improved nature to justify in printing or publishing a separate report.*

*So I think it's fair to say the Department is I guess dedicating its effort to really getting the data together and getting the systems in place rather than focus on producing a report that while it might look good, may not have the greatest data. So I think it's fair to say that the resources are being more applied to that."*

The other contributing factor to the department's existing sustainability reporting practice was a restructure of its portfolio whereby two commonwealth departments had role in addressing environmental issues since 2007. This had brought about additional challenges to its reporting process:

*".. they're [new department] a complete separate agency. The issue with this agency as well is that not only did we lose part of the department which impacts on our operations, but we've taken on significant new programs and we've had significant ramp-up in number of staff. So that presents its own challenges in this regard."*

*"The function of sustainability reporting itself, because of restructuring within the portfolio has kind of lost its real home and so there is no clear home for it at this point. I think that will evolve."*

### **Influences on reporting**

The interviews suggested that coercive, mimetic and normative influences affected sustainability reporting in Department B but as observed in department A, the effect of these influences varied. Similarly, internal factors were another critical driver of sustainability reporting.

### **Coercive Influences**

*"Our current reporting mechanism is in response to that legislative obligation and it's structured around those three points as is required under the Act. So our Annual Report and the section on sustainability is broken down and provides a report against what is actually happening in terms of fulfilling the principles of ESD, how that occurs. I'm sure you've had a look and there's tables there."*

The above comments from one the interviewees highlights that the primary driver for sustainability reporting in Department B was the coercive influence of the EPBC Act. An overview of its annual reports from 2001-2002 (when EPBC Act was applicable to annual reporting) to the current period (2007-2008) suggests an increase in disclosure in relation to the ESD principles over the years. As an interviewee stated *"obviously having a legislative driver provides that surety that things happen on a regular basis."*

Coercive influences could explain Department B's move away from sustainability reports to a predominant focus on increased disclosure in the annual report. Given that

the department had responsibilities for administering the EPBC Act, it was important that the department led the way in relation to its own disclosure.

### **Mimetic influences**

Interviewees revealed that in addition to coercive influences, mimetic influences also affected sustainability reporting. Social disclosure is not a specific requirement of the EPBC Act and therefore, disclosure of social issues in annual report could be explained by other influences. Moreover, in addition to responsibilities to other commonwealth departments, Department B also had to set an example for the private sector:

*“Certainly the influence is the legislative requirement at the moment, but that reporting is important. It is a driver but I would imagine the Department would be doing some reporting even if it wasn’t there, just for the fact that we can’t expect and we support corporate reporting by business and industry, that they should outline what they’re doing and what their impacts are. To be consistent with what you are asking others to do, you should do the same. There is a good drive for corporate and sustainability reporting in the private sector now and that comes to think, because one of the influences is when we’re working on policies to promote better practice in the corporate, they’re very keen to get recognition and corporate responsibility is often the thing we’re targeting, we’re promoting. So if we’re working on waste and we’re engaging with industry, we’re often doing it to highlight the benefits it is for their corporate reporting, for their shareholders, for their public profile. So there were those reasons. I guess the similar things can apply to the Department in that good environmental performance in the department also has public profile benefits and a demonstration that it’s not only asking other people to do something about the environment, but it’s doing something itself.”*

The private sector was also a useful source for examples of sustainability reporting:

*“We do look at private company’s reports to just get a feel for how other people are reporting. ....just to get a broader idea of what’s reasonable or how to make our data really translate and I guess draw the best possible picture or make the best possible point about our impacts on the environment, because there’s some good examples out there.”*

The GRI was not a critical aspect of Department B’s sustainability reporting. As interviews stated, not all GRI indicators were useful:

*“You’ve got to really look at what indicators are going to help you manage the impacts of your organisation that tell you a) what are the impacts and b) enable you to measure, track and manage. The worst thing in the world is to have a data set full of indicators and no data.”*

*“Ultimately you’ve got to have a core set of indicators. You can’t just report against every indicator that’s possibly there because you’ll be spending so much time collecting data”*

There was an increasing emphasis on ISO standards associated with the private sector, rather than the GRI. This is consistent with the emphasis on management systems and processes in Department B:

*“If you take as my base point that I’m an ISO14000 fundamentalist, then if that GRI indicator hasn’t been rated as a significant risk for our department, then it’s actually not up there on my priority to report it and control it because we’ve actually looked at our own internal operations and said “Well, we’ve got to make priorities if we want to achieve things. This may have to wait depending on our other internal priorities, where we can see will have the most impact.”*

### **Normative Influences**

Department B contributed to both the GAEN and the environmentally conscious network. Interviewees highlighted the importance of these networks:

*“There’s a Government Agency Environmental Network and within that people I guess are loosely interested at the time about what other people are achieving. But it’s more to know so that their internal goals are reasonable. It’s more to gain a yardstick. At the moment I wouldn’t say there’s a direct competitive process, it’s more a camaraderie of “Alright, you achieve this number – how come your building tenant light and power use is so low? What did you do? Tell me what you did to achieve that result,” and that’s probably driven the most by this Government Agency Environmental Network.”*

*“I mean that is an informal network between portfolios to share experiences and performance and learn from each other, and see if they can leapfrog challenges and mistakes to advance their performance.”*

Views on the GRI public agency guidelines were similar to opinions raised in relation to the GRI. Emphasis within the organisation was on systems and processes, rather than reporting against a range of different indicators.

### **Internal influences**

Similarly to Department A, internal factors were a critical driver for sustainability reporting in Department B as stated by one of the interviewees:

*“Yeah I mean we have our legislative responsibility, but we have strong internal drivers and there’s an ethos within the portfolio and across government for better environmental management and that the actions are going – there’s certainly practical programs going on in this portfolio to achieve that and we’re extending that out to other portfolios as well. But without the Sustainability Report some people might just say “Oh well they don’t have a Sustainability Report, they can’t be doing much” But it would be a false impression really.”*

These internal factors clearly suggest that the driver for management systems and processes internally are greater than the need for external reporting. Interviewees suggested that if internal processes were in place, reporting would evolve over time.

## **V. Discussion**

Our study of the two departments with the primary responsibility for social and environmental issues within the Australian Commonwealth government raises a number of interesting observations. Both departments can be classified as leaders in sustainability reporting but have contrastingly different approaches to such reporting. Department A perceives sustainability reporting as a critical component of sustainability management with interviewees indicating that by disclosure of various aspects of social and environmental performance, internal changes could be brought about to existing systems and processes. Conversely, Department B focused primarily on getting systems and processes in place rather than focusing extensively on reporting social and environmental performance. The focus on the various media for communication also differed between the two departments with the first department relied extensively on annual reports and the other dependent on its annual report.

The findings in relation to stakeholders in the public sector also raised a number of insights for our understanding of management of stakeholders. In the private sector, there is an increasingly strong emphasis on identification and management of stakeholders. However, at least one of our departments was initially not undertaking a stakeholder based approach to reporting. It was difficult to identify stakeholders in Department A and even though Department B had some indications of its range of stakeholders, reporting was not necessarily geared to their needs. Interestingly, stakeholders for the department's programs and policies were easily identified but when it came to their own impacts, stakeholder management was quite complex. Internal stakeholders such as top management and employees, as well as other commonwealth departments were perceived as more important than the general community. Hence, the theoretical perspective for sustainability reporting in the public sector required going beyond the existing theories used in prior social and environmental accounting research in the private sector.

Our new institutional theoretical perspective provided the foundations for our study and the findings suggested that coercive, mimetic and normative influences varied in relation to sustainability reporting in the two departments. Moreover, given the critical importance of internal stakeholders, internal factors were also a vital driver for sustainability reporting.

Coercive influences through the existing EPBC legislation ensured that a minimum level of reporting was undertaken in these departments. While this was an important requirement for reporting in Department B, it shifted reporting from sustainability reports to annual reports. In department A, the requirements of the EPBC Act were not regarded as helpful and were perceived as a box ticking exercise. Thus, some evidence of loose coupling can be found in regard to the coercive influence of the EPBC act on departmental sustainability reporting. As suggested by one of the interviewees in Department A, there was a need for coercive influences to extend beyond the EPBC act and authoritative guidelines from the government could emphasize sustainability performance and reporting rather than merely focusing on ecological sustainable development through a particular disclosure medium.

The mimetic influences in relation to the GRI guidelines, private sector and bodies such as ACCA were stronger in Department A than in Department B. However, it is interesting to note that developments in the private sector do influence public sector reporting. Even though prior literature is quite often critical of reporting by corporations, it appears that the public sector does value corporate style reporting.

The normative influences suggest that departments have the potential to move beyond legislation and private sector developments and develop networks and professional knowledge in relation to public sector sustainability reporting. While the stagnant growth of the GRI public agency guidelines is worrying, the GAEN and environmentally conscious networks in government departments had the potential to provide the sharing of ideas and knowledge on sustainability reporting.

An extension to our theoretical framework was the emergence of the internal perspective in our interview findings. This is critical because new institutional theory has a primary focus on external drivers, whereas in the public sector, internal drivers play a very important role in motivating sustainability reporting. It is important that

the internal context be recognized, not just in research but also in practice, because our research findings suggest that the movement of certain personnel could impede existing reporting practices.

Whilst different in their approaches to sustainability reporting, both departments have through their experiences in sustainability reporting developed logic of confidence over time. They have identified the approach that they are most comfortable with and even though improvements are envisioned for the future, these departments are satisfied with their existing practices.

## **VI. Conclusion**

Our study has found that coercive, mimetic, normative and internal influences impact sustainability reporting in the Australian Commonwealth departments charged with the primary responsibility for social and environmental issues. These findings provide insights for other federal, state and local government departments within Australia and in countries with similar governance mechanisms.

This study has added to the theorisation of sustainability reporting and suggests that an institutional perspective is more useful for exploring public sector practices. Our research also adds to new institutional theory by suggesting the need for considering the internal context in addition to external influences on organizational practices.

From a policy perspective, this study highlights a need for further mandatory and voluntary guidelines for public sector sustainability reporting. The EPBC act was established in 1999 and since then, the importance of environmental issues and the rise of social issues have become prominent. Further requirements for sustainability performance and reporting are required so that instead of corporations leading the way, governments set an example for the private sector. The global reporting initiative, especially its public agency supplement, also has a role in encouraging governmental reporting to parallel contemporary developments in private sector reporting. Government networks could also play a similar role to industry associations in enhancing sustainability performance and reporting.

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## Appendix

### Interview Questions

1. What is your position within the organization? What are your responsibilities in relation to sustainability issues and for how long have you had this role?
2. What are some of the ways in which the operations of your department have an impact on the environment and society?
3. Could you outline your organization's social and environmental responsibilities?
4. Who do you consider to be your key stakeholders?
5. Describe your sustainability reporting practice?
6. Discuss the influence of the Environmental Protection and Biodiversity Conservation (EPBC) Act on your sustainability reporting practice?

Probe for other coercive pressures – government pressures and developments

7. Discuss the influence of the private sector reporting on your sustainability reporting practice?

Probe for other mimetic pressures like GRI, etc

8. Discuss the influence of the GRI sector supplement for public agencies on your sustainability reporting practice?

Probe for other normative pressures such as reporting awards

9. Do you have any additional comments in relation to the issues we have raised in this interview?