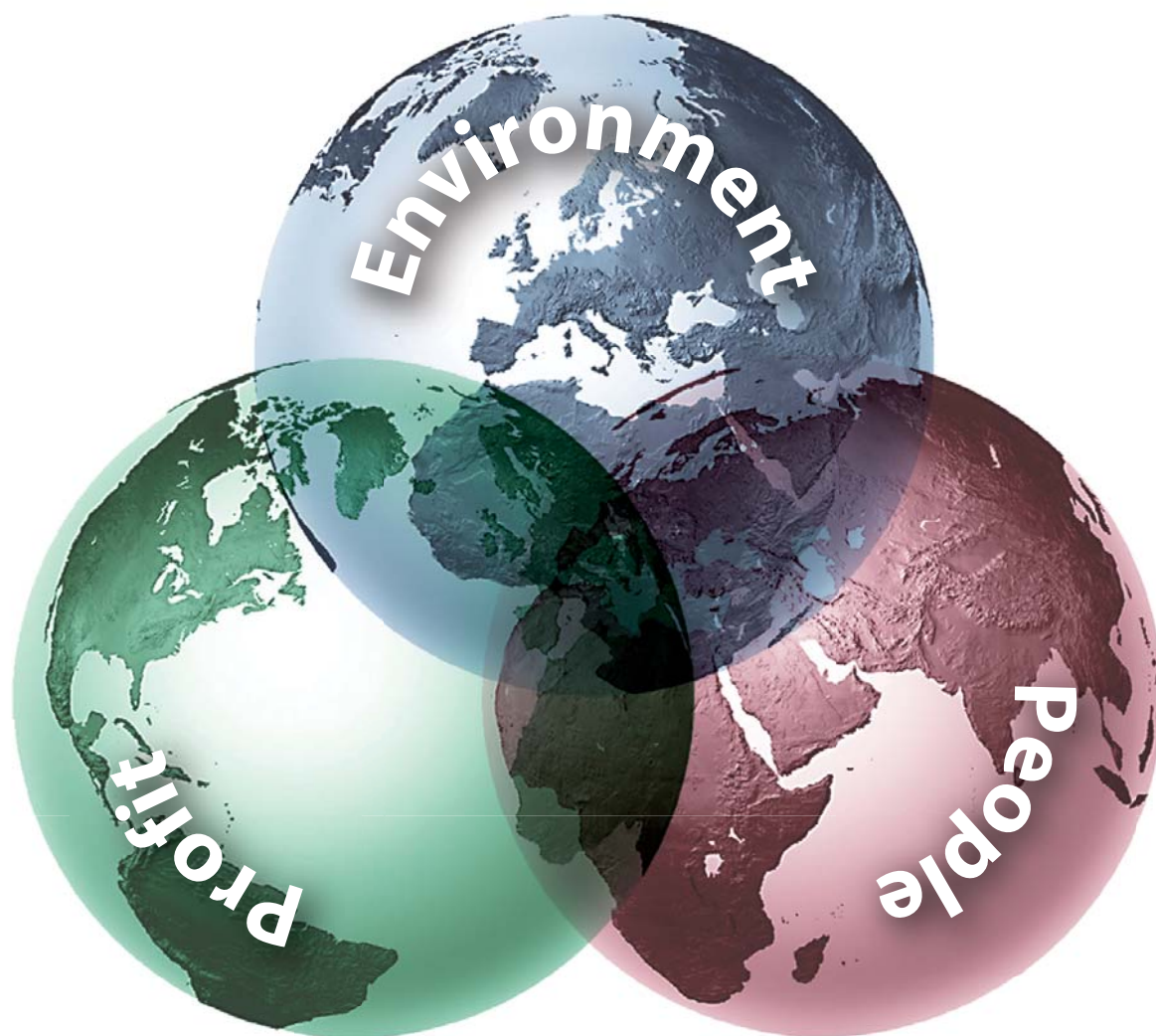


Global trends in sustainability performance management

A report from the Economist Intelligence Unit
Sponsored by SAP





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Preface

Measuring progress in sustainability is an Economist Intelligence Unit briefing paper, sponsored by SAP. The Economist Intelligence Unit conducted the analysis and wrote the report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor.

The paper is based on research and interviews with senior executives in companies who are leading the way in sustainability reporting, executives at professional services firms who are assisting companies with their approach to integrated reporting, and individuals who provide leadership at global organisations who currently set the standards for reporting. The author is Richard Handford and the editor is Lucy Hurst. Richard Handford also conducted the interviews for the paper. Mike Kenny was responsible for layout. Leo Abruzzese and Tom Ehrbar provided additional editorial guidance. The Economist Intelligence Unit would like to thank all those who contributed their time and insight to this project.

March 2010



- Sustainability reports are now more detailed and reflect the priority companies have given to measuring and managing the impact of their operations.
- Chief operating officers and other board members now join CEOs in devising a core sustainability strategy
- Companies themselves understand the need to move sustainability reporting beyond a simple statement in their annual reports to a more detailed assessment of their operations, management practices, workforce issues and development strategies. A fully integrated, company-wide approach will be needed to realise the benefits.

Executive summary

In just over ten years, corporate sustainability reporting has shifted from voluntary to the vital. According to CorporateRegister.com, an independent reference source, fewer than 500 companies issued sustainability reports in 1999. That number is now close to 3,500, reflecting the growing trend among companies worldwide to issue reports demonstrating their commitment to environmental and social

targets along with traditional financial ones.

According to KPMG’s most recent International Survey of Corporate Sustainability Reporting, in 2008 close to 80% of the world’s 250 largest companies issued sustainability reports, compared to the 50% who did so in 2005. (KPMG refers to this group as the G250, drawn from the 2007 Fortune Global 500 list). The results of this survey also point to the fact that sustainability reporting, while widely adopted by large companies in Europe for several years has become a mainstream practice in the US.

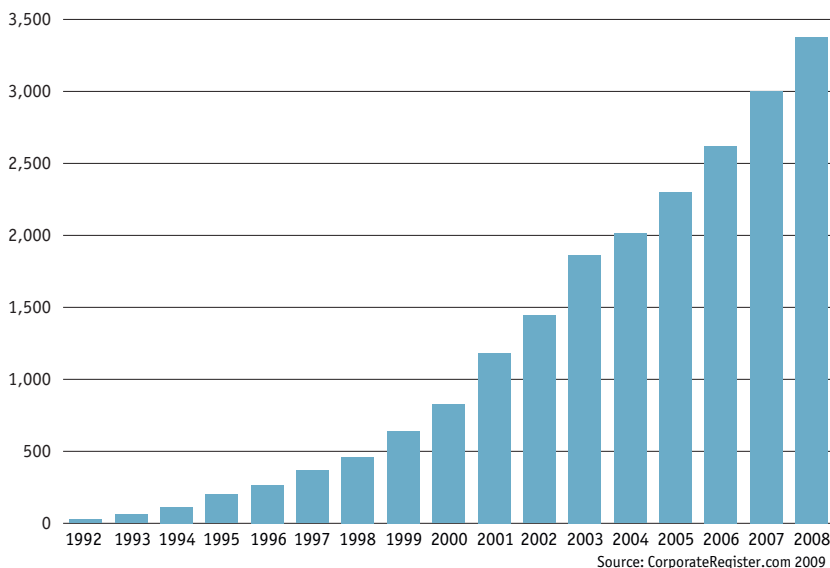
Sustainability reports, often called corporate social responsibility or even integrated reports, now contain more detailed performance metrics and reflect the priority companies have given to measuring and managing the impact of their operations. Global standards have played an

important role in the development of sustainability reporting and performance management. For example, over 1,000 companies globally have adopted the Global Reporting Initiative’s third generation, or G3, standards since their launch just four years ago. These standards make reporting more open and accountable, and provide a universal framework for disclosure.

Many factors are driving the current momentum for sustainable corporate performance. Companies themselves understand the many benefits of sustainable operations, and now respond to a wider range of stakeholders who demand new forms of accountability.

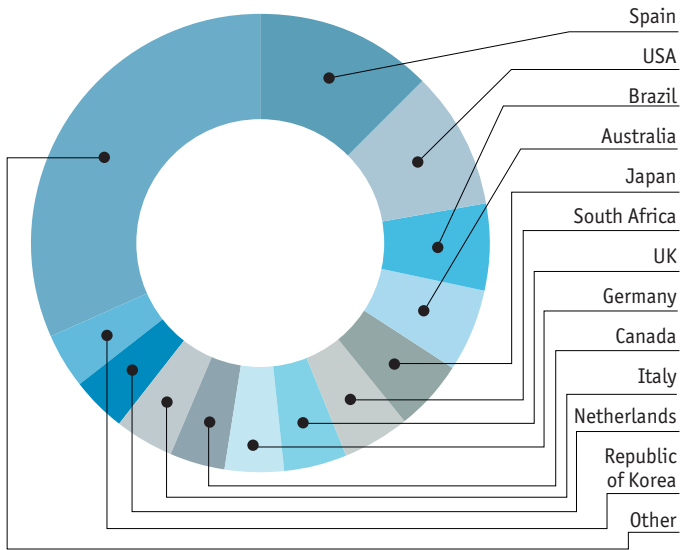
This paper examines the new world of sustainability reporting, and the complex web of stakeholders—

Growth of CSR reporting
(Number of reports)

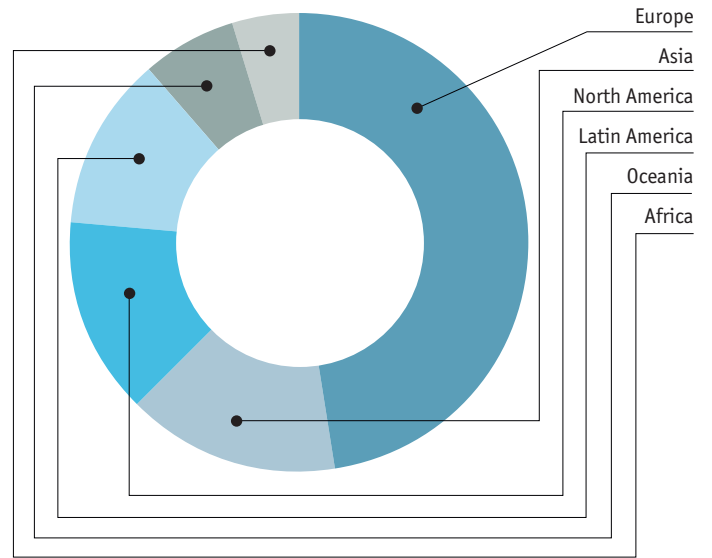




GRI reporting by country
(2008)



GRI reporting by region
(2008)



Source: Global Reporting Initiative

governments, customers, NGOs, employees, suppliers and even the companies themselves. It focuses, in particular, on the demands for new kinds of transparency. As a result, benchmarks of corporate performance are changing drastically. Cap-and-trade programmes, for example, are already forcing new emission limits in Europe, with similar programmes nearing completion in other developed countries. Emerging-market governments are racing to adopt their own social-responsibility guidelines. Assurance standards such as AA1000, ISAE300 and ISO14063 all contribute to improving the quality of reporting through independent audit. Industries, either on their own or under pressure from the outside, are developing global performance indicators as part of their corporate sustainability strategies. The development of these internal processes and metrics align with the overall goal of value creation for the firm—achieving workforce excellence and responding appropriately to investor demand and consumer preferences.

As the consumers of sustainability reporting move from activists and political groups to shareholders and investors, much is at stake. Chief operating officers and other board members now join CEOs in devising a core sustainability strategy—and the financial reporting designed to support it. Companies themselves understand the need to move sustainability reporting beyond a simple statement in their annual reports to a more detailed assessment of their operations, management practices, workforce issues and development strategies. A fully integrated, company-wide approach will be needed to realise the benefits.



Introduction

Companies are facing growing pressure—from within and without—to tell the world how their actions affect society and the environment. Once only a concern for a few niche-market firms with sustainability as a core value and brand differentiator, sustainability reporting is now moving decidedly into the mainstream. The greatest pressure, at least externally, is coming from national regulators in the countries where firms operate. But pressure is also coming from stakeholders—shareholders, employees and business partners—and, increasingly, from the companies themselves as they struggle to successfully combine performance and purpose in the post-recession world.

This paper will present an overview of the changing landscape as companies develop practices and processes to measure their performance as sustainable enterprises. It will examine the complex new drivers of sustainability reporting, both internal and external, as well as the rapidly changing legislative environment that will make reporting mandatory, not voluntary.



Key drivers of sustainability reporting

- **Regulations.** Governments at most levels have stepped up the pressure on corporations to measure the impact of their operations on the environment. Legislation is becoming more innovative and is covering an ever wider range of activities. The most notable shift has been from voluntary to mandatory sustainability monitoring and reporting.
- **Customers.** Public opinion and consumer preferences are a more abstract but powerful factor that exerts considerable influence on companies, particularly those that are consumer-oriented. Customers significantly influence a company's reputation through their purchasing choices and brand loyalty. This factor has led firms to provide much more information about the products they produce, the suppliers who produce them, and the product's environmental impact from creation to disposal.
- **NGOs and the media.** Public reaction comes not just from customers but from advocates and the media, who shape public opinion. Advocacy organisations, if ignored or slighted, can damage brand value.
- **Employees.** Those who work for a company bring particular pressure to bear on how employers behave; they, too, are concerned citizens beyond their corporate roles.
- **Peer pressure from other companies.** Each company is part of an industry, with the peer pressures and alliances that go along with it. Matching industry standards for sustainability reporting can be a factor; particularly for those who operate in the same supply chain and have environmental or social standards they expect of their partners. There is a growing trend for large companies to request sustainability information from their suppliers as part of their evaluation criteria. The US retailer Walmart announced an initiative for a worldwide sustainable-product index in July 2009. This initiative would create a database across leading retailers to facilitate comparisons of sustainability performance of leading products.
- **Companies themselves.** Corporations, as public citizens, feel their own pressure to create a credible sustainability policy, with performance measures to back it up—but with an eye on the bottom line as well. Increasingly, stakeholders are demanding explicit sustainability-reporting strategies and a proof of the results. So, too, are CEOs, who consider sound social and environmental policies a critical element of corporate success. Companies report that integrated reporting drives them to re-examine processes with an eye towards resource allocation, waste elimination and efficiency improvements.



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Balancing financial growth, corporate responsibility, shareholder returns and stakeholder demands also leads to an evaluation of the trade-off between short-term gains and long-term profits.

- **Investors.** Increasingly, investors want to know that companies they have targeted have responsible, sustainable, long-term business approaches. Institutional investors and stock exchange CEOs, for example, have moved to request increased sustainability reporting from listed companies, and environmental, social and corporate governance indices have been established such as the Dow Jones Sustainability Index. The Carbon Disclosure Project was developed in response to investor demand for a system for firms to measure and report greenhouse gas emissions and climate change strategies as a tool to set reduction targets and set individual goals.



Outlook and key trends

Companies will implement more detailed sustainability measures... Corporate practices are moving beyond generalised standards to a more precise analysis of the sustainability of specific processes, such as water usage or carbon emissions in the manufacture of a particular product. This product-level reporting is where the future lies. It is deeper and more credible than earlier reporting efforts, which focused on the entire company's broader sustainability measures and were less meaningful for key participants, such as consumers. Calculating the environmental and social impact of individual products will present new challenges for companies, but also new opportunities for innovation, productivity gains and longer-term operational efficiencies.

...with a shift from reporting impact to reporting and managing performance... Within the area of environmental-impact management, companies can add energy-efficiency, waste-recycling and water- or land-usage reporting to the current monitoring of greenhouse-gas (GHG) emissions. Within labour relations, companies can and will report on workforce issues, human-rights responsibilities and anti-corruption initiatives. In the corporate workplace, health and safety concerns, non-discrimination and remuneration will all be monitored more carefully. So, too, will product liability as companies evaluate the safety of their goods in the hands of consumers.

...in line with the company's core strategy... Corporate sustainability messaging has moved from a general statement in the annual report to a core strategy emerging from the boardroom. This strategy plays a central role in corporate risk reduction and stakeholder engagement, and leads to a focus on developing more innovative practices. Firms are under greater pressure from stakeholders to produce a meaningful statement of their sustainability activities, and a clear picture of how this relates to the core business strategy. Stakeholders also want to see this core philosophy translated into specific actions. Indeed, advocates favour a type of integrated reporting that permits companies to show the link between their financial performance and their social and environmental behaviour.

...and from the boardroom down. Until recently, sustainability reporting was not a board-level function in most companies. Today it is, at least in those companies that see the importance of sustainability in strategic rather than purely marketing terms. In many companies, particularly in the US, the chief operating officer (COO) has ultimate responsibility for the sustainability report. In other firms, it is the chief executive officer (CEO). The difference lies in the company's emphasis. If it is on strategy execution, sustainability reporting resides with the COO. If the focus is on strategy setting, the CEO takes the lead. Whoever is handling the brief, it will expand dramatically over the next few years.

Corporate sustainability messaging has moved from a general statement in the annual report to a core strategy emerging from the boardroom.



Regulatory trends

New rules in the US and UK are pushing GHG-emission regulations into new sectors and for an increased scope of activities.

One of the most eagerly followed areas for corporate sustainability reporting, GHG emissions, is undergoing increased regulation in several key countries. While large GHG emitters have faced mandatory reporting for some time, national government legislation is expanding to include an increased scope of the GHG protocol classifications. In the US and UK for example, government regulation is moving beyond Scope One (direct emissions) towards Scope Two (indirect emissions related to the consumption of purchased energy) and Scope Three (supply-chain and product-lifecycle emissions).

In addition, cap-and-trade programmes, already in place in the European Union with the European Emissions Trading Scheme, are under discussion in the US and Australia. Japan, South Korea and New Zealand either have schemes in place or are moving towards them.

Financial statements must now include corporate-responsibility policy statements and measures in several countries and regions.

In 2009, Denmark became the first country to require its largest companies to disclose their corporate responsibility policy in their annual reports—and if they don't have one to explain why they do not. This law is an amendment to Denmark's Financial Statements Act and has enshrined the concept of report-or-explain for both public and private companies. About 1,100 of Denmark's largest companies are affected by this legislation.

The Danish law illustrates the wider shift in corporate sustainability reporting from the voluntary to the compulsory. "The law will lead to more disclosure and hopefully also to a more strategic kind of disclosure," said Susanne Stormer, vice president for corporate social responsibility with Novo Nordisk, the pharmaceutical manufacturer and one of Denmark's leading companies. "What one can often say about sustainability reporting is 'It's easy to do cherry-picking and share the good stories about what a company has done'. But the law is specifically asking 'Do you have policies?' 'Is there intent?' 'Is it tied into your business strategy?'"

Other countries have adopted similar approaches. In 2007 the Swedish government introduced sustainability reporting for public-sector companies. Norway published a white paper in 2009 that proposed amendments to the Accounting Act that would extend public reporting requirements to include sustainability performance. Indonesia has passed a law requiring companies to report on the impact of

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“With apply-or-explain, companies have to actually say they have applied the principles and practices, which ones they have not applied, and explain why they have applied another practice or principle. It sounds more laissez faire but is actually stricter.”

Professor Mervyn King, international corporate governance expert and Chairman of the South Africa's King III committee report.

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According to a study by The United National Environmental Program, SustainAbility and FBDS, some 80 Brazilian companies issued sustainability reports in 2006–07, compared to 18 such reports in China and 12 in India. Financial market requirements such as the BOVESPA's Novo Mercado standards for increased transparency and governance for listing firms along with increased linkages to international capital markets are noted as key factors in this increased reporting. Interest in integrated reporting in India is established and growing. A National Green Tribunal Bill and the creation of

a National Environmental Protection Authority are under consideration, along with increased focus on reporting from accounting, finance and national business associations.

China has also taken steps towards regulatory requirement for sustainability reporting. In 2008 the Chinese government issued a notification for state-owned companies to adopt corporate social-responsibility guidelines. This notification is rapidly becoming mandatory and has been treated as such in recent meetings between the government and state-owned enterprises. Companies listed on the Shanghai Stock Exchange and operating in specific industry sectors must publish environmental data along with their corporate responsibility activities. These must be presented either with an independent document or as part of their annual reports. The regulation is similar to the Danish law.

In South Africa, the King III corporate-governance code says companies should link the consequences of their social and environmental behaviour to their financial performance. Published in September 2009 and effective in March 2010, King III is a successor to two previous reports on the same subject (King I and II). The code will become a listing requirement for all companies on the Johannesburg Stock Exchange. Private companies must apply the new code or explain why they cannot.

Apply-or-explain vs comply-or-explain.

The use of apply-or-explain is different from the King I and King II recommendations (and also Denmark's law), which preferred the term “comply or explain”. The distinction is significant. Critics of comply-or-explain say it can become a checklist for companies without providing a real sense of how they are actually implementing rules. Apply-or-explain is more effective in getting a full response, supporters claim.

“With apply-or-explain, companies have to actually say they have applied the principles and practices, which ones they have not applied, and explain why they have applied another practice or principle,” says Professor Mervyn King, who chaired the committee behind the King III report and was interviewed for this paper. “It sounds more laissez faire but is actually stricter.”

Industry observers point out that as companies move towards meeting increasing regulatory and stakeholder demands with a more detailed sustainability statement, this statement must be accompanied by a framework to track and report progress. The next few years will witness a rapid evolution in the measurement and reporting of industry-specific key performance indicators. Recent work of the Global Reporting Initiative (GRI) and the World Intellectual Capital Initiative seeks to develop extensible business reporting language (XBRL) taxonomies for non-financial, or sustainability-information



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indicators. This effort mirrors the use of XBRL in the production of reports for filing with the US Securities and Exchange Commission.

For all industries, and across countries in both the developed and developing world, sustainability reporting is rapidly changing. The key trend over the next three to five years will be the systematic coordination of government, regulatory and audit requirements with corporate sustainability strategies.



Voluntary rules, but for how long?

Sustainability reporting, of course, is not entirely new. Many companies worldwide have been participating in voluntary international initiatives that seek to establish a common set of standards for environmental reporting.

The Global Reporting Initiative (GRI), launched in 1997, has taken the lead in delineating a global disclosure framework for corporate social responsibility and sustainability. Nearly 3,500 companies now issue sustainability reports, and a reported 1,000 of these now register sustainability reports based on the GRI's G3, or third-generation, reporting guidelines that help companies to adopt processes and data-collection activities. To deepen the process, the GRI disclosure framework has evolved into three reporting levels with corresponding performance requirements and certifications.

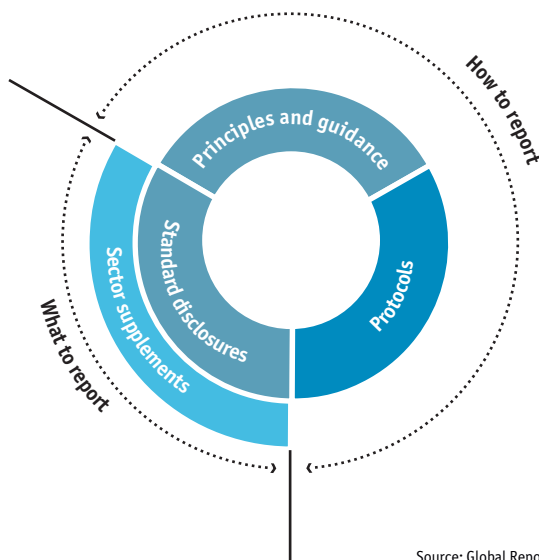
The GRI framework is used along with other global accounting and reporting standards that guide companies, most notably those of the World Business Council for Sustainable Development (WBCSD), the World Resources Institute (WRI) and the Carbon Disclosure Project (CDP). The WRI's GHG protocol is the pre-eminent standard used by companies to calculate their carbon footprint, and has been adopted by a number of other programmes, including the US Environmental Protection Association's Climate Leaders, the World Wildlife Fund's Climate Savers, the Dow Jones Sustainability Index, and the GRI.

The International Standards Organisation (ISO) has also done significant work in this field, mainly through its ISO 14001 measures for environmental management. These standards give companies systems and processes to manage environmental issues. Inevitably, there is some overlap among these standards, particularly between WBCSD/WRI and ISO, since the latter has

adopted the GHG protocol as the underlying methodology for its own standard for corporate greenhouse-gas reporting. The WBCSD/WRI and ISO signed an agreement two years ago to reassure companies that their standards would be complementary.

The WBCSD published drafts in November 2009 for two new accounting standards for emissions at the

G3 Reporting framework



Source: Global Reporting Initiative



“The reasons for ignoring sustainability reporting are not that strong anymore. This is not a perfect process, but if that is a reason not to do it, then we would not do financial reporting, which is not perfect either.”

Ernst Ligteringen, chief executive, GRI.

“Until recently we were agnostic, then we published the Amsterdam Declaration. The principle should be that governments expect transparency in this area. There is a cost in not doing sustainability reporting. If companies are not transparent, then analysis is incomplete. Those that do report are undermined because of a lack of benchmarking.”

Ernst Ligteringen, chief executive, GRI.

product and supply-chain levels. ISO is working on similar standards, and the two organisations will work to harmonise their initiatives.

Finally, the UN Global Compact, another voluntary initiative, provides a policy framework for businesses to align their strategies with UN-backed principles in ten areas, including environment, human rights, labour regulations and corruption. Companies that join the initiative must produce an annual Communication on Progress (COP) report disclosing how far the firm has gone in implementing the compact’s ten principles. Corporate usage of the COP

framework, launched in 2004, is becoming more widespread. Companies that produce a COP report are now, for example, seen as complying with the new Danish Law.

Voluntary into mandatory? While the GRI’s G3 guidelines, the GHG protocol, and the ISO standards are voluntary, this is changing. For example, the Swedish government’s insistence on mandatory reporting in 2007 for all state-owned companies included the adoption of the GRI’s voluntary guidelines. By contrast, Denmark’s law advises companies to look at the GRI guidelines but does not insist on their adoption.

“There are two different worlds when it comes to corporate emissions reporting,” says Kate Levick, head of government partnerships, with the Carbon Disclosure Group (CDP), another example of an international voluntary initiative. “One is the voluntary world where CDP, GRI and the Greenhouse Gas Protocol live. And then there is the mandatory world, which tends to be based on cap-and-trade but is increasingly meeting the voluntary side in the middle.” The CDP works with shareholders and large companies to ensure that carbon-emissions reductions are central to their organisation.

At the start of 2009, the GRI published its Amsterdam Declaration, a response to the global economic crisis. It called on governments to require sustainability reporting on a report-or-explain basis for the private sector, as well as insisting on it for the public sector. (The GRI does not, however, suggest that its own guidelines should be compulsory). The GRI also said assumptions about the adequacy of voluntary reporting must be re-examined.

“Until recently we were agnostic,” said Ernst Ligteringen, GRI’s chief executive. “Then we published the Amsterdam Declaration. The principle should be that governments expect transparency in this area. There is a cost in not doing sustainability reporting. If companies are not transparent, then analysis is incomplete. Those that do report are undermined because of a lack of benchmarking.”

Mr Ligteringen argues, however, that GRI guidelines are difficult to enshrine in law, as in Sweden, because they are constantly evolving. He prefers the Danish approach.

Voluntary efforts have a shortcoming, say critics, because they cannot establish a floor for regulation—a minimum level that everyone should be meeting. That can only be done by legislation.

“The reasons for ignoring sustainability reporting are not that strong anymore,” said Mr Ligteringen. “This is not a perfect process, but if that is a reason not to do it, then we would not do financial reporting, which is not perfect either.”



What this means for companies

Companies face no shortage of incentives to adopt sustainability reporting. Regulatory intervention is increasing, and companies have always faced the scrutiny of NGOs and the media. Responding to external pressure can also be necessary to safeguard a company's brand. As companies move beyond the financial crisis of the past two years, an integrated approach is not only a stakeholder demand, but has increasingly become essential to companies as they move to a more comprehensive evaluation of core processes for cost control and performance evaluation.

The emergence of best practices

Internally, the expectations of employees are important, and often provide the initial motivation for companies to publish sustainability reports. "The primary audience for our first report was employees, who really wanted to know what the company was doing for the environment," said Keith Miller, manager of sustainability programs with 3M, a US company that manufactures a wide range of consumer and industrial goods. 3M's first sustainability report was published in 2001 (although the company had been publishing environmental reports since the early 1990s). Miller says the audiences for 3M's reporting has broadened significantly over the last ten years.

Other companies said their initial motivation was primarily external.

"Our first report in 1994 was driven by two factors," said Ms Stormer of Novo Nordisk, the Danish healthcare company. "One was enquiries from NGOs. At the time we had activities related to enzyme production and genetically modified organisms (GMOs) as well as resource consumption and use of hazardous chemical materials." A second motivation was a desire to stay ahead of proposed legislation in Denmark requiring companies to disclose their environmental performance (a forerunner of the 2009 legislation). Indeed, pre-empting future regulation is a significant motivation for many companies.

"The risks [of ignoring sustainability reporting] include negative press for the company or the brand," said Edward Butt, VP of Sustainability, Reckitt Benckiser, the UK-based global household goods supplier. "But there is also

the opportunity of dealing with those issues better than the next company. If we are going to see a lot more tax on carbon, and I think it's pretty fair to say that will happen, then surely the people who use less energy are in a better position because they have less tax to pay."

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Not all regulation carries the same weight. In theory, local regulation should have greater relevance for a company, but global events, such as the recent climate-change negotiations in Copenhagen, can also have relevance.

“It’s a difficult question, more so since we have most of our manufacturing in the US,” says 3M’s Keith Miller. “That means US regulation is most important. But there is also overarching regulation—for instance, what comes out of global climate change talks.”

Although international talks on climate change historically have had little influence on the US, the political environment shifted with the election of Barack Obama as president. Companies continue to analyse how national and international developments feed into relevant regulation, such as the new US rules on carbon reporting.

External drivers of sustainability reporting, once internalised, spur the process of data collection. Companies may develop techniques for gathering data to be included in an industry league table, which drives managers to look at improving their business unit’s internal rating.

“As soon as you start collecting information on any topic, companies will see ways to improve performance. If the subject is energy use, then a company will look at ways to reduce consumption. So reporting becomes the basis for innovation. Companies can learn from it.”

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“As soon as you start collecting information on any topic, companies will see ways to improve performance,” said Wim Bartels, the global head of sustainability services with KPMG, the accountancy and advisory firm. “If the subject is energy use, then a company will look at ways to reduce consumption. So reporting becomes the basis for innovation. Companies can learn from it.”

Professional-services firms such as KPMG also note that the biggest challenge to integrating traditional financial reporting with sustainability reporting is not only the development of performance metrics, but also IT support and automation to translate these efforts into the best result.

Also certain are the pressures exerted by NGOs, especially when the public consciousness has been gripped by a particular concern. “Companies tend to worry about these issues, not because of analysts or NGOs, but because they want to get on top of them,” says Anant Sundaram, visiting professor of business administration with the Tuck School for Business at Dartmouth University.

The power of public perception explains the interest in gathering sustainability data from the supply chain and from a product’s lifecycle—these are the corporate activities that are most relevant to the consumer.

Corporate supply-chain and product-lifecycle sustainability performance measures, trends and challenges.

Historically, companies have gathered data (their “carbon footprint”) to present a total picture of their sustainability performance. Increasingly, this focus is turning to the products and services consumers actually use.

Creating a product-level sustainability report is a complex process, involving not only its manufacture but the social and environmental impact of its use. The automobile sector is the oft-quoted example here, but the consumer-electronics industry also presents some interesting examples. The mobile phone industry has become increasingly aware of the energy consumed in recharging a phone and how this adds to its carbon footprint. Companies such as Philips with its “sense and simplicity” message and Unilever,



with its pledge to produce low-carbon products are leading the way.

Companies monitor sustainability impacts with suppliers through a code that details how they should behave across such areas as health, safety and human rights. Adopting this code is part of the requirement to become a supplier. More complex is a request to a supplier to quantify carbon emissions (or water use, for example) in a particular product. The supplier might have the relevant figures for a manufacturing unit but not for the actual product.

To assist in centralising and standardising product-sustainability information, Walmart has initiated a research-based approach. In the creation of its Sustainability Performance Index research, Walmart sent out a 15-question survey to its 100,000 suppliers worldwide. The questions assess performance in four areas: energy and climate, natural resources, material efficiency, and people and community.

Dell, the US-based PC vendor, and Johnson Controls, a US manufacturing conglomerate, are among the increasingly numerous companies who quiz their supply chain about sustainable practices. Dell has

a range of questions it poses to its suppliers as part of a quarterly business review. It also looks further down the supply chain by asking about the companies who work for its suppliers. Johnson Controls include sustainability questions in contracts with its supply-chain companies.

Other companies report the complexity of obtaining a robust set of supply-chain data and information.

This is a complex process. "We have lots of good facility data, but it is not broken down by product, and our suppliers don't have it, either," says 3M's Keith Miller. "If they are making products for different companies, they may

have one piece of equipment that is running for different customers. They don't track it according to product but by unit or facility. So it becomes a big problem trying to track these emissions by product."

The size of the task is both staggering and complex. A company the size of 3M has, for example, 60,000 products for which it may need sustainability profiles. Prioritisation, therefore, becomes critically important. 3M initially is concentrating on supplier information for products from outside manufacturers, and is doing the same for its largest suppliers, choosing suppliers by volume of material provided or value in dollars. Alternatively, companies can construct a software model of the likely emissions or water use of a particular product.

The objective of data collection ultimately is to identify where a company can improve its performance, and then to make the change. "Once we identify what the major footprint is in the lifecycle, then that's the real benefit from analysis because we can do something to reduce it," says 3M's Miller.

Trends in corporate-sustainability report formats.

Collecting or modeling supply-chain and product-lifecycle data will add a demanding dimension to a company's annual sustainability report. The future role of that document is changing shape in other ways, too. Companies are already looking at ways to more closely connect their annual sustainability reports with their financial reports. The goal is to show how social and environmental thinking is at the centre of a company's decision-making, a concept known as integrated reporting. The intention is to demonstrate that sustainability is a strategic consideration, and not just window-dressing.



South Africa's King III code proposes a kind of integrated reporting, although it allows for sustainability and financial reports to remain separate. "When we say integrated reporting, it doesn't follow that it has to be in one report," said Professor Mervyn King. "Rather, a company has to show from a reading of the two reports that it has integrated sustainability issues into their strategy."

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The aim of bringing the two types of report together is to generate new insights and consolidate performance evaluation. Philips and Rabobank in the Netherlands, Germany's BASF, Telefonica of Spain, the UK's BT, Natura Cosmetics in Brazil and United Technologies in the US are all examples of companies that have moved towards integrated reporting.

Novo Nordisk is another example. In 2004 the company updated its own byelaws to specifically state that it must strive to do business in an environmentally, socially and financially responsible manner. Following that commitment, the company decided to present sustainability and financial data in a single publication, and continues to work on the format.

Novo Nordisk's Ms Stormer describes the report as being "a bit like the OFR" (the UK's operating and financial review, which UK firms were briefly obliged to publish in 2005 as part of their annual accounts before the scheme was discontinued). One part of the report is a narrative by management on the past year; it encompasses governance, risk structure, performance and also drivers for future success such as people, environmental management and climate action, and ethical business practices.

The report also contains hard data, with complete financial and non-financial (sustainability) statements. Ms Stormer says by putting the two next to each other the non-financial data must be as reliable as that appearing in the financial statement, and therefore a structured data capture and internal control process must be in place. The financial statement is audited while the non-financial statement undergoes an assurance process, both by the same independent auditor.

Where does the responsibility for reporting reside within companies today?

Sustainability reporting has moved beyond a public-relations or marketing statement. The ultimate responsibility for the sustainability report for corporate sustainability-reporting leader Novo Nordisk sits with an executive vice president for corporate relations, who is one of five executives on the company's management board.

Responsibility for sustainability reporting rests in different places in the US and Europe. In the US, it most commonly sits with the chief operating officer (COO), or the chief executive officer (CEO). Since waste and carbon emissions often occur in a company's manufacturing facilities, its distribution outlets and its offices, the COO, as the person who holds ultimate authority in those areas, is in the best position to present this operations-focused information.

In Europe, the set-up is different because of the distinction between management and supervisory boards. The management board is responsible for day-to-day operations, while the supervisory board is more concerned with long-term strategy. KPMG's Mr Bartels says responsibility for sustainability reporting in European companies may reside with the CEO or COO but is more likely to sit with a board member responsible for strategy, communications and sustainability. In European companies, this board member



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Wim Bartels, global head of sustainability services with KPMG.

sits on the management board. It’s not common to find an individual supervisory board member with responsibility for sustainability reporting.

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Where responsibility resides for sustainability reporting is important for the successful implementation of this element of corporate strategy. Trends are emerging in different regions that reflect local management structures. Yet whoever has responsibility, leading companies in Europe and the US see the sustainability issue as an integral factor, and an issue that goes well beyond a basic marketing and communications statement. They have synthesized sustainability reporting within their business activities, as well as long-term strategy and communications.



Conclusion

The landscape of sustainability-performance management is changing rapidly as legislation emerges and companies adopt new practices and structures to communicate their emphasis on integrated reporting. Regulations and standards are moving from voluntary to mandatory, and stakeholder demands are for increased accountability and transparency. Supply-chain and product life-cycle evaluations are an emerging trend.

Companies have come to realise the benefits of a sustainability policy that once clearly developed and implemented balances multiple reporting goals. The evolution of the integrated approach will be the future trend in corporate operations, and the accompanying improved performance measures will be a key tool in demonstrating the tangible benefits.

Whilst every effort has been made to verify the accuracy of this information, neither the Economist Intelligence Unit Ltd nor the sponsors of this report can accept any responsibility for liability for reliance by any person on this report or any other information, opinions or conclusions set out herein.

LONDON

26 Red Lion Square

London

WC1R 4HQ

United Kingdom

Tel: (44.20) 7576 8000

Fax: (44.20) 7576 8476

E-mail: london@eiu.com

NEW YORK

111 West 57th Street

New York

NY 10019

United States

Tel: (1.212) 554 0600

Fax: (1.212) 586 1181/2

E-mail: newyork@eiu.com

HONG KONG

6001, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Tel: (852) 2585 3888

Fax: (852) 2802 7638

E-mail: hongkong@eiu.com